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MODERN MARKETING
Dynamics and Management

MODERN MARKETING
Dynamics and Management

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(Divisions of Batten, Barton, Durstine & Osborn, Inc.)

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MODERN MARKETING: DYNAMICS AND MANAGEMENT
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Preface

This book differs from the many excellent texts on marketing in three respects. First, the expectations of management have been a guiding factor in the selection of much of the content. When a college graduate says to an executive, "I have had a course in marketing," the executive may not know exactly what such a course offered. But he does expect the graduate to have some appreciation of the problems of management in regard to modern marketing. He expects from him an earnest desire to integrate his thinking about marketing into the larger framework of management's thinking, policies, and programs. He expects an intelligent understanding of the larger framework of responsibility in which marketing takes its proper place.

Most important, students of marketing should be aided in acquiring far more than a knowledge of management practices and policies; they must —if they are to become effective colleagues of management—catch the spirit of the artistry of management. For this artistry, as stated by John Jeuck,[1] "at its best, constitutes the mainspring of economic progress."

It is the author's hope that this approach to the study of marketing will also contribute toward the objective advanced by Neil H. Borden[2] in regard to the emphases needed in the activities of the American Marketing Association: ". . . We should direct emphasis relatively more to important administrative marketing problems of top management and their solutions and less to the narrower problems of marketing research techniques than has been characteristic of the Association's program."

Second, the author has stressed the dynamic forces that affect marketing practices, seeking to develop a daily awareness of basic trends and influences that bear on marketing. The student of our evolving economic life should learn facts not for their own sake but for what they indicate concerning the future. A textbook, at best, presents principles that have proved their value over the years. The student, however, must sharpen his awareness of the ways in which the principles function in new cir-

[1] *The Journal of Marketing,* April, 1953, p. 387.

[2] "President's Letter," *AMA Monthly Bulletin,* February, 1954.

cumstances. He should look upon a course as an opening of doors to future and further appreciations.

Certainly, the text of college days should lead the student to develop the habit of reading the journals in his field of interest. Each chapter, therefore, opens with several recommendations that should stimulate an intelligent alertness toward the changes and conditions that are likely to occur in the life of the student who enters marketing or a related field.

And a third purpose, of course, is that which characterizes every text, namely, to stimulate the student to want to learn more than any one text offers him. The author hopes that the style and content of this book will be so easy and enjoyable that students will elect more courses and read other books on marketing.

Numerous publishers and authors kindly gave me permission to quote from their works. These have been given the usual acknowledgments.

Certain individuals, however, have not been given acknowledgment by name. These are the ones who read and corrected my descriptions of the sources of information that appear at the ends of many chapters. Each of these descriptions was read and approved by a member of the described organization.

Two friends read the manuscript and gave me the benefit of their reactions and recommendations. One friend, Professor Alfred .W. Swinyard, is a stimulating teacher of marketing at Syracuse University, College of Business Administration. The other friend, Lee Gunlogson, is active in the field of marketing and business research in the Carrier Corporation.

Acknowledgment is gratefully made to these individuals. They are not, of course, responsible for the viewpoints and opinions nor for errors which the book may contain—responsibility for these rests with the author.

HARRY WALKER HEPNER

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PART ONE

INTRODUCTION

1 Why Study Marketing?

THE ALERT MARKETER

1. **Appreciates the tremendous importance of marketing in the second half of the twentieth century.**
2. **Is management-minded in his approach to marketing problems.**
3. **Believes that consumers must be stimulated to buy even though they have many unsatisfied needs and the money available to buy.**

The No. 1 problem in our economic life today is distribution. The United States is in need of a marketing revolution that, in the second half of the twentieth century, will be comparable to the industrial revolution that has been taking place here during the first half of the century. Indeed, we have no choice in the matter if we want to survive as a great nation. The industrial revolution has forced the challenge upon us.

THE CHALLENGE TO MARKETING

During the first half of this century, we developed an economic organization that can produce things faster, better, and cheaper than has ever been done before. Extensive use of power and machinery and the application of mass-production techniques enable this country, with only 6 per cent of the world's population, to produce and consume about one-half of the world's output of manufactured goods. In terms of the goods and services at his command, the average person in the United States has an income ten times that of the average person in the rest of the world.[1]

The rise in America's production has been due primarily to the increase in output per man-hour of our worker, and this, in turn, has closely paralleled the increase in the mechanical energy available to him. Thi

[1] See *New England Letter*, The First National Bank of Boston, Jan. 30, 1953.

American worker, with tools and machinery that utilize 2½ times the horsepower available to the average European worker, produces about 2½ times as much per hour as the European. This is a development of the last 50 years. In 1900, as nearly as can be determined, Europe and the United States were on an equal footing as far as horsepower was concerned.[2]

Technical progress in utilizing energy to produce an ever-increasing volume of goods, however, is only part of the story. Mass consumption must accompany mass production; otherwise, there is no incentive to expand output. The steady rise in workers' incomes, which created an expanding market for industry's increasing production, was an important factor in our economic development. During the past five decades, the trend of wages has corresponded closely to that of per capita productivity. By paying our employees more, we have made it possible for them to purchase more. Only about 5 per cent of our production is exported; 95 per cent is used domestically for maintenance and expansion of our economy, for defense, and for consumption by our own workers.

The tremendous advances made in production techniques during the Second World War and the new vistas opened by recent scientific discoveries surely mean that we are on the threshold of a new era in economic progress. With new sources of energy available through atomic fission or the use of solar radiation, our potential capacity to produce will be enormously increased. Whether or not we realize this potential in any significant degree will depend on the effectiveness of our distribution system.

How can we ensure an expanding market that will absorb the mounting volume of goods our manufacturers are able to offer us? This is the challenge confronting the marketer. Distribution, which is the connecting link between producer and consumer, must be equal to the task if our economic system is to continue its dynamic expansion.

MARKETING AIDS IN MAINTAINING ECONOMIC STABILITY

In a free enterprise system, the consumer is king. It is his wants, translated into purchases, that determine what items shall be made, and how much of each. The marketer, in turn, must see that the goods are available to consumers, in the places and in the quantities that they desire and at prices they wish or can afford to pay. Further, the marketer must serve as a channel for ideas, letting producers know the specific needs and preferences of consumers and informing consumers about the products that manufacturers can offer.

[2] See "Capitalism: The Record and the Challenge," *The Management Review*, American Management Association, July, 1951.

Unless the marketer performs both these functions of distribution successfully, it is possible that the economic system may get out of balance. When goods pile up on retailers' shelves or in manufacturers' warehouses, production is cut back and workers must be laid off. The ensuing period of depression is a time of hardship for all. It may be long or short, but it will last until excessive supplies are "worked off" and a revival of consumer purchasing leads again to rising production and employment.

This simplified description of the familiar business cycle omits consideration of the many other factors, such as the government's monetary and credit policies, which have an important bearing on the general level of business activity. But even these other factors are effective, in the final analysis, only as they curtail or expand the supply or demand for goods.

The essence of the problem of maintaining economic stability, moderating the booms and depressions, and inducing a more orderly, healthful economic growth—the essence of this problem, to repeat—is securing a closer balance between output and consumption. Our mass-production system, as Paul Mazur and others have pointed out, has not yet been matched by a smoothly operating system of mass distribution. Here, the marketer with his firsthand knowledge of industry's products and his opportunity to learn the needs of the consumer can and must play an important role. If he fails, the free enterprise system as we have known it is threatened. There is already a strong desire among many of our people for government to take over the direction of an ever-increasing share of our economic life. The clamor for government assistance will grow louder and will fall on receptive ears if our free market economy is incapable of preventing severe depressions.[3] Of course, government is not infallible, but the hungry worker, out of a job, may not remember that until it is too late. The best insurance that our way of life will be preserved is the continuing demonstration that it works—and it won't work successfully unless marketing is equal to its special task. Living standards must be continuously raised through better marketing if our political freedoms are to be retained. Selling is not only a job; it is a symbol of a free society.

FACTORS THAT MAKE MARKETING DIFFICULT IN THE UNITED STATES

1. *Optional consumption.* In some parts of the world, where people never have more than enough money to buy their daily food, it is relatively easy to gauge the amount and kind of goods that consumers will purchase at a given time. Where the standard of living is higher, where consumers can accumulate greater reserves of money and goods, it becomes more

[3] Reprinted by permission from *The Standards We Raise*, by Paul Mazur, Harper & Brothers, New York, 1953.

difficult to estimate what will be bought in any specified period. With enough on hand for their immediate needs, consumers may defer their purchases of even the items we consider day-to-day necessities and may refuse entirely to buy less essential goods. In the United States, the standard of living is so high that people can stop, or at least postpone, buying a very large share of what is available to them.

This is not so new a situation as some may think. As far back as 1798 the Rev. Thomas Malthus, pessimistic author of the Malthusian law concerning the pressure of population upon the world's inadequate natural resources, wrote, "In America, where the reward of labor is at present so liberal, the lower classes might retrench very considerably in a year of scarcity, without materially distressing themselves."

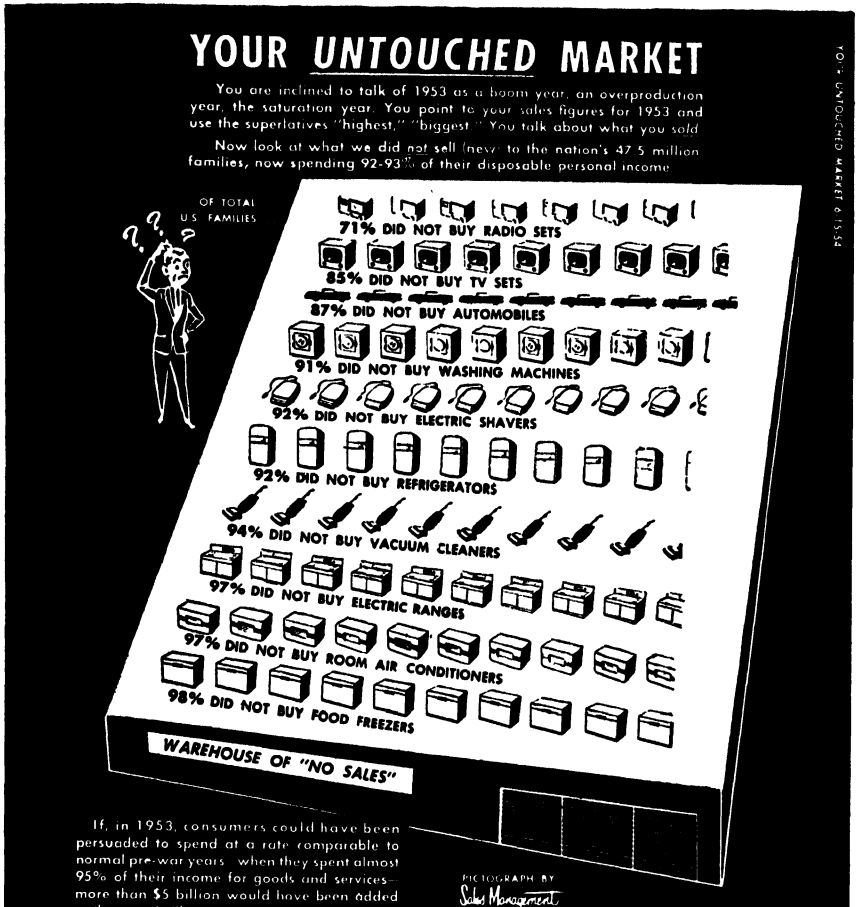
This range of optional consumption, or discretionary spending power as the economists call it, is far more important today than it was 150 years ago, since our productive capacity is now much greater. As living standards have gone up, an ever-increasing share of our total production has fallen into the optional class.

The percentage that is in this optional class is so high that marketing men are under more severe pressure to sell than ever before.

There are estimates showing that across the whole range of the economy, including capital goods as well as consumer goods, customers could do without, or at least postpone, purchases of perhaps as much as 40 per cent of the country's total production. On that scale, of course, the customer's choice makes all the difference in how the U.S. economy operates. With customers able to vary their take by a third or more, there's a tremendous potential for instability.[4]

A slight decrease in purchasing has a relatively severe effect on our feelings of prosperity. It has been estimated, for example, that for 1951 the difference between boom and "just-so" business was largely a matter of getting consumers to spend $6.5 billion more than they did in 1950. Records indicate that a 3 per cent drop in purchases by consumers can cool confidence and check price advances. Certainly we now know that the saying is untrue, "If customers have the money, they'll spend it." Demand does not always rise as incomes rise. Increased income often means that customers merely have more money to put into savings—and some saving is essential for a healthy economy. Abrupt fluctuations, however, in the ratio between expenditure and saving exert a tremendous leverage on the prosperity of the country. See Table 4–4 (page 49) for data on the abrupt fluctuations in the percentages of disposable income that have been saved by consumers annually: 100 per cent *minus* the total consumption expenditures. These percentages of disposable income

[4] See "The Marketing Pattern," *Business Week*, Mar. 15, 1952.



varied for the years shown from 4.5 to 10.5 per cent and contributed to variations in sales that amounted to billions of dollars.

Effective marketing can hardly be expected to change depressions into booms, but it is important in tipping the balance.

2. *The dynamic nature of the American market.* The difficulties of selling in a market where consumers have a high range of optional consumption are further heightened by the dynamic changes continuously taking place in both production and consumption. With remarkable ingenuity, our manufacturers are constantly devising new products or adding new improvements to familiar products which may tempt the purchaser. One reason why this steady effort to improve the quality or usefulness of a product is necessary is the sophistication of the average

American consumer. Because of our well-developed mass-communication system, the typical customer sees or hears the advertising of many sellers and is well-informed about the special features of many competing products. Each manufacturer must strive to offer greater value for the consumer's dollar than his competitors are providing, or he will not be able to stay in business. Of course, if none of the brands available to the consumer appeals to him, he may simply postpone his purchase or may spend his money for a completely different product.

Consumers themselves have constantly changing tastes and desires. Increased leisure, for example, has greatly expanded the importance of hobbies and recreational activities, creating sizable markets for products that formerly appealed only to a few. Similarly, the current popularity of suburban living has brought a pronounced shift in retailing operations to meet the need for new distribution centers outside city limits. Even the normal mobility of our civilian population, with one out of every five persons changing his residence each year, poses a variety of problems for the marketer, who must adapt his program to the resulting changes in the size or character of individual residential neighborhoods.

HOW CAN MARKETING MEET THE CHALLENGE?

Because of the freedom of choice which he has among innumerable and varied products, the consumer no longer beats a path to the man in the forest who makes the best mousetrap. On the contrary, the mousetrap must now be made conveniently available to the consumer. Effective distribution today requires scientific market analysis concerning factors such as the classes of customers to be solicited, designs of packages best suited to the specific product, prices that capture the broadest markets, products that the company is equipped to produce profitably, the size of the potential markets, and the means of reaching them.

Various steps are being taken to lower costs and to cater to the convenience of the consumer. The most obvious are self-service in supermarkets of the food field, shopping centers in the suburbs, and the expansion of chain store outlets as well as mail-order and door-to-door selling. Increased attention is being given to effective product displays, efficient layouts, and laborsaving devices in the handling and warehousing of products. Modernized accounting systems and better statistical reports for the guidance of managements are being adopted.

Where is the marketing revolution going, how will it end, who will gain by it and what can one do about it? The easiest of these questions can be answered by saying that probably it will never end. Certainly the industrial revolution has not ended and it would be a tragedy if it did, for that would mean that our industrial progress had ceased, that we had gone about as far

as we could go. No one, we hope, will ever see that day either for the manufacturing or the marketing parts of our economy. . . .

It seems inevitable that this revolution will continue because it is such a desirable trend, from everyone's standpoint. Convenience shopping, night openings, mechanical methods and all the other trimmings are likely to grow and to spread into new, untried fields—because they all contribute directly to the faster-better-cheaper method of mass-marketing merchandise.

Similarly, it seems inevitable that more products will be marketed through self-service devices, at least those products that can be packaged and that lend themselves to "impulse" purchases. But self-service is only one method of better marketing, and more research is needed to develop new methods as well as to refine the existing ones. More experiments with imaginative, mechanized devices are also needed.

The companies that will fare best during this period of dynamic marketing are those that insist on "complete distribution," that market through every feasible, profitable channel there is, that constantly seek new markets and better methods of marketing, that invest in the best research and in the best advertising, that maintain an open-mindedness about every possible marketing step and—most of all perhaps—that are not only willing but anxious to find ways of doing things better. The marketing people who will fare best are those who have all these things plus the best available information about each of them. Both companies and marketers need, too, to have one fundamental understanding of their ultimate and only important goal in life: to get better products to more people on terms that will make them want to buy.[5]

MARKETING AS A MAJOR MANAGEMENT RESPONSIBILITY

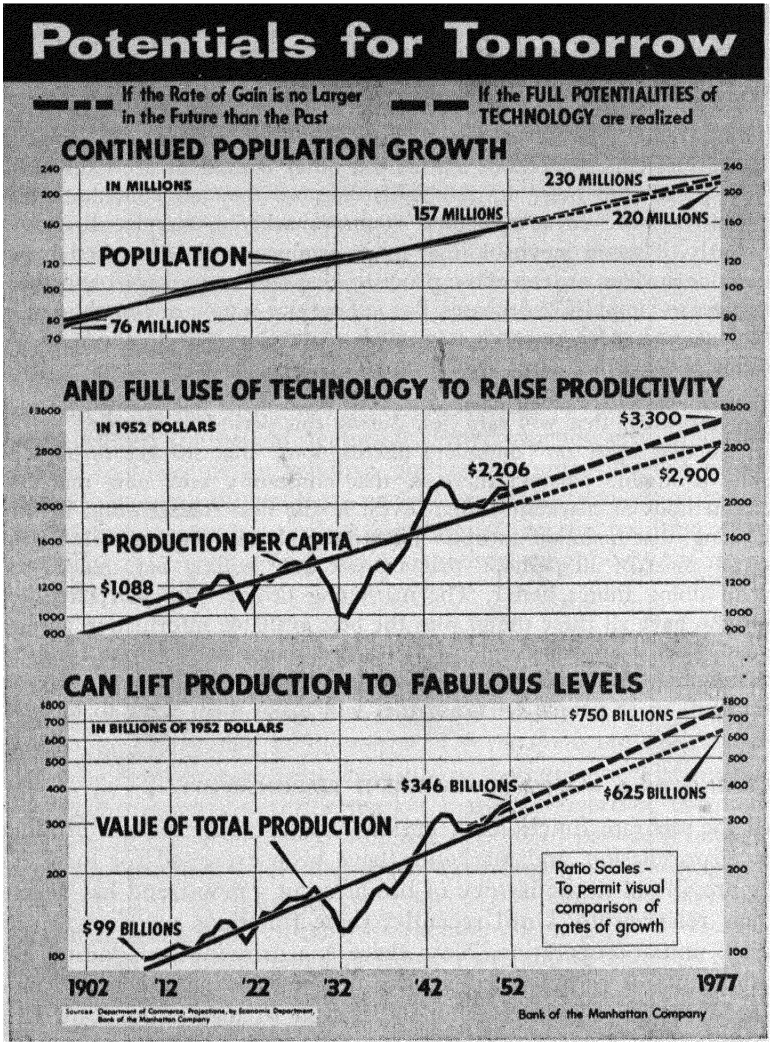
All the separate functions of business management such as production, finance, purchasing, and marketing have been exercised for many years. They are all old in the history of business but a new trend has developed in their relationship. Until recently, these functions were performed as separate units of operation. Now there is a growing recognition among managements of the interdependence of these various operations and of the need for coordinating them in relation to marketing. This need is exemplified by a statement of the president of a company that invests $10 million a year in advertising.

"My title," he said, "ought not to be President. It ought to be something like Director of Marketing. That would better describe my responsibilities."

He pointed out that it is his responsibility to direct and coordinate the activities of an advertising manager, a sales manager, a merchandising manager, and a production coordinator. "Put all these activities together, and add a few more, and you have marketing," he said.[6]

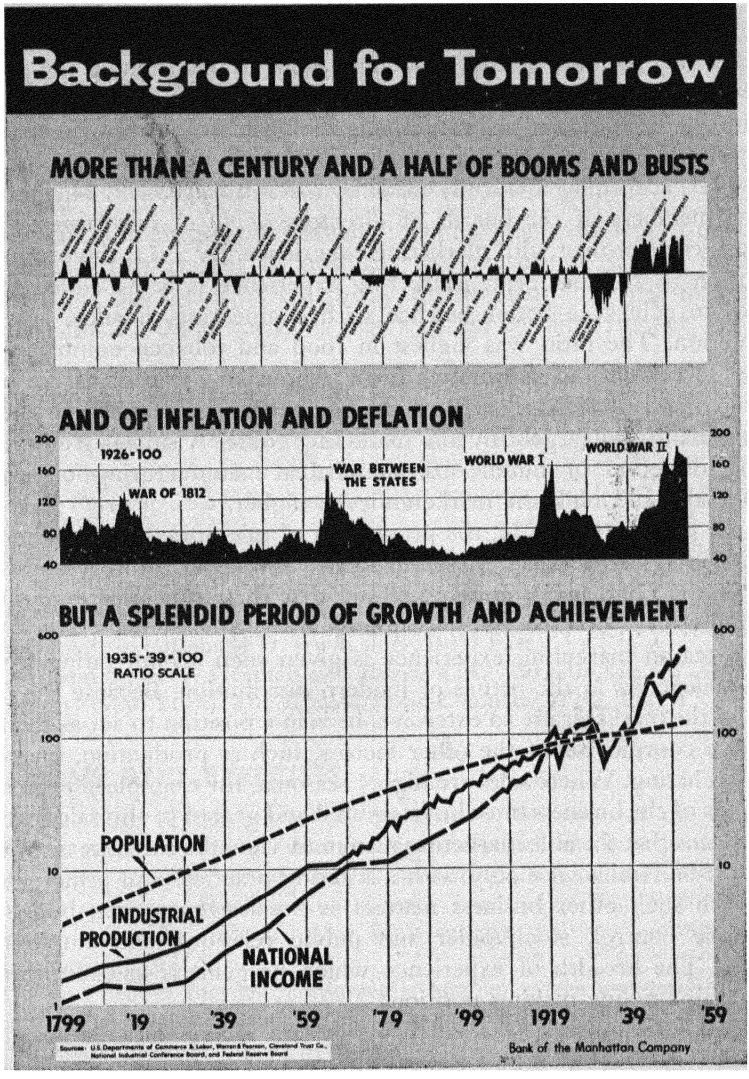
[5] "This Is the Marketing Revolution: 1952–1953," *Tide*, Dec. 12, 1952.

[6] "What Is Marketing Today?" *Printers' Ink*, July 10, 1953.



These charts, prepared by Murray Shields, vice-president and economist, Bank of the Manhattan Co., New York, describe objectives which are within reach and which we should constantly strive to realize. Note the upward sweep during the past 50 years in our population, in our production per capita, and in our total production. See how, despite depressions, inflations, political changes, and wars, we have benefited from the leverage of rising population and rising productivity.

Trends have been drawn through the record of the past and have been extended to 1977. Such trend projections show that if our growth in population and our progress in increasing productivity were to be no more rapid in the future than has been the case in the past,



our population in 1977 would be 220 millions, our production would rise from $2,100 to $2,900 per capita, and the value of total production would show a rise from $346 billion in 1952 to around $625 billion in 1977.

But the picture can be, and should be, even better. With full allowance for progress in reducing infant mortality and lengthening the span of life, the population is likely to increase by another 10 million. With improved technology, both in production and medicine (the latter reducing the number of days lost because of illness), production per capita would hit $3,300 instead of $2,900 and total production value would be $750 billion instead of $625 billion.

Marketing men are getting a stronger voice in determining the policies of leading manufacturers. Evidence of this is shown by the increasing proportion of marketing experts among the business leaders who are made directors of leading industrial corporations.

In 1941, according to a study made by *Sales Management*, 24.7 per cent of the members of the boards of directors of 30 of our largest-selling companies were men with marketing experience. By 1951, the proportion had risen to 26.7 per cent. Marketing experience is being added to the boards to achieve a better balance with engineering, finance, law, and production. The ratio was highest in food and tobacco companies and lowest in rubber and automotive firms. About 40 per cent of the board chairmen and presidents of 28 of the companies had climbed to the top predominantly or largely by the marketing route. A similar study, made among directors of middle-size or smaller manufacturing companies, doubtless would rank the marketers even higher.[7]

In the period 1920–1953, the proportion of sales executives holding the position of vice-president increased nearly sevenfold. More than 90 per cent of the company presidents report that their top sales executive is a vice-president or executive vice-president.[8]

The reason marketing experience is given such a high rating by top management lies in the nature of modern distribution. Because the functions of the marketer are so extensive, he is in a position to act as the most effective coordinator of the other factors, such as production, financing, and purchasing. Where sales are highly seasonal, for example, all the other activities of the business must be integrated and geared to this sales pattern. This means that the able marketing man must view the business as a whole. He must be familiar not only with marketing practices and principles but also with such other business matters as break-even points, budgeting, inventory control, stockholder and public relations, and employment policies. The breadth of experience which he gains is valuable training for a major policy-making position.

Almost all companies realize that they are facing difficult marketing problems. As these two quotations indicate, managements are well-aware of both the difficulties and the opportunities that lie ahead:

> The never-ending obligation—an opportunity—of America's sales force is to push upwards the living standards of the people of this country. There is not a city, town or rural area in the U.S. today where living standards cannot be raised by intelligent salesmen. Millions of people need more goods than they have now—goods they never had before. It's up to the salesmen to convert these needs into wants and sales.[9]

[7] See "Sales Wins a Bigger Voice on Biggest-company Boards," *Sales Management*, Jan. 15, 1953.

[8] See Lawrence M. Hughes, *Sales Management*, Jan. 15, 1954, p. 58.

[9] Walker Williams, Vice-President of Sales and Advertising, Ford Motor Co., quoted in *Marketing Memo*, No. 53–6, Macfadden Publications, Inc., Dec. 16, 1953.

The market is there and the money is there and all in the world we have to do is to go out and get it. I know, of course, that our Prophets of Pessimism are terribly worried by the fact that there is no pent-up postwar backlog of consumer demand as there was at the end of World War II. But do you believe for a minute that all of these millions of people, with all these billions of dollars in their pockets, have already bought everything they need and want? [10]

How will business go about solving this important problem of developing adequate markets for its products? What specific factors must be considered if managements are to lay sound plans for their marketing activities? Such are the questions that we shall consider further.

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QUESTIONS AND EXERCISES

1. On the basis of the content of the chapter, list some of the dynamic forces that affect marketing. Mention ways in which the management of a manufacturing company is involved in marketing changes and problems.

2. What are some developments in your community that exemplify the marketing revolution? Ask an older adult to give you some examples that he has observed.

3. Do you believe that the consumer is king in a free enterprise system? List as many examples as you can of the way in which the consumer has influenced marketing methods or products.

4. What happens to the sales volume of products which are in the optional consumption category as contrasted to the sales volume of necessities during various phases of the business cycle? Do all products in the optional category respond to the business cycle in the same manner?

5. Discuss this definition of "marketer" (last syllable is pronounced as in advertiser): A "marketer" is any person or company who has a product or service that he wants to sell. As such, he is interested in all the activities that have a bearing on the sales of his goods or services. The term, in a sense, also applies to a worker who performs a service for a seller.

[10] Benjamin Fairless, Chairman of U.S. Steel Corporation, quoted in *ibid.*

2 Developmental Aims in Your Study of Marketing

THE ALERT MARKETER

1. **Seeks to develop a mental alertness toward marketing situations rather than a knowledge of facts without meaning or application.**
2. **Becomes aware of the dynamic influence of ideas in social and business affairs.**
3. **Notes the several possible goals in the study of marketing and ties one or more into his self-improvement objectives for himself.**

One aim of a text in marketing such as this is to develop in the student an increased alertness in regard to practices and principles rather than to give him merely a mastery over skills or techniques. You must, if you wish to be an intelligent participant in marketing, sharpen your awareness of the factors that are fundamental to a marketing situation. After you attain this mental growth and acquire an adequate background of practices and principles, you are equipped to deal with the complex problems of marketing presented in more advanced courses or in the actual business world. To repeat, the first objective is to develop an intelligent appreciation of modern marketing practices and the influences in marketing situations. Each chapter, therefore, opens with examples of certain factors that the alert marketer will look for when he deals with the subject matter of the chapter. This alertness should, of course, be directed toward understanding the situations that are found in actual marketing, not merely toward book content.

GOALS IN STUDYING MARKETING

In addition to an ability to sense the dynamic forces in modern marketing and to become an intelligent participant with management in the

performance of marketing operations, the developmental goals you may strive to attain are the following:

1. *To develop a broader framework for your thinking about marketing* —to enable you to see it as one of the dynamic forces in our social and economic life and to relate it to other management functions. The breadth of view that you should seek is the kind that will be expected from educated leaders in the second half of the twentieth century.

Even though you are interested in marketing, you may have no desire to become a policy-making major executive. You may prefer, instead, to become an expert in a specialty such as market research. As such, you will not become the management executive who directs hundreds of people but you will, nonetheless, need the background that enables you to think with the high-level executives. No aspect of marketing can be treated as an isolated specialty because each has working relations with other managerial functions as well as with the larger social and economic evolutions of our time.

2. *To show how marketing procedures and policies are implemented.* If you are now working in business or enter it later, you will find that many business operations seem to be performed on a "crisis basis." The management appears to have no guiding policies. Each decision seems to be made without reference to any policy.

In most businesses, marketing policies have not been codified or written on paper, but the policies exist, nonetheless, in the minds of the managers. When you become informed about the more common practices and principles of marketing, you will be able to recognize the policies that influence the marketing operations even though they are not always formalized.

3. *To intensify your feeling of participation in marketing.* Marketing is more than a classroom study. It takes place wherever the student lives, works, or buys. Some of its practices and principles can be observed and experienced when dealing with a man who operates a lunch wagon in a student living center as well as in the department store, supermarket, furniture warehouse, factory sales office, or advertising agency.

4. *To create an open-minded, hopeful attitude toward the efforts of those scholars in marketing who are trying to develop it into a science.* The marketing man of today is a man of action. He is concerned with a problem of action which he tries to solve through good judgment and whatever organized knowledge is available to him. Thus far, there is little available in the field of marketing that qualifies marketing as a true science. As Kenneth D. Hutchinson has stated:

> An examination of the factors involved indicates that marketing is not a science, since it does not conform to the basic characteristics of a science. A much more realistic view shows it to be an art, in the practice of which

reliance must be placed upon the findings of many sciences. Marketing research men, like engineers and physicians, have to adopt a scientific approach to their problems, but their relations to the fields of science are even closer than this. Although at times they may make a contribution to some field of science, their chief contribution should be that of directing the course of scientific investigation along the lines most needed.[1]

Theorists in the field of marketing are working toward a science of marketing. They are collecting information, arranging it with precision, and looking for basic laws. Like all pioneers in science, they work systematically from hypothesis to theory, to law, and to predictability. In due course of time, perhaps several decades hence, marketing may be a science. In the meantime, we can learn about current practices and dynamic influences in order to fulfill our immediate needs, but we should also keep our minds open to the possibility that new and more scientific devices may be developed for more accurate measurement and prediction of the forces at work in marketing. Certainly, the field of marketing theory will be continuously explored and the results will be watched by the career men in marketing.

5. *To indicate the sources from which further information may be obtained concerning marketing problems or situations.* The habit of inquiry and investigation is one of the marks of the educated man. Much information about marketing appears regularly in the issues of trade journals and irregularly in numerous reports by industries and governmental agencies. New reports are piled on the old; those who seek answers to specific marketing problems must know how to sort out the vital facts from the useless records. A textbook can deal mainly with those facts and principles that have been proved basic through the tests of time and experience, but the tried and true guides established in the past must be supplemented by further study of more recent findings. Learning where to look for additional and current data is one of the developmental aims of the intelligent student.

6. *To supply the factual background and analytical judgment necessary for dealing with marketing problems.* Facts are easy to learn. The ability to evaluate the facts and reach sound conclusions is difficult. The marketing practitioner, however smart and experienced he may be, is still trying to improve his ability to make sound decisions. A course such as this cannot give a person what years of varied experience in marketing can do to achieve wisdom, but it can start him on the way. This means that facts should not be learned solely in order to pass examinations but to provide guidance for making decisions on the problems you will meet in your later business life.

[1] Kenneth D. Hutchinson, "Marketing as a Science: an Appraisal," *The Journal of Marketing*, January, 1952.

7. *To help you decide whether your career shall be in marketing.* Many students who take a marketing course plan to enter some related business field such as production, finance, or accounting, while others have already decided to go into a specific phase of marketing such as salesmanship, copy writing, research, or merchandising. Another group includes those who have not yet decided upon their lifework and want to become further acquainted with marketing before reaching a final decision concerning their careers. Once "introduced" to marketing, some students will develop firm desires to make some part of marketing a lifework. Too, other students may drop the idea entirely when they fail to be stimulated by the challenges and opportunities of marketing.

THE MARKETER WORKS ESSENTIALLY IN THE DYNAMIC AREA OF IDEAS

The student who chooses marketing as a career should not look upon it as merely a way of earning a living, for to be completely satisfying to him his work must also have social values which he regards as important. Only if he can see marketing as a vital factor in an economic system which maintains the political freedom of the individual and leads to higher levels of spiritual as well as material living will it merit his respect. He must be aware of the relationship of marketing to our way of life and, more important, must be convinced that our free enterprise system itself is of value to society. This does not mean that he need be blind to the defects in our social and economic structure. It implies, rather, a recognition that free enterprise, governed and restrained by the forces of competition, has demonstrated its effectiveness in bringing the greatest good to the greatest number.

Profits, which provide the incentive that sparks the free enterprise system, must also be seen in their proper light, as the rewards for a contribution to social progress. Under competitive conditions, profits are earned only by the most efficient producers of goods and services. As new and cheaper methods of manufacture and distribution are evolved, these gains are passed on to society as a whole in the form of lower prices, higher wages, and a rising standard of living.

Although the success of our economic system can be measured quantitatively by the volume of goods we produce and consume, we must not forget that this progress in material things rests upon a sound philosophic basis. Unfortunately, many of those engaged in production and in marketing lose sight of the larger social values of their tasks and become preoccupied with the details of day-to-day transactions. This has led some observers to conclude that Americans are completely materialistic. As one European critic expressed it, "The United States is the only nation in history that went from barbarism to decadence without attaining matu-

rity." It is encouraging to note, however, that the intelligent, responsible leaders in American industry are displaying an increasing awareness of their role in the social and cultural development of our nation. They recognize that ideas, not material things, will really direct the course of our future progress.

American businessmen learned more clearly the dynamic influence of ideas upon our marketing procedures when several thousand hand-picked experts from abroad toured the United States after 1949 to find out what underlies America's high productivity. They were organized into some 200 "productivity teams" under the Marshall Plan, financed mostly by funds provided by the European governments themselves. Most of them stayed long enough—some as long as nine months—to get more than a tourist's view.

These visitors discovered our *attitude toward the market.* When they arrived here they believed that the major factor in our distributive system was the continental span of our market. They discovered, however, that it is not in width but in depth that the American market differs basically from European concepts and business practice—a qualitative rather than a quantitative difference. "That the American is rich beyond our wildest dreams we know in Europe," they said, "but that 'wealth' here is not just an economic term but a social one, that it means that there are the same things for the rich and for the poor, this none of us understood—and it is much more important." [2]

In addition to our ideas of freedom and equality, our economic philosophy is responsible for another significant factor in our dynamic market—our willingness to accept change. The typical American consumer expects to have more and better goods tomorrow than he has today. He is willing to buy a television receiver that has a larger screen or that gives him color even though his old set is still quite usable. New items that add to his comfort or save his time and energy find ready acceptance. As Eugene Whitmore, editor of *American Business*, wrote in an editorial accompanying a picture of the familiar, old-type kerosene wick lamp, "More than 40 years old, the lamp shown is just as good as it was the day it was manufactured. It puts out just as much light as it did. But would you like to light your home with it? Here is a good example of what has made America prosperous. We do not wait until something is worn out, until it falls apart, or breaks down. As soon as a better way is discovered and ready for the market, Americans buy it and put it to work." [3]

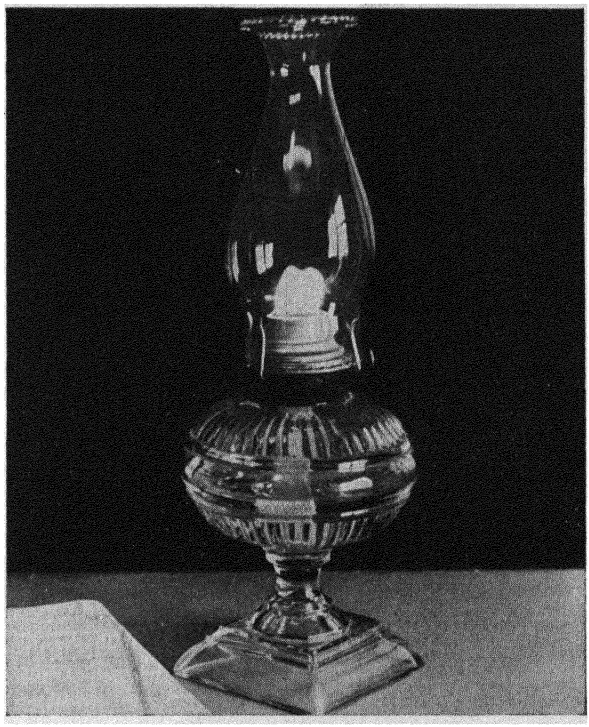
In spite of the fact that some Americans do adopt the new very quickly,

[2] Peter F. Drucker, *Nation's Business*, April, 1952, pp. 34 f.

[3] Eugene Whitmore, "Obsolete, But Not Worn Out," *American Business*, February, 1952.

others do not. As a result, many a marketer has said that his strongest competition does not come from his competitors but from the apathy in people's minds. Salesmanship, advertising, merchandising, and related stimuli are necessary to get some people to buy what they need and can afford.

One out of every ten American families still does not have mechanical refrigeration; almost one out of six still cooks by striking a spark to coal



and wood. Millions more are without kitchen sinks, vacuum cleaners, or bathtubs. About one-third of all families do not own an automobile; only one in ten have two cars. These statistics of opportunity were compiled by the Committee on Advertising of the Chamber of Commerce of the United States. The Chamber urges businessmen to concentrate on the missing link in this over-all production-consumption chain: the CREATION OF DEMAND. People don't automatically buy goods; they have to be SOLD.

Closely connected with the concept of the dynamic mass market is our attitude toward the capacity of the market. "We put our stress on the actually existing market which we tend to take for granted. You look for the potential market," is the way some of the European productivity teams put it. It is to this that our visitors attribute our emphasis on research—

"What will the telephone be like when I grow up?"

It's hard to say, young fellow, but you can be sure there are great things ahead.

Today we telephone from moving automobiles, trains, airplanes and ships far out at sea. And radio microwaves beam telephone calls and television programs from tower to tower across the country.

The day is coming when you will be able to reach any telephone in the country simply by dialing a number.

Perhaps some day in the future you may just speak the number into the transmitter and get your party automatically.

BELL TELEPHONE SYSTEM

The Best Possible Service at the Lowest Possible Cost

One of the dynamic forces in American life is shown in the attitude of this boy—he expects the telephone to be improved even though it is now quite satisfactory to him.

technical, market, product–the pricing policy of our progressive companies, who often price a new product according to its expected eventual market rather than according to present cost or immediate sales, and the willingness to develop a new product first and to worry about its market later.[4]

The extent to which potentialities of a market were developed in the sales of automobiles and appliances is shown in the table below. Early

	Intended to buy, millions	Actually bought, millions
New cars	2.1	4.4
Used cars	1.6	7.2
Total cars	3.7	11.6
Television sets	2.6	6.3
Refrigerators	2.6	6.2
Washing machines	1.4	3.0
Houses (new or existing)	2.0	2.4

SOURCE: Arno H. Johnson, *Advertising Age*, May 11, 1953, p. 56.

in the year 1951, it was estimated that 2.1 million consumer spending units intended to buy a new car during the year. Actually, 4.4 million consumers were sold new cars. Selling power as well as deferred demand played a part in the marketing of the increased volumes of other products such as refrigerators.

DEFINITIONS OF MARKETING AND MARKETS

From the discussion in Chapter 1 and the preceding section of this chapter, the reader has probably formulated his own definition of the functions and scope of marketing. To clarify his ideas, however, he may find it useful at this point to have a clear and precise definition of the terms, as they are used by specialists in the subject.

The term "marketing" includes every activity that has to do with the movement of goods from the point where they are produced to the point where they are consumed. It includes the study of advertising, sales policies, pricing, product planning, and the analysis of the market in terms of its present and potential customers. It seeks to discover where and how the customers live, their habits and motivations, and their responsiveness to varying forms of marketing stimuli.

The terms *marketing* and *distribution* have the same general meaning. Contrary to popular conception, distribution is more than wholesaling and retailing. It is much more than selling. The fact that it must absorb

[4] Drucker, *loc. cit.*

such inescapable costs as taxes and transportation is frequently overlooked. As defined by the Chamber of Commerce of the United States, "Distribution is the term used in American business to embrace all the activities employed in finding customers for goods and services and in moving goods, both geographically and through the channels of trade." Note that this says "finding customers," not "filling orders." In other words, distribution includes warehousing, transportation, wholesale and retail marketing, advertising, and a substantial part of research, engineering, accounting, and financing.

HOW THE TOPICAL CONTENT OF THIS BOOK WAS SELECTED

The reader has a right to know the guiding influences in the selection of the topics in this book.

The main influence was the topical content of the current journals

of marketing. The editors of these journals are life-long students of marketing principles and practices, especially those which are of interest to members of management and marketing executives.

Another important influence was a study made by Robert F. Elrick [5] of some 200 business concerns across the country. According to this survey, there are 27 different problems in the area of marketing which management must endeavor to solve. These 27 problems with their descriptions and examples are too lengthy to be quoted here. The problems were, however, the basis for the first selection of the topical content for this text. The problems he found were grouped as shown by the organization of the materials of this book:

1. Trends in our dynamic economy
2. Possible markets for our product
3. The product
4. Channels of distribution that might be used
5. Promoting the sale of our product
6. Personal selling
7. Other management responsibilities in marketing

Additional information is offered on marketing as a career, and sources of information are listed for the marketer's use and further study. Obviously, the contents and emphases are those believed to be especially helpful to the reader who plans to enter marketing or who has already embarked on a career that involves a knowledge of marketing.

COLLATERAL READINGS

Cannon, J. Thomas, and Jack A. Wichert, *Marketing: Text and Cases,* New York: McGraw-Hill Book Company, Inc., 1953, Chap. 1.

Editors of *Fortune, Why Do People Buy?* New York: McGraw-Hill Book Company, Inc., 1953, Chap. 14.

McGarry, Edmund D., "The Contactual Function in Marketing," *The Journal of Business of the University of Chicago,* April, 1951.

Westing, J. H., *Readings in Marketing,* New York: Prentice-Hall, Inc., 1952, Chap. 4.

QUESTIONS AND EXERCISES

1. In what ways has marketing contributed to our social welfare since the turn of the century?

2. How is marketing defined? Distribution?

3. Which one of the seven stated developmental aims in the study of marketing is of most interest to you? Which one is of least interest? Give reasons for your choices.

[5] Robert F. Elrick, "A Checklist of Marketing Problems," *Commerce,* October, 1952.

PART TWO

MARKETING IS DONE IN A DYNAMIC ECONOMY

3 Basic Trends Watched by Marketing Men

THE ALERT MARKETER

1. **Realizes that marketing is done in a dynamic economy and that he must keep in touch with the changing world in order to adapt his programs and products to the evolving conditions that affect sales.**
2. **Watches basic trends in population, employment, income, and technology.**
3. **Notes especially the changes made in distribution so that his marketing operations may fit into the new patterns that emerge.**

In America, unrelenting pressures are constantly exerted on our marketing system. The sources of these pressures are usually attributed to our rapid technological developments, ample natural resources, a large land area, and a growing population. These and other factors play a part but the basic influence can most properly be attributed to our striving for a higher standard of living.

MARKETING IS DONE IN A DYNAMIC ECONOMY

As an observant marketer from England stated:

If I were to summarize my impressions of American marketing in one word, that word would be "dynamic." The dynamic nature of American marketing is nowhere more clearly illustrated than in your obsolescence policy. This, it seems to me, is not merely a policy but also a philosophy. There is a driving force in your system which makes it imperative that [this year's] model–

whether it be an automobile, a radio, a razor, or a fountain pen—shall immediately render [last year's] version out-of-date.[1]

Men who are responsible for developing marketing programs watch basic trends in the changing world of business and people. They know that long-term influences must be taken into account if they are to develop policies and make decisions that will fit the evolving market.

Fundamental changes are always taking place at the core of our economy and society, changes that influence business operations. The student of marketing must develop an alertness to these new patterns. Obviously, he cannot be given a list of the developments which set the trends of today and told to memorize them. The importance of any specific factor will vary from time to time and new trends will emerge, to become dominant for a variable period. But he can become acquainted with recently noted trends that appear to be basic and then keep an alert mind, a constant watchfulness, for subsequent changes that apply to his specific marketing activities. Fortunately this is fairly easy in America because of the many business and professional journals that present the information to him every week or month.

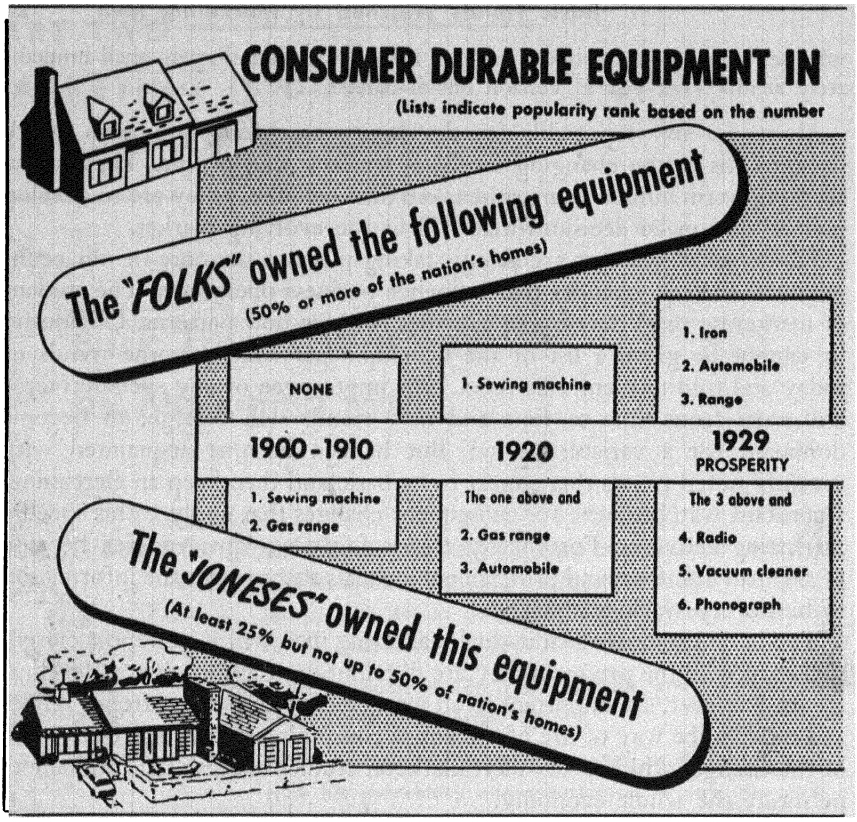
The basic trends that individual marketing men will watch most closely will vary with the products they are distributing. Certain pivotal developments, however, are important to all marketers because these trends reflect and modify the way of life of the entire consuming public. Here are some of the changes which every alert marketer studies because their influences permeate the whole economy.

POPULATION CHANGES

Every minute of every day, approximately seven persons are born and three die in the United States. With this rate of growth, our population of some 160 million will rise to 200 million in the next 20 years, and, in a sense, there will be another plate on every family table by 1975.

In the decade 1930–1940, our population increased 7.2 per cent, but the increase in the 1940–1950 period was 14.5 per cent. It is estimated that from 1950 to 1960 the population of this country will register a gain of 28 million, or equivalent to twice the present population of Canada. This surging growth will be a strong stimulus to marketing as it will call for millions of new homes, automobiles, and household appliances, as well as great expansion in our transportation facilities, schools, hospitals, and the like. The demand for food, wearing apparel, and other nondurable consumer goods will also expand.

[1] Stuart G. Waterhouse, "An Englishman Looks at American Marketing and Distribution Policies," *The Journal of Marketing*, January, 1948.



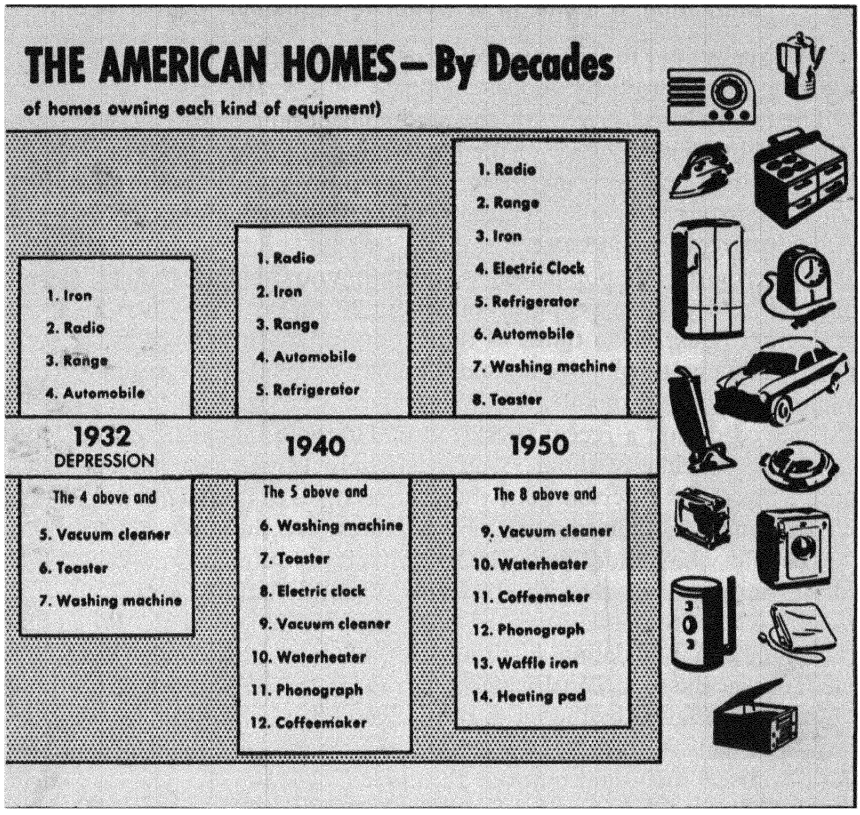
This constant rise of purchasing by the average family continued despite the depression. During the depression period, the ownership of an automobile decreased while such things as the electric range and electric iron were considered important. The above-average group was still 3 pieces of equipment ahead of the average family.

In retrospect, during the first 3 decades of the twentieth century, the average family possessed 5 pieces of mechanical or electrical equipment while the above-average family came through the period owning 9 such products.

During the 1940's, the 25 per cent group added 3 more and owned a total of 7 types of equipment that the average group did not yet possess. Such equipment was the electric clock, a gas or electric waterheater and a coffee-maker. The equipment that they owned but had bought before was a washing machine, an electric toaster, a vacuum cleaner and a phonograph.

During the '50's, the half-way mark of

Birth rates are watched with considerable interest by marketers because more births tend to mean, essentially, more marriages, more new homes, and more children, all of which affect marketing. Currently, the birth rate in the United States is somewhere in the middle range of world birth rates, according to a comprehensive study by The Twentieth Century Fund. Births per 1,000 population in the United States in 1950 stood at 23.4, exceeding the rates of Italy, Western Germany, and the United Kingdom (19.6, 16.2, and 16.1, respectively) but lower than those of India (26.7



the century, the average group was in possession of 8 types of equipment while the above-average group had 14.

Some of the specific differences between 1940 and 1950 can be seen when we mention that in 1940 electric clocks were missing from the average kitchens. Today, there are more of these clocks than refrigerators. But also in 1940, more families had automobiles than refrigerators while today the opposite is true.

Although there is a relation between the purchases of the two economic groups, no definite pattern can be used to predict future popularity of a product since group preferences depend on a myriad of influences. In the last 50 years, comfort has been the first appeal with speed, efficiency, economy, entertainment, and cleanliness following, in that order. . . .

SOURCE: M. Taylor Jenkins, "What Products Will Sell Best Tomorrow," *Printers' Ink*, Oct. 20, 1950.

in 1949), Yugoslavia (30.2 in 1948), and China (an estimated 40.7 in 1943).[2]

The number of marriages occurring each year declines in depressions and rises when incomes go up. Prosperity enables people to marry at earlier ages. In 1940, 47 per cent of the women aged 20 to 24 were single, but by 1951 the ratio had dropped to 31 per cent. A high marriage rate

[2] W. S. Woytinsky and E. S. Woytinsky, *World Population and Production*, The Twentieth Century Fund, New York, 1953, p. 140.

will normally lead to larger markets for a wide variety of products, ranging from houses to baby foods.

The family is still, as always, the predominant household unit, and seven out of eight households are of the family kind. The number of one-person households is, however, increasing. When job opportunities are plentiful and old persons survive longer, the number of households having only one individual tends to increase.

Furthermore, our population is, in most years, highly mobile. People move around a lot. In a typical year, about 20 per cent of all persons move to another house. Two-thirds of these move to another house in the same county and one-third move from one county to another. Of course, young adults are the most mobile. About one-third of all persons 18 to 34 years old moved during a recent survey year. Of those under 18, only 22 per cent moved, while of those 35 or older, only 13 per cent moved. Obviously, the older a person gets, the less strong is his tendency to change his residence. Farmers, as one would expect, are the most stable group, but people who reside in big cities or their suburbs are more likely to remain in one place than the residents of rural-nonfarm areas.[3]

As a whole, the rural-farm population is declining and the urban and rural-nonfarm population is rising, but of even greater significance is the fact that the suburban areas around the larger cities are growing about 2½ times as fast as the big cities themselves. This helps to create new demands for garden tools, leisure clothes, power mowers, paints, fertilizers, do-it-yourself tools, and outdoor furniture.

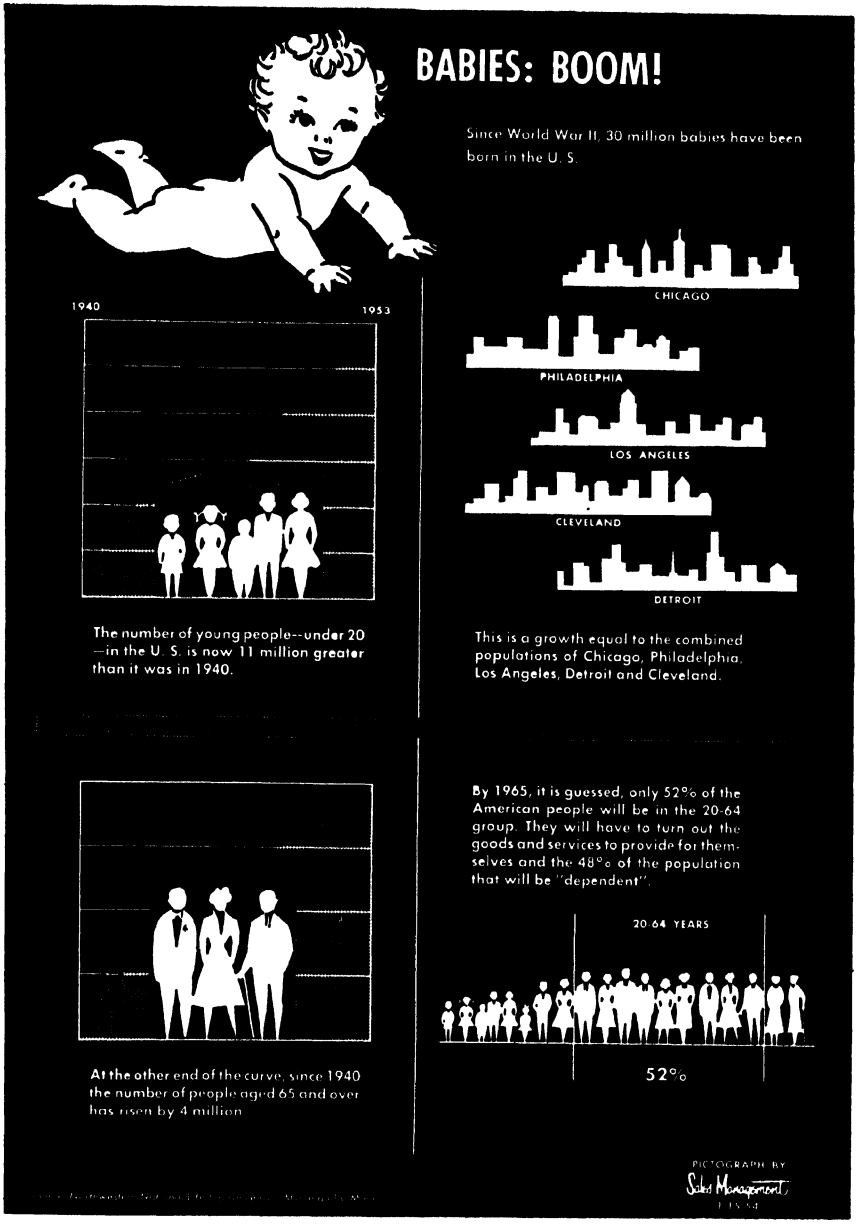
In addition to the mobility from residence to residence and from city to suburb, we also have changes in occupation or business connection. Buyers for industrial concerns, for example, have an exceptionally high turnover rate of 54 per cent each year.

> Of every 1,000 key men in industry over a 12-month period . . . 326 new faces appear to replace transfers to companies in different fields–retirements–deaths; 460 stay put in the same job . . . same company . . . same location; 149 shift to different locations, with the same or similar type of company; 65 change titles (due to promotions, etc.) within the company.
>
> This means that more than half (54 per cent) of the men who initiate, recommend, specify, order, or wield varying degrees of influence in the purchase of industrial products, will be in different jobs . . . different locations . . . or completely out of their present fields of responsibility a year later.[4]

Since the reports of the government census, which provides the only complete and authoritative data on population, will not be available until

[3] "Mobility of the Population of the United States–April 1952 to April 1953," Bureau of the Census, *Current Population Reports*, Series P-20, No. 49.

[4] *Industry Is Always on the Move*, McGraw-Hill Publishing Company, Inc., New York. Averages are from McGraw-Hill circulation records for 1941–1951.



the 1960's, we will not know for some time whether the trends of the past are continuing during the current decade. In the meantime, however, the alert marketing man will take note of all the studies that are being made in this field and will carefully consider the effect of any indicated changes upon his own business.

EMPLOYMENT CHANGES

The level of business activity is seldom static. The fluctuations which reflect seasonal variations or the short-term ups and downs of the business cycle are often a topic of conversation among businessmen. A conventional greeting is, "How's business?" This may have no more purpose than the more common question, "How are you feeling today?" If the query about the state of business is taken seriously, however, it usually calls for a discussion about the "waves" in the current business cycle. While these are important matters for day-to-day consideration, they are often less significant, over a longer term, than the fundamental trends in economic development. The astute observer will be more concerned with such questions as the age and composition of the labor force and the type of activity in which these workers will be employed.

Although, as we have seen, our population is expected to increase about 25 per cent from 1950 to 1975, the size of our labor force is not likely to gain quite so rapidly. If present trends continue, only 80 per cent of all the men over 14 years of age will be employed in 1975, compared with 83 per cent in 1950. Relatively fewer will be working at each end of the age spectrum.

More young people will stay in school longer. About 56 per cent of those 14 to 19 years of age took jobs in 1920. The proportion was down to 50 per cent in 1950, and the expectation is that only 44 per cent of the teen-agers will be at work in 1975.

Increased productivity has contributed to the decline in employment of children and old people. In 1900, 309 children of 14 and 15 years of age were at work for every 1,000 in population. In 1950, only 15 out of every 1,000 in that age group were at work. Children who formerly would have been employed have been released for extra education.

There has been an even sharper decline in the percentage of older men who are employed. About 57 per cent of men over 65 were still working in 1920. By 1950 the ratio had dropped to 45 per cent, and it may dip to 37 per cent by 1975.[5]

To some extent the anticipated decline in the number of male workers will be offset by an increase in the proportion of women who will be gainfully employed. Long-term changes in the composition of our labor force indicate that women are an increasingly important factor in our working population. Furthermore, the number of married women who are working far exceeds the number of single women. They contribute to the family income and thus increase the potential sales of many products. In all, about a third of our adult female population is now employed.

[5] See *Business Week*, Aug. 15, 1953, p. 18.

Certain problems created by this growing market of working women are discussed further in a later section of this chapter.

The dynamic influences of employment on marketing can be visualized to some extent when we realize that we have from 10 to 12 million people who are not steadily employed but who may take temporary jobs at some time during a year. Also, each year about 2 million young people in the United States get their first jobs or begin to look for a job. And approximately 1.5 million workers die or retire because of age or disability.

Changes in occupations must also be taken into account in a study of potential markets. Mounting office costs are one of the chief problems plaguing American business today. Census statistics for 1920 showed a ratio of 11 clerical employees for every 100 factory workers; today the ratio is 25 per 100. Clerical workers now outnumber agricultural workers in this country, and the percentage increase in the number of office workers since 1900 is estimated to exceed the percentage increase in factory workers by a ratio of four to one. Relatively, plant production costs have gone steadily downward, while office costs and the number of office employees are soaring to new highs despite increased mechanization.

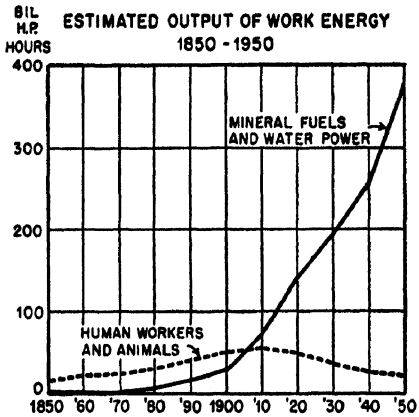
DISTRIBUTION OF INCOME

Great numbers of people have moved rapidly upward from the lowest income groups while the numbers of those in the highest income groups have suffered a sharp decline. The fact that there is a marked trend toward greater equalization of income has had important influences on marketing. The middle-income group, which is now the majority, constituted only one-fourth of the population in 1900. The higher income per family (both man and wife working) increases the purchasing power and thereby the demand for articles formerly considered to be luxuries: cars, washing machines, TV sets, etc. More husbands and wives both contribute to the family income and shop together; both take the clothes to the laundry and do the dishes.

The effects of consumer incomes on marketing are treated further in the next chapter.

CHANGES IN THE USE OF LEISURE TIME

As our productivity increases, the fruits are not only more goods and services but also increased leisure time. The average number of hours worked per week in 1930 was 47.2; in 1940, 43.0; and in 1950, 40.8. The forecast for 1960 is 37.7, and by 1980 the 30-hour week should be attained.



If the citizens of the 1850's could have looked ahead to the 1950's, they would have been amazed at our present scale of living. Our forefathers labored long hours, yet their everyday conveniences would appear most inadequate by modern standards. Even fifty years ago, factory employees were accustomed to work about 60 hours a week and earned an average of around 22 cents an hour. A few people had telephones and a very few owned automobiles; but no one had ever seen an electric refrigerator, or a radio, or an electric toaster, because these articles were still in the future. Today we work fewer hours, but enjoy a multitude of mechanical devices unknown to our ancestors.

Our high living standard has come about from the replacement of human effort with machine effort; and the constant adoption by American industry of new and better tools of production, which have increased the output of goods for each hour worked. The development of machine power can be measured by the changes in the sources of the energy used to produce things. The studies made by J. F. Dewhurst and Associates, and published by the Twentieth Century Fund in "America's Needs and Resources," show that in 1850 nearly all of this "work energy" came from human workers and animals, with mineral fuels and water power furnishing less than 6 per cent of the total. But by 1944, the latter contributed more than 91 per cent.

The rapid growth in work energy derived from water power and mineral fuels (coal, petroleum, and natural gas), as measured in terms of horsepower hours, is evident in the diagram, which covers a period of 100 years. The data are plotted at 10-year intervals and are based on the estimates made in the studies mentioned above. In these estimates the figures for "work energy" include only about one-third of all the energy supplied by minerals and water power, since the remainder is used for heat, light, refrigeration, and various other purposes.

SOURCE: *The Cleveland Trust Company Business Bulletin,* Jan. 15, 1953.

These figures include agricultural work. For nonagricultural workers the prediction for 1960 is 35 hours.

When people have extra leisure time, marketing men try to help them utilize it through the purchase of more products and services.

A generation ago, economists and moralists worried a great deal about what people would do with increased leisure time. Businessmen looked upon leisure time only in terms of lost man-hours, reduced production, higher costs, and a lower standard of living. Moralists assumed that idleness would produce only dissipation and more alcoholic stupors. Actually, the per capita consumption of alcoholic beverages has decreased. Per capita whisky consumption declined from about 1.8 wine gallons in 1917 to 1.2 gallons in 1953.[6]

The trend to leisure for the masses of people began at the turn of the

[6] See "The Leisured Masses," *Business Week,* Sept. 12, 1953.

Table 3–1. *How We Spend Our Leisure Money*

	As a percentage of all recreational expenditures	
	1929	1952
Spectator amusements	21.1	13.5
Movies	16.6	9.7
Theatre, opera	2.1	0.7
Pro baseball	0.4	0.4
Pro football	0.1	0.1
Pro hockey	0.1	0.1
Horse, dog races	0.1	0.4
College football	0.5	0.9
Other nonprofit and amateur	1.2	1.2
Participation amusements	4.8	3.8
Billiards, bowling	1.3	1.1
Dancing, swimming, etc.	0.7	0.8
Amusement parks (devices)	0.4	0.3
Golf	2.1	1.4
Other	0.3	0.2
Individual recreation	63.9	72.2
Books, maps	7.1	5.4
Magazines, newspapers, etc.	12.4	12.5
Nondurable toys	7.8	11.0
Sporting goods	4.2	6.7
Boats, planes	0.6	0.7
Radio, TV, records, musical instruments	23.4	19.8
Photo developing, studies	1.7	3.8
Flowers, seeds	5.1	7.1
Other	1.7	5.2
Gambling: Coin machines, pari-mutuel net receipts	0.4	3.6
Other	9.8	6.9
Total	100.0	100.0

SOURCE: *Business Week*, Sept. 12, 1953, p. 143. Data from Department of Commerce.

century when American industrial production started to move up to new highs. Estimates of the amount of the productivity increase indicate that if we were willing now to accept the standard of living of 1870, we could have a 5-hour work week. Instead of still working the full 55- or 60-hour work week of 1900, so that we might have the highest possible production of goods, we have taken only about 60 per cent of the potential increase in the form of goods. The remainder is being taken in leisure. The average American now has some 125 days a year away from his workbench or desk. He has a two-day week end, two or three weeks' vacation with pay, 10- to 30-minute coffee breaks morning and afternoon, and early retirement on pension. This means that we spend a lot of time and money on travel, TV viewing, reading, church functions, gardening, do-it-yourself activities, and other amusements.

Nor has the industrial productivity of the people of the United States resulted in their use of extra time on vacuous spectator amusements, as was once predicted by educators. Instead, they have decreased their recreational expenditures for spectator amusements and increased individual recreation activities (see Table 3–1).

THE EMPLOYED WOMAN

Several important changes have taken place in the statistics of women who work. The average woman worker is older than in previous decades. In 1900, for example, the median age of working women was 26; in 1950, it was 37. Faced with the high cost of living and desiring an improved standard of living, many married women have returned to work after an absence of 20 years from a payroll. The characteristic pattern is a U curve with the women working before and during early marriage, being unemployed while the children are small, and then returning to work during late middle age. The married career girl has replaced the single one until the percentage of working women who are unmarried has shrunk from one-half of the total working to one-third. Changes that took place in the short period of 10 years, from 1940 to 1950, are indicated below:

Marital status of working women	Percentage	
	1940	1950
Single	49	32
Married	30	48
Widowed, divorced, separated	21	20

SOURCE: *Business Week*, Apr. 19, 1952, p. 95.

When the ways in which people work and conditions in living change, retailers have to adapt themselves to their customers' needs. Because more married women have taken jobs, many adult women cannot shop during the day except on Saturday. Nor do they want to shop on Saturday night. More and more couples shop together; they prefer to shop at night. Transportation and parking are also easier at night. As a result, some supermarkets are open four nights a week. Most department and specialty stores are open one or more nights a week.

Furthermore, most of these married working women run homes and manage the family as well. In 1950, 25 per cent of all working women were mothers of children under 18 and ½ million working women had children under school age. When the husband's income is low, the wife is more likely to get a job and thereby help to increase the family income. In a recent year, almost one-third of the wives whose husbands earned between $1,000 and $2,000 entered the labor force, compared with slightly more than 10 per cent of those whose husbands made over $10,000. The woman's status as a dependent is changing in both low- and high-income groups.

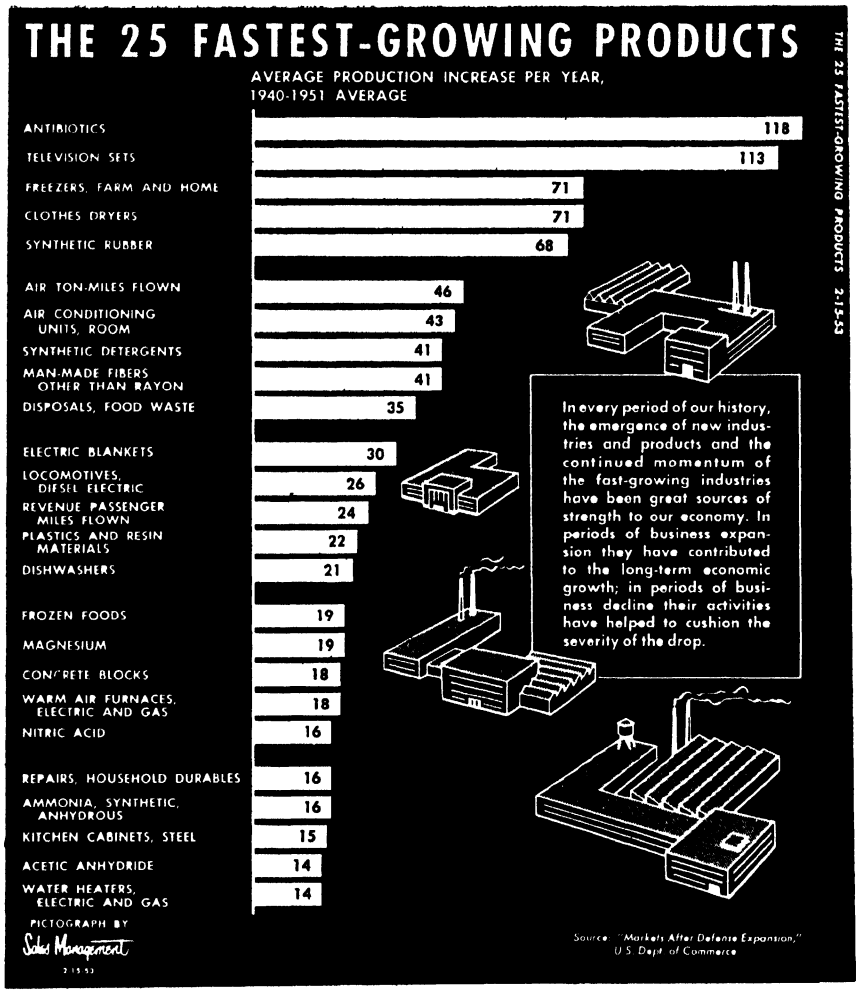
The fact that a wife works is decreasingly considered an implication that her husband cannot support her. In fact, current practice tends to equalize the partners in marriage, because today the wife is part earner of the family income and the husband helps with household chores. This system of partnership has become a significant factor in American marketing.

TECHNOLOGICAL INFLUENCES

Technological developments have enabled us to have an ever-rising standard of living. A simple example is the automatic dialing of our telephones. Without it, there would not be enough working women in the United States to staff the switchboards that would be necessary to handle the present volume of our telephone communications.

Within the next few years we are sure to see amazing developments in the field of electronics. The following are beyond the "dream" stage and well within the range of feasibility:

1. A golf ball with transmitter equipment that will locate the ball when lost in an area of foliage
2. Wall television sets that can be hung like picture frames
3. Highways equipped electrically so the driver can set his car automatically and then sleep
4. Portable radios that need no new batteries for years
5. A system for home and factory that will serve as an inexpensive communication between rooms



What hydroponics, that is, soilless gardening, will do to commercial gardening will be watched by vegetable marketers. Actually, millions of pounds of vegetables are now being grown each year with this new technique. Thus far these have been mostly lettuce, cucumbers, green peppers, onions, and radishes. Ordinarily, hydroponic methods are used only in greenhouses for such costly crops as cut flowers.

Scientists have already increased our food supplies through the use of antibiotics. Antibiotics have led the list of fastest-growing products, barely beating out television sets for the lead. Appliances and materials that contribute to less work and more comfort continue to have good sales records. Rubber is an especially good example.

Goodyear engineers have come up with some interesting data about

the greatly increased use of rubber in passenger cars since 1920. Their survey shows that the number of rubber parts used in the average car has increased from 150 to about 540. The total weight of all rubber used (excluding tires and tubes, which account for 138 pounds) has increased from 33 pounds in 1920 to 100 pounds today.[7]

Marketing men have learned to study statistics concerning the automotive industry with the same interest they have in population figures, because America now has just about the same number of cars registered as it has households. This high mobility of our population has had and will continue to have marked influences in marketing. People who own cars can shop over wide areas. They also want to do more shopping without getting out of the car.

Fenton B. Turck has dramatized some of the most significant changes of a 10-year period by calling them "The American Explosion." If we think of the explosion as indicating jerky movements, punctuated by relatively rapid and unexpected slowdown changes, the analogy has value for the marketer. Actually, most of these changes take place so gradually that we appreciate them only when we see them in the perspective of years of observation. Turck's dramatized presentation, however, improves our perspective.

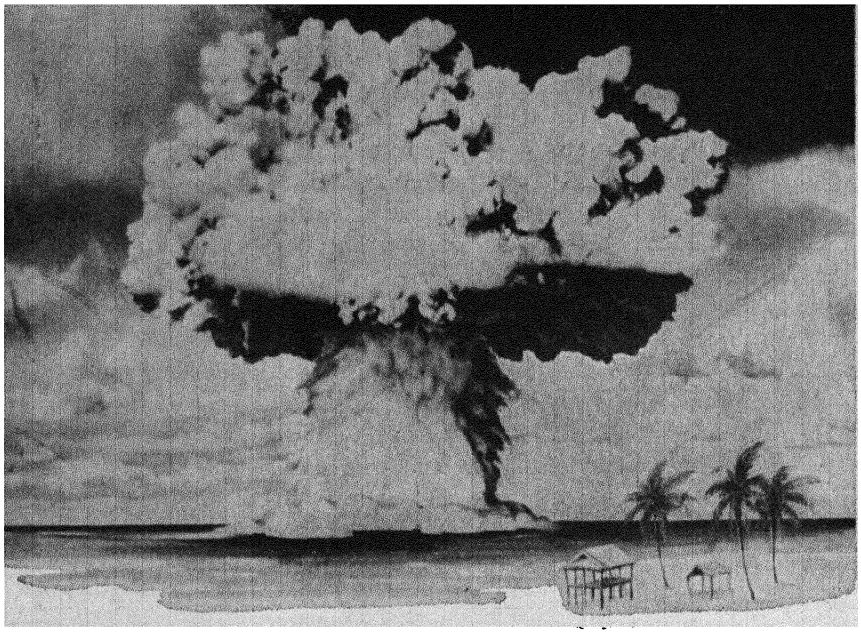
DISTRIBUTION CHANGES

The frequent changes in consumers' behavior that bring about new distribution patterns compel the marketing executive to pay close attention to the dynamics that affect his business. He notes especially technological developments that affect distribution, as exemplified by the modern automobile which makes shopping more difficult in congested downtown traffic areas and easier in outlying shopping centers, better conveyors for materials handling which help wholesalers reduce warehousing costs, and new electronic bookkeeping devices which permit department stores to reduce their costs in processing sales checks.

He watches such developments as the decentralization of the retail centers of cities and their movement to suburbs; the new types of outlets which are being developed; the increased use of self-service, self-selection, and vending machines; the decline in selling ability on the part of retail salespeople; the growth of nighttime shopping; the increase in the number of men shopping in food stores; and the possibility that the supermarket may become a modern duplicate of the old general store. Important trends in distribution are suggested by the following questions:

1. *How is the availability of products being increased?* Distribution through many outlets rather than distribution only through traditional

[7] *Automotive Industries' News Letter,* Oct. 15, 1953.



Even this cloud has a silver lining

... how atomic energy is helping conquer disease

Today, the whole world has reason to hope...

To hope that atomic energy will be a powerful force for good... one of mankind's greatest blessings.

Already the silver lining of the atomic mushroom cloud is beginning to show through. In several ways! Just think, for example, of what this new force has done, to date, to expand production of radioisotopes ... atomic materials used by doctors to track down and treat disease.

Of themselves, isotopes... special forms of elements like iodine, phosphorus, cobalt... aren't much help to medicine.

But put iodine into an atomic pile, and you get an irradiated isotope. Swallowed and used as a tracer, radioiodine helps doctors diagnose improper functioning of the thyroid gland. And used in larger doses, it helps treat hyperthyroidism.

Do the same thing with cobalt, and you get a radioisotope that's a substitute for radium. It's much cheaper, though. Much more plentiful, too.

Until the day of the chain reactor, there just weren't enough radioisotopes to go around. So you can thank atomic energy for these medically invaluable radioelements.

You can also thank Inco Nickel for bearing a hand in this powerful, new attack on disease.

It takes highly corrosive fluorine gas, you see, to produce an intermediate chemical used in the production of certain types of fuel for atomic piles.

And it takes corrosion-resisting Nickel to handle fluorine. For this destructive gas burns water, dissolves glass, crumbles stone, ignites asbestos and steel.

Through its conquest of fluorine, corrosion-resisting Nickel has helped mankind take a giant step ahead in its conquest of disease.

For all its great usefulness to man, however, Inco Nickel is rarely seen. It's usually intermixed... that is, alloyed... with other metals to make them more corrosion-resistant, or stronger, or more heat-resistant.

In the alloying, Inco Nickel's identity is generally lost. That's why it is called "Your Unseen Friend."

You and "Your Unseen Friend": *Morning, noon and night, Inco Nickel is always with you—helping to make your life easier, brighter, more pleasant, more worthwhile. Just how? "The Romance of Nickel," an interesting booklet, tells you. Send for your free copy. Write The International Nickel Company, Inc., Dept. 52c, New York 5, N.Y.*

©1954, T. I. N. Co.

Inco Nickel ...Your Unseen Friend

The INTERNATIONAL NICKEL COMPANY, Inc.

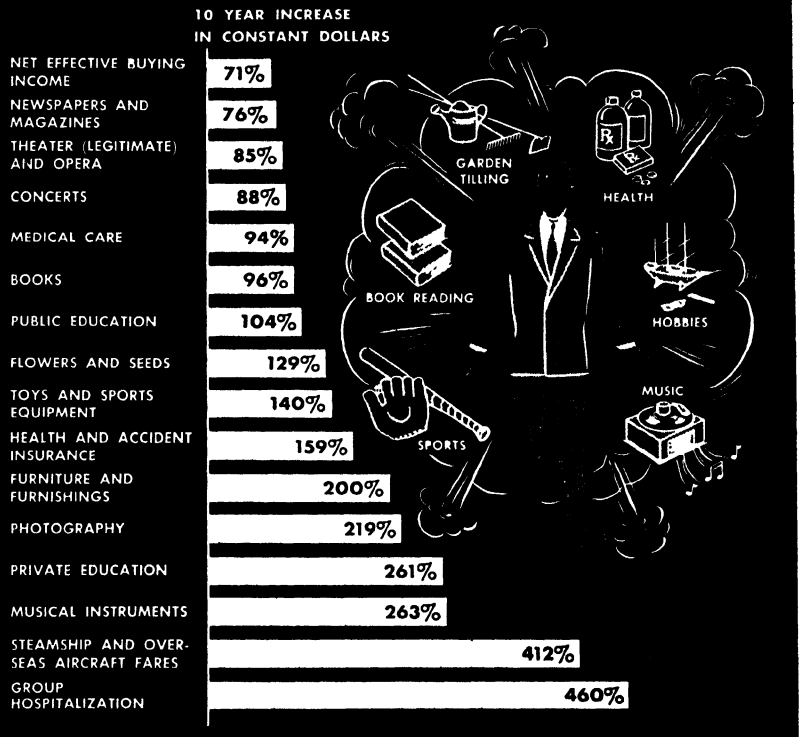
GI-3719A—This advertisement appears in:
The Saturday Evening Post, March 13—Collier's, March 19—Look, March 23—Newsweek, March 8—Time, March 22—U.S. News, March 26—Forbes, March 15—Pathfinder, The Town Journal, April—and in 29 newspapers in 20 cities during January and February, 1954—★
Total Circulation: 26,590,534

THE AMERICAN EXPLOSION

The American explosion has been 300 years in the making, and the atomic blast was only one phase. It has resulted in new consumers who differ from their predecessors far more than in the pocketbook alone.

The new kind of Americans—with new desires, needs and tastes—demand new patterns of service and distribution. Customs, habits and attitudes have changed drastically.

Measured in *constant* dollars, here are striking gains in expenditures for health and culture over the past 10 years, set against their increase in money income after taxes.



The figures produce a rough sketch of a book-reading, garden-tilling, sports-loving American, who likes music, takes time for hobbies, and watches his health.

If the explosion were only economic, industry would need only to produce more and sell more. But companies following such a course would run the risk of turning out copies of "September Morn" for a public that has learned to prefer Van Gogh—or of producing Mission furniture instead of Swedish modern.

Source: Fenton & Turck, Inc.
Turck, Hill & Company, New York

PICTOGRAPH BY
Sales Management
1-15-53

THE AMERICAN EXPLOSION 1-15-53

channels is a current trend. Supermarkets now sell 40 per cent or more of all cigarettes sold. Toy departments are found in grocery stores. Books are sold in hardware stores. Variety stores sell beef and poultry. Coca-Cola is sold in gasoline stations, and so on into almost every phase of marketing. Will this trend continue until every retailing establishment has become a modern general store? Or will certain patterns become stabilized?

2. *What is happening to the wholesaling structure?* In the movement of goods from manufacturer to consumer, the wholesaler has been under relentless pressures. He has been by-passed by the department store syndicate, the chain store, the mail-order house, and the retail-owned cooperative. The small retailer is his main outlet.

The most feasible way for enlarging the wholesaler's volume appears to be for him to improve the methods of his customers—the small retailers. If he can enable them to compete successfully with other retailers, he can increase his business. Some of the wholesalers' associations such as the National Wholesale Druggists Association and the Wholesale Dry Goods Institute are conducting research in marketing as a basis for improving wholesaling and retailing methods. Alert marketers are watching this kind of effort. Obviously, wholesalers prosper as retailers succeed. Will wholesalers become so effective in their marketing efforts as to cause shifts in the present wholesaling pattern?

3. *How far will self-service spread into the nonfood outlets?* Some marketing forecasters predict that eventually as much as 75 per cent of retail nonfood items will be sold by self-service. The argument for this prediction is that in actual practice a substantial percentage of nonfood products sold through nonfood outlets is being purchased in a self-service manner. This takes place even though the store is not organized for self-service and has so-called "salespeople." In actual practice a large amount of buying is self-selected by the customer because salespeople often play an insignificant role in completing the sale. This even applies to the "high ticket" or more costly items such as electrical appliances.

The more advertising presells a brand, the more likely that it can be sold by self-service outlets. The supermarkets have conditioned the public to the use of self-service, which enables people to buy faster and cheaper.

Every competitive era has spawned new types of low-cost, low-markup retailing. This coming era, which with our gigantically-increased years—*will be no exception.* Certainly, mass retailing will not for long operate on a 17 per cent [markup] basis in one type of store and a 40 per cent basis in another type of store—particularly when *manufacturers* have done the *preselling.*[8]

[8] *Grey Matter,* Grey Advertising Agency, Inc., Aug. 1, 1952.

What will the self-service merchandisers do when self-service has squeezed dry its present cost-cutting potential? Will self-service stores settle down to operate for years in the manner they established or will they find new ways to reduce costs still further? One trend to watch is the extent to which supermarkets reduce costs by means of further mechanization: more vending machines and moving belts. Possibly costs can be reduced through new uses of television. Will more shopping be done by telephone sales 24 hours a day?

In watching for trends, it is especially important to note the changes in the living conditions of consumers which, in turn, affect the selling practices of retailers.

Our future growth is, of course, unlikely to continue at a uniform rate. Imbalances will take place between various economic influences. Farm surpluses and excessive inventories of goods will have to reach adjustments. Population changes will be affected by periods of boom and depression. Wars may upset our calculated plans. Government regulations and taxation rates will increase and decrease. New inventions will cause some profitable industries to become obsolete. But the established patterns are likely to continue even though the marketer may find it necessary to make occasional new interpretations of the patterns.

EFFECTS OF TRENDS ON A SPECIFIC BUSINESS

Anyone who studies trends in relation to the marketing of specific products is likely to discover that trends do not always work out as might be expected. One reason is that businessmen can often adapt themselves to a tide that is running against them. A good example is the case of the ordinary lead pencil.

Trends that appeared to forecast the death knell of pencil manufacturing were the increased use of typewriters, mechanical pencils, fountain pens, telephone, teletype, printing, and ball-point pens. Actually, the business of making lead pencils has increased continuously in spite of all the competition. The steady growth of the market for lead pencils has taken place because of other influences such as our increased population, higher literacy, and the rising volume of paper work to meet government requirements and industry's own need for more complete records.

Another example is the iceman. The old-time iceman has gone the way of the Mohicans, but we now have almost 7,000 plants producing ice for use in protecting meats, poultry, fish, and vegetables and for use in hotels, restaurants, and soda fountains. The ice maker learned how to process ice and merchandise it to open new markets. Furthermore, 27,000 packaged ice-making machines were sold in 1953.

Crawford H. Greenewalt, President of E. I. du Pont de Nemours &

Company, recently predicted that 25 years from now half of the working force will be making or selling products unknown to us today.

The leaders in hundreds of other industries have been agile enough to adapt themselves to adverse trends and thereby enlarge their markets. Whenever you study the history of an industry or a company, look for the trends that affected its life and note how the successful organizations capitalized on the latent possibilities.

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QUESTIONS AND EXERCISES

1. Name some of the major shifts in population over the past 50 years. How do these shifts affect marketing?

2. How do you account for the fact that relatively fewer children are working today than 50 years ago? What is the importance of this factor to the marketing man?

3. What are the important changes in marketing that may be traced at least partially to the high number of women in the labor force?

4. What are the major changes in the way that we have been spending our money for leisure-time activities?

5. What impact would you expect the trend toward increased leisure time to have on the men's clothing industry? Suits? Slacks? Shirts? Shoes? Underwear?

6. Is the rapid obsolescence policy wasteful? Does such a policy increase the availability of products to lower-income classes?

7. What types of products have been most affected by the increase in the number of young people? What products are likely to feel this impact in the next 10 or 20 years?

8. What influence does advertising have on the trend to self-service?

4 Consumers: Their Incomes and Expenditures

THE ALERT MARKETER

1. **Watches long-term trends in the incomes of consumers and studies their influences on marketing.**
2. **Studies buying habits of consumers in order to learn the ways in which purchases vary with income.**
3. **Is aware of the numerous assets owned by consumers in forms that hold purchasing power in reserve. He knows that as consumers become optimistic about stability of prices and certainty of income, the purchasing power they hold in reserve tends to be released. The modern marketer believes that he can expedite this release.**
4. **Becomes acquainted with the published reports currently available on incomes.**

One definition of a market is that it consists of people who have "a desire to buy and have money to buy." Sometimes the definition is modified to include "accessibility."

WHO ARE YOUR CONSUMERS? WHAT INCOMES DO THEY HAVE?

Studies of incomes in relation to markets suggest that some of our generally accepted definitions of markets—by family size, by region, by farm and nonfarm, by income groups—should include other factors. One striking conclusion is that "it is not the given year's income or even that of the immediate past, but these in combination with the expected income and the income horizon that govern expenditure and savings patterns." Even low-income families tend to spend more when they live in communities where average family incomes are high. Also, certain family units with lower than average incomes are "lavish" spenders. Usually they

are young, newly married, in the 20 to 35 age bracket, and responsive to new consumer goods appeals. The more moderate spenders are older, more settled, and have ceased to respond to the attractions of new goods.[1]

Income, however, is a basic factor in the marketing of consumer goods. It must be the base of sales projections, but the mere existence of income does not forecast sales perfectly. A man may need a new suit and have the money to buy it; whether he does depends to some extent on his confidence in the future.

The study of income has value for the marketer in regard to three aspects: the long-term trend in the purchasing power of consumers, the changes in buying habits in relation to changes in income, and the relation of income to the sales of the specific product for which the marketer is responsible.

THE LONG-TERM TREND IN INCOMES OF CONSUMERS

The dynamic aspect of marketing is shown especially clearly when we note the changes in the distribution of families by income groups. Study of the trends in the distribution of incomes among United States families indicates that the middle class has been increasing, percentagewise, while the percentage in the lowest-income group has decreased (see Table 4–1).

Table 4–1. *Distribution of United States Families by Income Groups*

In families with annual income	1910	1921	1942	1947	1954
Under $1,000	69.4	46.5	18.5	13.3	8.1
$1,000–$5,000	29.4	51.0	74.1	77.1	73.6
Over $5,000	1.2	2.5	7.4	9.6	18.3

SOURCE: Everett R. Smith, *The Destiny of Free Enterprise,* New York: Macfadden Publications, Inc., 1943; figures for 1947, applying to end of 1946 and first quarter of 1947, are inserted from same author's *Marketing Memos* for Apr. 28, 1948; figures for the beginning of 1954 are taken from same author's *Marketing Memos* for Apr. 7, 1954.

The rate of this change has been particularly rapid in recent decades. Of course, the rate of change varies from time to time in accordance with influences such as wars, depressions, and taxation, but the long-term trend toward more even distribution among families is not likely to be reversed. Many people, especially those engaged in marketing products purchased

[1] See *Studies in Income and Wealth,* 15th Installment, Conference on Research in Income and Wealth, National Bureau of Economic Research, New York, 1952.

by middle-income customers, believe that this trend toward income equality is socially very good.

The distribution of income in the United States has changed so greatly in the past twenty years that Arthur F. Burns, Research Director of the National Bureau of Economic Research, renowned for its impartiality and technical competence, calls it "one of the great social revolutions in history.". . . Individual incomes are both much larger and more evenly distributed than they were twenty years ago. Clearly a large new middle class has been created.[2]

The leveling process in dollar incomes applies also to real income. Statisticians who want to note the changes in real income make adjustments for price changes as shown in Table 4–2.

Table 4–2. *Distribution of Real Income*

Dollars of income	Percentage of families in each group	
	1929 *	1951
Under $1,000	17	13
$1,000–$1,999	24	15
2,000–2,999	24	18
3,000–4,999	20	33
$5,000 and over	15	21

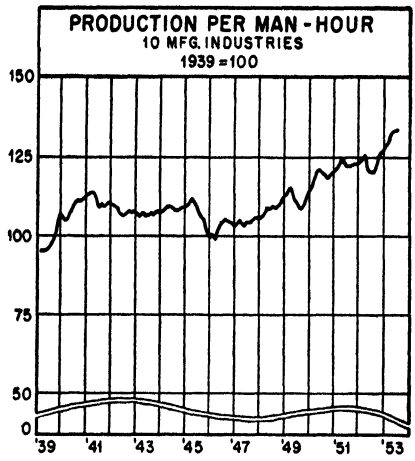
* Adjusted for price changes to give the dollar its 1951 purchasing power.

SOURCE: "Prosperity in the U.S.A.: Who Has It?" *Business Week,* Dec. 20, 1952, p. 120.

Incomes can be leveled in many ways; some are good and some are not. To a certain extent incomes have been leveled by highly progressive tax rates which reduce the higher incomes. A more effective policy, however, for bringing about income equality would be to increase lower incomes rather than merely to decrease upper ones. There should be room to raise the average income of everyone by increasing the economic productivity of everyone. Absolute equality, which would destroy the incentive factor, is not desirable if we seek a constantly rising standard of living for all persons. Production per man-hour must continue to rise if we are to have a rising standard of living.

Fortunately for the majority of American people, our real income per capita doubled in the first 50 years of the twentieth century. Because of increased productivity per man-hour of work, the average worker has increased his real wages or buying power by about 25 per cent every 10 years, regardless of price levels (see Table 4–3). Our greater productivity,

[2] "Prosperity in the U.S.A.: Who Has It?" *Business Week,* Dec. 20, 1952.



Productivity, or production per man-hour, in ten leading manufacturing industries has been moving up since World War II. . . .

Changes in output per man-hour for ten industries combined are shown in the diagram, beginning with 1939. The base period, or 100, is the 1939 monthly average. . . .

The diagram illustrates the rising trend of productivity except during the war years, the data for which are not very satisfactory. For many years, output per man-hour has increased through the adoption of improved plant, machinery and operating methods, which mean that more and better goods can be turned out per unit of productive equipment. Thorough studies of productivity trends have been made by the National Bureau of Economic Research and others, and the average yearly rate of increase in output per man-hour has been estimated at between 2 and 3 per cent over a long period.

This is the fundamental cause for the rise in the real earnings and living-standards of factory workers. When wage rates advance without corresponding gains in production per man-hour, the result is greater costs per each unit of output. In fact wage costs per unit of production have increased much more than output per man-hour since 1939, and that has been an important factor in lifting the prices at which goods are sold. A recent study by the Twentieth Century Fund emphasizes the dependence of real wages on productivity and technological advance. Assuming a continued rise in output per man-hour, it is believed that the buying power of hourly wages can increase at an annual rate of 2½ to 3 per cent over the next decade or two.

SOURCE: *The Cleveland Trust Company Business Bulletin*, Sept. 16, 1953.

produced mainly by better management and machines, has given the average American four times the housing space of the Britisher and ten times the space of the Russian.[3]

A new American standard of living has developed for the middle-income segment of the population as a result of the changes in the distribution of the national income. These middle-income people buy not only better clothing with their additional money but many extra and expensive gadgets as well. They buy leisure wear and sport clothes instead of work clothing only. They buy packaged, processed, and prepared foods rather than food "in the raw." This contrasts sharply with what happened at the peak of the 1929 boom. Then their needs were met plainly, without gadgets and gimmicks. In those days of the model T, the installation of a bathtub was an eventful occasion for the middle-income family.

A large part of the increase in the share of lower-income groups has been due to the decline in unemployment compared to the depression

[3] Edwin Vennard. *Edison Electric Bulletin*, June, 1951.

Table 4–3. *Hours of Factory Work Required to Purchase Selected Consumers' Goods,* 1914 *and* 1951

Commodity	1914	1951
Women's shoes	20 hr. 48 min.	7 hr. 24 min.
Cotton housedress	4 hr. 29 min.	2 hr. 12 min.
Men's dress shoes	12 hr. 52 min.	7 hr. 55 min.
Overalls	3 hr. 29 min.	2 hr. 18 min.
Business shirt	6 hr. 44 min.	2 hr. 27 min.
Bedsheet	3 hr. 49 min.	1 hr. 48 min.
Mattress	17 hr. 35 min.	14 hr. 50 min.
Bituminous coal, ton	24 hr. 29 min.	10 hr. 23 min.
Pork chops, lb.	59 min.	29 min.
Sliced bacon, lb.	1 hr. 14 min.	25 min.
Eggs, doz.	1 hr. 35 min.	26 min.
Butter, lb.	1 hr. 37 min.	31 min.
Bread, lb.	17 min.	6 min.
Milk, qt.	24 min.	9 min.

SOURCE: From "Future Assignment for Marketing: Helping People to Live a Third Better Than They Ever Have Before," *Tide,* Dec. 12, 1952.

of the 1930's. Few persons who hold jobs today are in the lowest income groups. The very low income groups, under $1,000, in this country do not consist in the main of wage earners but rather of such unfortunates as old persons, disabled persons, and families headed by women because of widowhood, desertion, or divorce. Percentage wage increases for all employees seldom really benefit the very lowest income group.

We must not conclude, however, that all those whose incomes fall into the lowest 20 per cent group, in the neighborhood of $2,000 and less, are shiftless and broken. A high percentage of retired people, for example, spend more than their currently earned incomes because they are drawing on pensions and savings.

In America, the old adage that the rich get richer and the poor have children is no longer true. On the contrary, the low-income groups have the fewest children and the highest-income families have the most. The families in the lowest fifth in income have an average of 3.29 persons; second fifth, 3.52; third fifth, 3.58; fourth fifth, 3.62; and the highest fifth, 3.94. The average for the country was 3.6 in 1949.[4]

What has happened in the last 50 years is that the poor man's children have become richer and the rich have become somewhat poorer, thereby enlarging the middle class. This condition is the result of increased per

[4] Richard Y. Giles, "New Commerce Data Show What's Different about 5 Income Groups," *Printers' Ink,* Nov. 20, 1953.

capita real income and the trend toward a more even distribution of total income. The lower-income classes are gaining faster than the high-income classes.

In 1929, before the New Deal, the top tenth of the nation's families was receiving 46 per cent of all the money received by individuals before taxes, as compared with 29 per cent in 1950. During the same period, the 60 per cent of the families in the middle brackets increased their share from 43 to 52 per cent.[5]

These shifts in income distribution have caused drastic changes in the size of consumer markets and buying habits. The increased size of the middle-income group has widened many markets but has also increased certain instabilities, such as the consumer's greater independence in buying with regard to the prices he is willing to pay and the quality of merchandise he wants.[6] The area of discretionary spending power has widened; it plays a large part in the periodic "consumer slowdowns" that often puzzle modern marketers.

DISCRETIONARY SPENDING POWER

Optional, or discretionary, spending power is usually defined as the money the consumer has left over after his essential living expenditures for taxes, food, clothing, and shelter. It is the money that can be used for the purchase of automobiles, appliances, improved home facilities, luxury items, improved quality of food, vacations, and savings and investments. Some writers use the term "disposable income" to express the same general idea, but this term specifically applies to the money left over after taxes.

A family can improve its standard of living through use of its discretionary spending power. Taking a long-awaited trip, buying a needed refrigerator, getting an extra telephone, or buying better food and clothing are all ways of using discretionary spending power. Using this power to buy goods and services helps to maintain the economy at a high level. Discretionary spending power thus becomes as important to the food processor as it is to the manufacturer of durable goods.

Optional, or discretionary, spending power is in the hands of consumers during depressions as well as in prosperity periods. Marketers know this. In depression periods particularly, they try to tempt this money out of the funds of investment and "storage." They whet the consumer's desires by means of stimulating promotions because they know that it is the ab-

[5] For a more complete treatment, see Simon Kuznets, *Shares in Upper Income Groups in Income and Savings*, National Bureau of Economic Research, New York, 1953.

[6] "Making Everyone Middle Class," *Business Week*, Oct. 18, 1952.

sence of the will to buy rather than the absence of means that limits the amount of the consumer's expenditures.

Generally, consumers are reluctant to curtail their spending except in

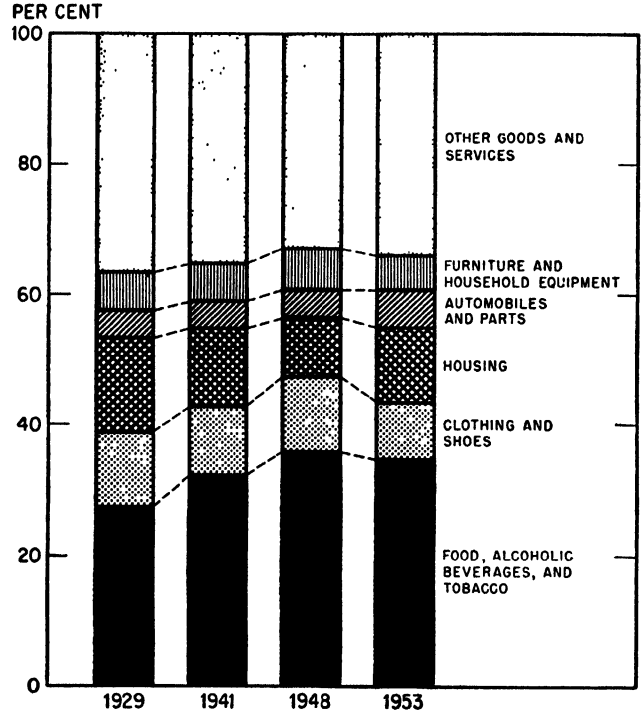
"It's just a period of healthy readjustment, boss . . . people are living within their incomes till they get their confidence back."

SOURCE: Cartoon by George Lichty. Reproduced by courtesy of the Chicago *Sun-Times* Syndicate.

periods of unemployment or during a drastic decline in business. As evidenced in the 1948–1949 period, consumers increased their spending through saving less (see Table 4–4). In 1948, 5.6 per cent of disposable personal income was saved; 3.6 per cent was set aside in 1949. These two percentage figures were lower than for the fourth quarter of 1953, at which time the rate of saving rose to 7.7 per cent of disposable income

SHIFTS IN CONSUMER BUYING

MAJOR GROUPS OF PURCHASES AS A PERCENT OF TOTAL CONSUMER EXPENDITURES



OFFICE OF BUSINESS ECONOMICS, U S D. C.

The above chart presents the data of the table but the percentages are higher than in the table. The percentages in the table are based on total disposable income. The percentages in the chart are based on total consumer expenditures only. For example, let us assume that a man had a total income of $10,000 in 1953. Of that he spent $9270. If he spent 5.6 per cent of his disposable income or $560 for autos and parts, he spent over 6 per cent of his total consumer expenditures for that category.

SOURCE: Chart and its explanatory information from Louis J. Paradiso, "The Recent Pattern of Consumption," *Survey of Current Business*, April, 1954, U.S. Department of Commerce, Office of Business Economics.

even though a contraction in business was definitely under way.[7] This extra saving constituted a cushion for the individual consumers but offered a challenge to marketers when they discovered that disposable income in 1953 was three times that of 1939 and that the personal savings rate was

[7] See *National City Monthly Letter*, March, 1954. To keep informed concerning the percentage of disposable income that is saved, note current reports on the subject. In Table 4-4, for example, subtract 94.4 from 100 per cent for the year 1948 in order to obtain the above-mentioned 5.6 per cent for that year.

Table 4–4. *Personal Consumption Expenditures as a Percentage of Disposable Personal Income*

	1929	1941	1948	1953
Personal disposable income	100.0	100.0	100.0	100.0
Total personal consumption expenditures	95.5	89.5	94.4	92.7
Durables	11.4	10.7	12.1	12.2
Nondurables	45.7	47.8	53.6	48.9
Services	38.4	31.0	28.7	31.6
Total food, tobacco, clothing, and shelter	50.9	49.1	53.3	50.8
Food (including alcoholic beverages and tobacco)	25.9	28.8	33.9	32.0
Clothing and shoes	11.2	9.6	10.7	8.3
Housing	13.8	10.8	8.7	10.4
Autos and parts	3.9	3.6	4.0	5.6
Furniture and housefurnishings	5.6	5.2	6.1	5.0
Other goods and services	35.3	31.5	31.0	31.5

Some pronounced changes in the pattern of consumer buying of different goods and services have been evident in the past several years. As the chart indicates, consumers in 1953 used 35 cents out of each dollar spent for food, alcoholic beverages, and tobacco—a proportion which was considerably above prewar years; they spent 9 cents on clothing and shoes—below that in the earlier postwar years and in the prewar period; they spent 11.5 cents on housing, a larger proportion than in 1948, but smaller than in the prewar period. It is interesting to note that the proportion spent on the combined categories of food, beverages and tobacco, clothing, and shelter has been fairly stable in the past 25 years, exclusive of the war period—averaging around 55 cents out of each dollar spent.

Some shift has also been evident from prewar in the proportion going for autos and parts—6 cents out of each expenditure dollar in 1953, compared with 4 cents in 1929 and 1941. The proportion spent for the remaining goods and services as a group has been fairly constant since 1941, although smaller than in 1929. The detailed composition of this heterogeneous grouping has, of course, changed markedly.

Some of the changes noted have resulted from the fact that consumers tend to spend proportionately more on certain goods and services as income rises. This is the case, for example, for autos and parts and to a lesser extent for some major types of consumer durables.

SOURCE: Table and comments from Louis J. Paradiso, "The Recent Pattern of Consumption," *Survey of Current Business*, April, 1954, U.S. Department of Commerce, Office of Business Economics. Table data from Office of Business Economics.

twice as great. Alert marketers decided that the money was there but only the hard sell would pry it out.[8]

Of course the man who has a static rather than a dynamic concept of marketing will ask, "Where will people get the money if we induce them

[8] See Philip Salisbury, "Significant Shorts," *Sales Management*, Feb. 15, 1954.

to buy more and better goods?" The answer is only partially that it can be taken from savings. The main answer is that in the American way of life the desire to live better creates incentives to work, to invent new products and services, to produce, and to exchange the products of one's efforts for the products or services of another. This is far more important than intensive selling of one company, which merely takes business away from the other companies of the same industry.

In the United States the number of employed civilians has increased in greater ratio than the total population increase. When people want more, more people go to work, as exemplified by the increased numbers of married women who work in order to pay for extra appliances or luxuries for the home.

When a new machine for relieving drudgery in the home appears on the market, it is usually regarded by most people as a luxury. It is high-priced and few are sold. Gradually, the discretionary income available to the lower-income groups widens the market. Sales increase, production methods are improved, prices come down, and the former luxury becomes a commonplace in most homes. This pattern applies to the telephone, automobile, electric washer, room air conditioner, and dozens of other items. Even the Cadillac, once the hallmark of the opulent, is sold to many people who are not members of the carriage trade.[9]

To the alert marketer, our standard of living is a more powerful dynamic force than our national income. He knows that the consumer draws a picture in his own mind of how he wants to live and he lives by that picture as long as he can manage it. The aggressive marketer constantly stimulates the consumer to redraw and improve the picture.

HOW BUYING HABITS CHANGE WITH CHANGES IN INCOME

The more even distribution of dollar incomes and the general rise in real incomes has meant that more and more marketers are dealing mainly with a middle-class market. The typical modern marketer has under consideration a larger share of the population and the nation's wealth than in past eras.

Equalization as a marketing factor was recognized by the French philosopher-historian Alexis de Tocqueville in 1835 in his *Democracy in America:* "The passion for physical comfort is essentially a passion of the middle classes: with these classes it grows and spreads, with them it preponderates. From them it mounts into the higher orders of society and descends into the mass of the people."

The important fact for the modern marketer is that the basic pattern

[9] "Luxury Market: Today's Catalyst for Tomorrow's Distribution," *Tide,* Dec. 19, 1953.

of income distribution has been changed permanently. It can never shift back, but one weakness does exist. The shifts in income distribution slow down in some years and accelerate in others.

When people's incomes go up, their buying habits change. They upgrade their living. They buy consumer goods that were out of their reach or that they formerly considered unnecessary such as steaks, better cars, or more expensive clothes (see chart on the next page).

Table 4–5. *Where People Put Their Money—Ownership of Assets and Debt Liability within Income Groups, Early* 1953

(Percentage of group owning asset or owing debt)

Item	All spending units	1952 money income before taxes			
		Under $3,000	$3,000–$4,999	$5,000–$7,499	$7,500 and over
Assets:					
Liquid assets	71	52	76	93	98
Automobile	61	36	70	84	92
Owner-occupied nonfarm home	43	32	43	57	65
Owner-occupied farm	5	9	4	3	3
Other real estate	14	11	11	19	31
Business interest *	7	3	6	8	22
Corporate stock	7	4	5	10	28
Money loaned out	12	12	11	14	17
Debt owed	62	51	68	75	63

* Includes unincorporated nonfarm business and owner-operated privately held corporations.

The types of assets in which consumers invest or hold their savings and the extent to which asset ownership is offset by debt have a bearing not only on the financial position of consumers but also on the functioning of the economy. . . .

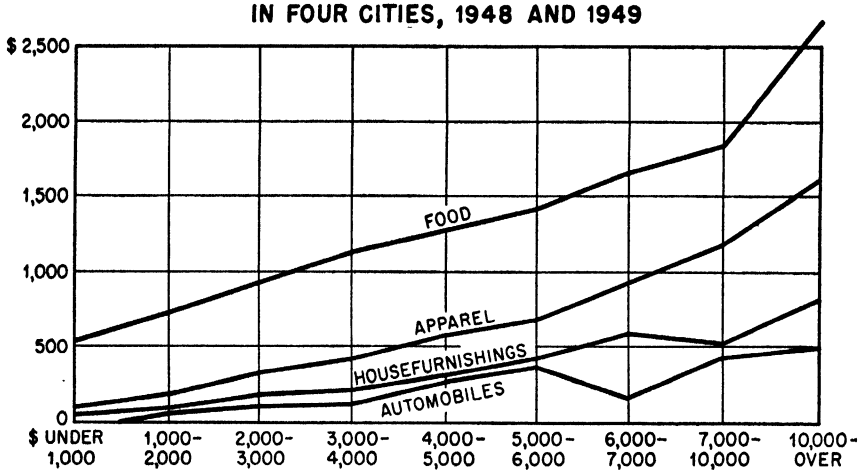
Ownership of different types of assets varies greatly among consumers. The most widely held asset reported in the survey was liquid assets—United States government securities and savings and checking accounts. This type of asset was reported by 7 out of 10 spending units. Large proportions of consumers also owned homes and automobiles, roughly 4 and 6, respectively, in every 10. Except for farms, each type of asset was owned most frequently by consumers with the highest incomes.

Approximately 4 in every 10 consumers were completely free of debt. The 6 in 10 who owed some money, such as personal debt or debt on home, farm, or real estate, were found most frequently among consumers with incomes of $4,000 to $7,500, in the wage-earner group, and from 25 to 34 years of age.

SOURCE: Table and comments from "1953 Survey of Consumer Finances," *Federal Reserve Bulletin,* Board of Governors of the Federal Reserve System, September, 1953, p. 5.

When the upgrading process goes on continually, the market for a huge group of consumer products expands continually. But when the process slows down, the expansion of the market slows down with it. Business executives know this and plan their marketing programs in accordance with their forecasts of slowdowns and accelerations in consumer

AVERAGE FAMILY EXPENDITURES BY INCOME LEVEL IN FOUR CITIES, 1948 AND 1949



The chart shows one thing clearly—that expenditures go up with income. This is very widely true, although even to this there are exceptions. . . .

Some of the increase in each category is due to such facts as: (1) there is an increase in family size as you go up the income scale; (2) there is an increase in number of earners in each family; (3) there are age differences at different income levels.

Income sets the boundary lines. People tend to spend right up to the edge, usually spending more than they make in the lower brackets and less than they make in the upper brackets.

Inside these boundaries, density of population and climate set the patterns. The type of food people eat, the weight of the clothing they buy, the usefulness of washing machines, the percentage of families that will buy automobiles—these things are determined by the weather and the number of people per square mile. New York City, being most congested, presents the extreme pattern: fewest homeowners (proportionately), fewest automobiles. This in turn means more money available for eating out, which means that New York families spend a relatively high percentage of income for food. . . .

SOURCE: Data drawn from the Family Expenditures Survey of 1950 for 1948 and 1949 by Bureau of Labor Statistics. Interpretation from Richard Y. Giles, "Family Data Available Soon from BLS," *Printers' Ink*, Dec. 4, 1953.

incomes. That is why so many conventions attended by management men have economists as speakers. The economists are expected to predict the rate of business growth for the next year or two.

When typical middle-income families have the money and some assurance that they will continue to have it, they spend it. What they buy depends on numerous factors. Consumer spending patterns since 1929, as studied by the McGraw-Hill Economics Department, show:

People cut their food purchases last in the depression, upped them first with prosperity.

They spent about the same percentage of income on autos in 1948 as in 1929.

People today tend to spend more of their income on household appliances.

They appear to purchase clothing in inverse proportion to other expenditures, using them as an offset. (However, the Bureau of Labor Statistics holds that clothing buying seems to be more sensitive to the presence of teen-age daughters than to anything else.)

People are spending less of their income on housing and other services.

Fewer Differences. Nobody knows in precise detail how purchasing patterns vary within the broad spectrum of social, economic, and geographic groups. But observers feel that along with the leveling of income, other factors—such as record migrations around the country by U.S. families—are also working to make the group patterns more alike.[10]

Many factors besides income influence spending patterns of specific families, but we do know that there is a time lag for families to learn to develop the spending habits of a higher-income level. Attitude of the family head as to his income and his economic expectations in the future is an important factor in deciding how the family income will be spent. A man's feeling of security in his new income bracket has an influence. The man who has just risen to a $4,500 a year income is less sure about his ability to maintain that income than the one who has been making it for several years.

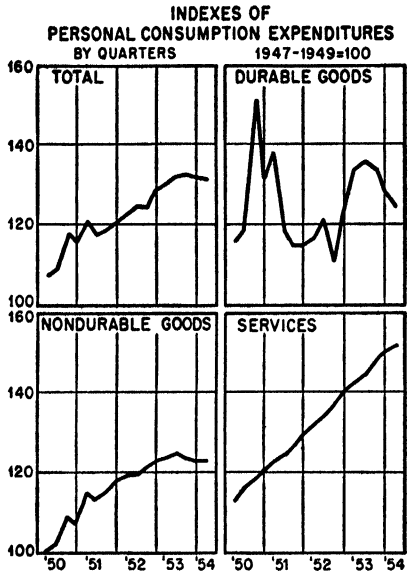
The marketing man follows fluctuations in consumer expenditures for the three groups—durable goods, nondurable goods, and services—because the purchase of goods has a greater effect on business prosperity than that of services. The trend in purchases of durable goods, even though they represent only a relatively small part of total spending for goods and services, bears watching (see charts on next page).

RELATION OF INCOME TO SALES OF SPECIFIC PRODUCTS

Marketing analysts who study the influences in the sale of consumption goods often find definite relations between income and the sales of specific products. A national survey, for example, by the research department of the Crowell-Collier Publishing Company showed that frozen foods have gained in popularity. The size of the market, however, is affected by the income bracket of the purchaser. The average percentages of housewives in the different income brackets who used frozen vegetables on an average day during one week are shown in table on the next page.

Generally, marketing efforts are more effective when directed to prospective buyers rather than to the general public. For example, 65 per cent of new cars are purchased by the top 25 per cent income people.

[10] "How Buying Habits Change," *Business Week*, Nov. 22, 1952.



On the diagram the trend of total personal consumption expenditures, and of each of the three components, is plotted quarterly starting with 1950. Each curve is an index based on the 1947–49 average as 100, so that the relative changes can be compared. The figures are compiled by the Department of Commerce and are seasonally adjusted.

The diagram reveals marked irregularity in spending for durable goods, as compared with the other curves. These durables account for only about 13 per cent of the total; but they are subject to wider changes in demand, since they consist of relatively long-lasting products like automobiles, electrical appliances, and furniture. There was a rush to buy such articles after the Korean outbreak in 1950, followed by a sharp drop. Another rise in demand, aided by increased buying on instalment, occurred in late 1952 and the first half of 1953. Since then the trend has definitely been downward.

In contrast, spending for nondurables has moved upward except for the slight decline since mid-1953. As to services, the curve shows a steady rise throughout.

SOURCE: *The Cleveland Trust Company Business Bulletin*, June 16, 1954.

Income bracket	Percentage
Under $3,000	7.4
$3,000–$5,000	14.8
5,000–7,000	20.0
7,000–10,000	25.0
$10,000 and over	26.9

SOURCE: *Canned Foods in the House*, Crowell-Collier Publishing Co. The survey was made during the week of Oct. 26, 1953.

That the market for new automobiles is a selective one is clearly brought out in a Federal Reserve Board study. Of the purchasers of new cars in 1952, 87 per cent were in the upper-half income group of spending units. Prospective buyers of new cars also show a very selective trend—77 per cent were in the upper-half income group. There may, because of wishful thinking, be some differences between those actually purchasing and the prospective purchasers, those planning to buy, especially in the lower-income groups (see Table 4–6).

Promotional efforts that are directed toward specific income groups are essential not only for marketing automobiles but for many other

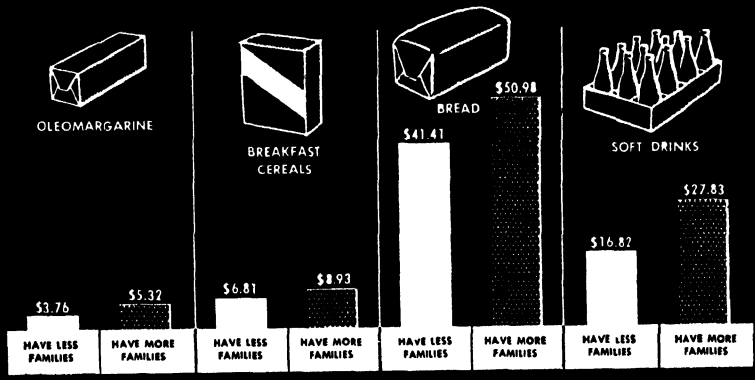
SELL YOUR BEST CUSTOMERS FIRST?

Ever divide your customers into two groups, (1) those who "have more," and (2) those who "have less"? A Bureau of Labor Statistics study of the New York market does just that, to show why it is cheaper and easier to sell your best customers first.

Two-thirds of all families in the New York metropolitan Area have *less* than average income; one-third of all families have *more* than average.

It takes roughly 2,600 have-less families to equal the spending power of 1,000 have-more families.

HERE'S HOW A TYPICAL HAVE-MORE FAMILY OUTSPENDS, ANNUALLY, A HAVE-LESS FAMILY:



DOES IT TAKE FEWER ADVERTISING DOLLARS TO PUT OVER THE "HAVE-MORE" SALE?

PICTOGRAPH BY Sales Management

Prepared by BILL HAMILTON 6-15-54

SELL YOUR CUSTOMERS FIRST? 6-15-54

Table 4–6. *Actual and Prospective Purchasers of New Automobiles by Spending Units, Ranked by Income Quarters*

Spending units ranked by quarters	Actual purchasers, per cent	Prospective purchasers, per cent
Top quarter	65	56
Second quarter	22	21
Upper half	87	77
Third quarter	10	18
Lowest quarter	3	5

SOURCE: *The Profitable Market for Consumers' Goods*, a summary of the 1953 Federal Reserve Board Survey of Consumer Finances, September, 1953, Curtis Publishing Company, Release 204.

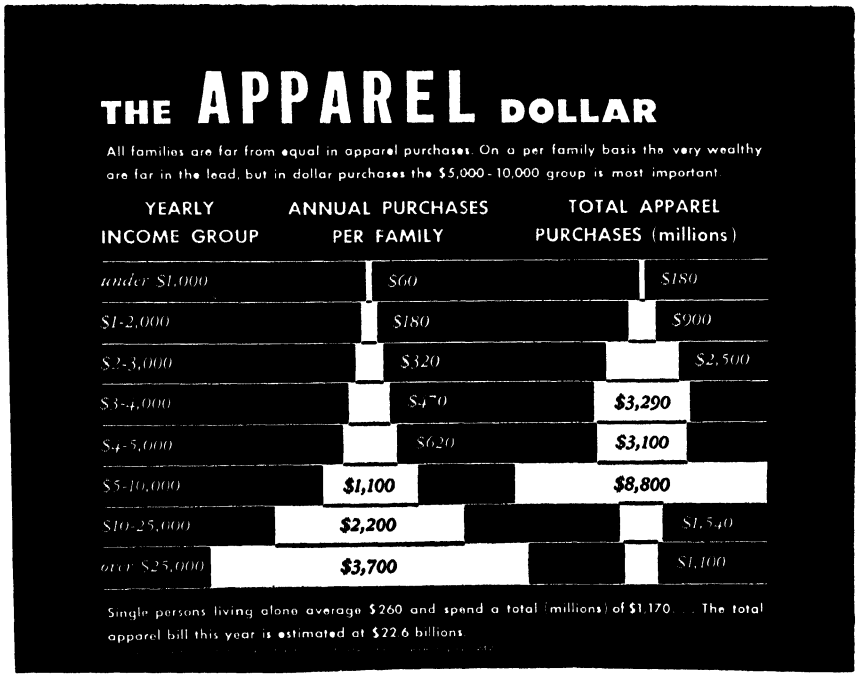
products as well. That is why magazine publishers make surveys of the income distributions of their subscribers—because it helps them describe the appropriateness of the magazine for advertising to certain income groups.

CONSUMPTION GROUP PATTERNS

Every experienced marketing man knows that for many consumer products his brand or quality of product is purchased largely by certain income groups. Clothing is a good example. The number of dollars spent per family varies with the amount of income. The very wealthy, the over $25,000 class, spend more per family than the low-income family, but the total apparel purchases in millions of dollars are highest for those with $5,000 to $10,000 incomes (see chart on the next page).

Consumption group patterns are usually studied in relation to income. Certain consumers buy only small amounts of a given product or brand; others buy large amounts. The chief purpose of the marketer is to find the volume customer. If the marketing man knows who the large-amount buyers are, he can concentrate his promotion on them. His consumer research may show a pattern such as the following:

Consumption group (based on income or other factor), per cent	Percentage of total sales bought by that group
60	10
20	20
15	30
5	40



In a case such as this, where the consumption group of 5 per cent of the customers buys 40 per cent of the product's total sales, the marketing man can concentrate his promotional efforts on his best or most profitable prospects. He may even decide to drop or ignore his unprofitable customers, such as the 60 per cent group who buy only 10 per cent of the total sales of that product.

Door-to-door salesmen soon learn that the income of the householder is likely to affect the amount of the average sale. A certain door-to-door salesman, for example, covered a diversified-income territory including families in high-, upper-middle-, lower-middle-, and low-income white and low-income colored families. His product line ranged in price from $1 to $12. The table on the next page shows the number of calls made and the amount of the average sale in relation to income.

With each income group his sales appeal varied. To the poorer people he stressed economy and sold only essential items. Quality had to justify price. To the higher-income prospects, he promoted and sold luxury items.

Sometimes income groups do not respond as one would expect. During the Second World War, for example, the American Fat Salvage Committee appealed to housewives to save fat as a patriotic effort. They were asked to salvage fat from their cooking and turn it in to their meat dealer for cash or coupons. The committee found the somewhat surprising fact

	Income group				
	High	Upper middle	Lower middle	Low colored	Low white
Calls made	39	51	48	150	90
Not home	2	15	0	39	15
Uninterested	19	15	27	36	63
Demonstrated	18	21	21	75	12
Sold	9	12	15	36	0
Average sale	$7.13	$2.10	$4.00	$1.10	No sales

SOURCE: Stanley B. Wildrick, "There's a Lesson for Ad Men in House-to-house Selling," *Printers' Ink*, Oct. 21, 1949.

that food thrift and conservation seem to be more closely identified with the higher- rather than the lower-income groups. According to the results of a survey in New York, 77 per cent of women in higher-income groups cut down their meat bills by saving used cooking fat, as compared with the 23 per cent of the women with smaller incomes who salvaged fat and turned it in to their meat dealers.[11]

Surveys also indicate that foods which offer a nutritional or economical advantage get a better reception from upper-income groups than from less well-to-do consumers. Dry milk, for example, is used in 17 per cent of upper-income homes as against 8 per cent of lower-income households. Even margarine is used as much in high- as low-income homes.[12]

Low-income homes often buy certain more expensive appliances than one would expect. The manufacturer, for example, who brought out an automatic electric washer and drier combination that carried a store price of $499.95 counted on selling it to high-income families only. Later, he made a survey of purchasers of the device and was amazed to learn that 35 per cent of the owner-families had incomes of $4,000 a year or less.

Another example of an unexpected difference in buying in relation to income was reported by Pepperell. The company's field investigators found that the average American home has 3.6 beds and 13.4 sheets and purchases 2.2 sheets a year. The housewives who are most likely to delay their sheet buying until there is a special "white sale," as shown in the table below, are those in the high-income brackets. Perhaps it is because their inventories are higher and they can bide their time in getting replacements.

[11] "Food Thrift High in Upper Classes," *Buy-Ways*, May, 1947.
[12] *Journal of Commerce*, Nov. 25, 1952.

Income group	Wait for sales, per cent	Buy as needed, per cent
Over $5,000	55	45
$3,000–$5,000	47	53
2,000–2,999	42	58
Under $2,000	35	65

SOURCE: *The Pepperell News Sheet*, September, 1952.

TO IMPROVE YOUR KNOWLEDGE OF INCOME IN RELATION TO MARKETING

Most of the data concerning income are compiled and presented by specialists who have had statistical research training for their work. The typical marketing man should not be expected to take the time and effort to acquire such specialized technical training. He should, however, become sufficiently informed about these reports to be able to read them correctly. Here are some questions he can ask himself while reading such reports:

1. *How is income defined?* The Bureau of the Census does not count as income such things as home-grown food consumed by farmers nor free living quarters. The Office of Business Economics does. The latter also includes the incomes of inmates of institutions and of persons who have died or emigrated during the year.

2. *How are the data obtained?* The Office of Business Economics estimates incomes on the basis of business and government reports; the Bureau of the Census depends on field surveys. The census taker restricts his questions on incomes to one-fifth of the adults, giving most of his attention to those making less than $10,000 a year. The housewife's memory for minor sources of income and her knowledge of her husband's actual income probably result in some errors but do not imply any serious limitations on the census data. They do indicate that the reader of reports on income should try to find out how the data were obtained.

3. *Do the data apply to spending units or to families?* A "spending unit" is all persons living in the same dwelling who pool their incomes. A single person living alone is also a spending unit. Spending units are greater in number than families. In a recent year, a Federal Reserve Board study reported 54 million spending units, while another researcher presented his income data in regard to families, 44 million in number.

4. *Do the data apply to the specific areas to which the marketing program applies?* Over-all national statistics are useful in regard to broad trends. Most marketers, however, need data that apply only to small geographic areas. For some marketing programs, many figures are available for the nation but none for the specific area needed.

SOURCES OF INCOME DATA

Consumers' buying plans, as well as their incomes, savings, debts, and investment preferences are surveyed each year by the Board of Governors of the Federal Reserve System. The data are obtained from interviews with a representative nationwide cross section of the population. The survey findings for the preceding year are usually published in detail in the *Federal Reserve Bulletin*, starting in June. The survey is for the United States as a whole.[13]

One of the most useful tools in this field is the "Annual Survey of Buying Power," published by *Sales Management* magazine. Although this report contains some 700 pages it is inexpensive. Using the State Income series of the Office of Business Economics as a benchmark, *Sales Management* magazine projects estimates for "Effective Buying Income" (income less taxes) for each state, county, and major city. There are per capita and per family figures, usually published in May for the preceding year.[14] The potential uses of this mine of information can be appreciated only by study of the most recent issue of the survey. Statisticians in the field of market analysis become thoroughly acquainted with this survey and use it frequently.

Several magazine publishers provide data on income distribution at regular intervals. One of these is *Marketing Memos*, issued by Macfadden Publications, Inc., New York. Another is *Consumer Markets*, an annual market data source book published by Standard Rate and Data Service, 1740 Ridge Ave., Evanston, Ill. This presents detailed information on consumer spendable income for each United States market of 10,000 population and over.

The United States government publishes numerous economic indexes and reports of value to the researcher who seeks income data. The volumes of data are so great that even the specialists have difficulty in learning what is available. Also, the contents and nature of some of these reports vary with the vicissitudes of politics in Washington. Each market analyst must become acquainted with the reports available at the time he wants them. Examples of a few of the reports likely to be available are:

[13] From Lorraine Carson, "Sources of Income Data," *Dun's Review and Modern Industry*, October, 1953, p. 78.

[14] *Ibid.*

Name of series	How often issued	Source	Title and cost of original publication	Remarks
Gross National Product	Quarterly	Office of Business Economics, Dept. of Commerce	*National Income and Product*,* free	The *Survey of Current Business* is the most complete indicator of the total output of goods and services, with breakdowns available for the expenditures of business, government, and consumers.
Disposable Personal Income	Quarterly	Office of Business Economics, Dept. of Commerce	*National Income and Product*, free	This is the standard indicator of consumer demand, representing personal income after state and Federal income taxes.
Personal Income	Monthly	Office of Business Economics, Dept. of Commerce	*Personal Income*,* free	The best over-all monthly measure of economic activity; personal income broken down by wages and salaries, proprietors' and rental income, other forms of property income, and transfer payments.
Average Weekly Hours and Earnings	Monthly	Bureau of Labor Statistics, Dept. of Labor	Press Release: *Employment Hours and Earnings*, free	Hours and weekly earnings of production workers in manufacturing. Data on nonmanufacturing industries available in BLS *Monthly Labor Review*.
Current Population Reports (P-60 Series)	Irregular	Bureau of the Census, Dept. of Commerce	*Current Population Reports, Series* P-60, *Consumer Income*, annual subscription $2	

* Also published in *Survey of Current Business*, a monthly report of the U S. Office of Business Economics. An annual subscription costs $3 25; single copies are 30 cents.

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QUESTIONS AND EXERCISES

1. To what extent are expenditures and savings of the consumer governed by his current income? Explain how marketing is involved.
2. What are some of the major trends in connection with consumer income that are of primary interest to the marketing man?
3. Why is the redistribution of income that has taken place during the last few decades of special importance to the marketing field? Is this redistribution of income of social value?
4. What is the general pattern of purchase of new high-priced goods according to income groups? How could credit sales influence this pattern?
5. How were the census data on income obtained? What is a limitation on the use of the census data on income?
6. Assume that the data from the American Fat Salvage Committee are correct. Do you accept the implication? Do lower-income families save money by using fat instead of lard or butter? Are their meat budgets lower? Are they more thrifty than higher-income families?
7. If we accept the idea that the lower-income families are more thrifty than the high-income families, how would you explain the greater use of dry milk by high-income families?

PART THREE

POSSIBLE MARKETS FOR OUR PRODUCT

5 Markets in Terms of Areas Where People Live

THE ALERT MARKETER

1. **Studies how buying habits and preferences vary from area to area.**
2. **Notes differences and similarities in rural, small-town, and city marketing.**
3. **Becomes acquainted with the interstate barriers to commerce that apply to his marketing activities.**
4. **Watches declining areas to see whether the people gradually adapt themselves to changed conditions and again become economically important.**

U.S.A. stands for the United—not Uniform—States of America. It has 3,103 counties which differ widely in tastes. Over-all national figures on marketing influences such as population are a good starting point but regional, state, and local breakdowns are also essential. Sales of most products are affected by factors that vary from area to area.

The marketer must, by the very nature of his selling efforts, think in terms of geographical areas. Whenever he sends a salesman out of the home office, he sends him to a specific territory. When he advertises locally, he uses a local newspaper, radio, or TV station. When he sends out direct mail, it goes to persons who live or work at specific addresses. When he ships his products, the orders come from definite geographical locations. His factories, warehouses, and sales offices are located in different sites. As a result of all these and other localized factors the marketer becomes conscious of the characteristics of different geographical areas.

In the same years, for example, that the nation had a bumper crop of babies, the percentage of families in cities of Illinois that used a certain popular brand of baby food varied from 23 in Joliet to 91 in Cairo.

Table 5–1. *Here for 15 Products Are the Leaders (More "Firsts" in the 17 Cities Than Any Competing Brand), with High and Low Points*

17 newspapers cooperated in developing a consolidated consumer analysis, using methods pioneered many years back by the *Milwaukee Journal.*

For some 150 product groups data are provided on percentages of families using in each market and point of purchase, 1953.

One of the most interesting marketing facets is the wide range in acceptance which the leading product enjoys. Coca-Cola, for example, is used by 73.5 per cent of families in Indianapolis, but by only 15.2 per cent in Milwaukee. Reason? Differences in quality of field selling, lack of uniform advertising pressure, strongly entrenched local or regional brands.

Product	High, per cent	Low, per cent
Heinz catsup	67.3	10.8
	Duluth-Superior	Honolulu
Swans Down cake flour	55.7	31.0
	Cincinnati	Salt Lake City
Swift's All-Sweet margarine	35.9	5.4
	St. Paul	Indianapolis
Del Monte peas	55.9	6.2
	Sacramento	Portland, Me.
Carnation canned milk	76.7	9.6
	Duluth-Superior	Salt Lake City
Snow Crop orange juice	48.8	1.7
	Columbus	Seattle
Scot Tissue	55.0	7.5
	Honolulu	Duluth-Superior
Colgate tooth paste	69.7	31.5
	Honolulu	Indianapolis
Halo shampoo	29.6	10.5
	Omaha	Seattle
Kleenex tissue	84.3	40.8
	Honolulu	St. Paul
Revlon lipstick	45.8	13.0
	Honolulu	Milwaukee
Colgate lather cream	35.5	17.6
	Milwaukee	Sacramento
Coca-Cola	73.5	15.2
	Indianapolis	Milwaukee
Goodyear tires	34.8	17.7
	Milwaukee	Duluth-Superior
RCA TV sets	19.8	4.1
	Washington, D.C.	Modesto, Calif.

SOURCE: "Consolidated Consumer Analysis of 17 Markets, 1953." See Marketing Pictograph by *Sales Management,* June 15, 1953.

The per capita consumption of bottled drinks in Florida in a recent year was five times as much as in certain other states. See Table 5–1 for the high-low variations in the use of 15 well-known products.

The manufacturer of fishing equipment can find his largest number of fisherman prospects in California, but the manufacturer of hunting equipment finds most hunter prospects in Pennsylvania.

Luggage sales, when considered on a per capita basis, are far better in Montana and New York than in Louisiana and Mississippi. Candy sales are best in the Mountain states and poorest in the Southwest. The packaged candy volume per family in Utah is higher than in any other known area; Utah people have the sweetest tooth in the nation.

In hat styles, California men are in a class by themselves. They purchase more of the sporty type of hat, rough finish, mashed-up, and sat-on in appearance. In the Southwest, 3-inch brims sell best. In New England and the Middle Atlantic states, hats with brims 2½ inches wide sell best. Derbies and narrow brims are the choice of conservative people, who live mostly in Boston and Philadelphia.

On the basis of number of telephone calls per capita, Californians are the most loquacious.

Women's clothing preferences vary with the area. California women are likely to be the most extreme in taste. Boston women prefer conservative styles, as expressed by one Boston matron who was asked, "Where do you buy your hats?" She answered, "We don't buy our hats. We have them!" New York City women like high styling, conservative or not. They adopted the plunging neckline without demurring but the farmers' wives of rural areas never took the plunge. Clothing sales are influenced by climate to the extent that manufacturers maintain seasonal maps to guide them in shipping and promoting merchandise, especially sportswear, in different areas. The timing of the promotion in some cases is more important than the regional differences.

Color preferences vary from area to area but not as logic would dictate. Southerners prefer the bright warm shades but Northerners go on buying the dull cold colors. This applies to housefurnishings as well as to clothing. Bright kelly green and patent-leather women's handbags always sell well throughout the South but not in the North. In the Northwest, navy blue bags are a constant best seller. In men's ties, Texans like tan; New Englanders, blue; and Minnesota men wear few reds.

Women in New York City, on a per capita basis, use 30 times as much make-up as the ladies of Vermont. California and Nevada are in second and third place in the per woman use of cosmetics.[1] On a regional

[1] Carroll J. Swan, "What Will Sell Where–The Third Dimension in Marketing," *Printers' Ink*, Aug. 12, 1949, presents many of the above as well as other area differences.

basis, the best areas for toilet goods sales are the Middle Atlantic and Pacific states; the poorest are New England and the East South Central. Sachet sales are concentrated in five areas: Newark, Philadelphia, Chicago, New York, and the state of Texas.

Prescription sales in drugstores usually run highest in the states of Washington, Colorado, and Connecticut; lowest in West Virginia, North Dakota, and Ohio.[2] Regional differences cause the natives to respond to different cold-remedy appeals. In some areas, head colds are prevalent; in others, intestinal symptoms may be especially distressing; and in a third area, chills and fevers predominate.

Certain food sales vary by areas, being considerably influenced by the racial origins of the people. Tomato sauce sales are concentrated in the Middle Atlantic and Pacific states. Sweet cookies iced in either pink or white sell well in the South. Chocolate icing sells better in the North and Far West. Chicory in coffee is necessary in New Orleans. Iced tea is popular in the South, iced coffee in the Middle Atlantic states. Hot tea is most popular in New England. Hardness of the water affects coffee and tea sales as well as sales of detergents.

Tastes in entertainment vary with the area. Some cities have few or no night clubs. An artistic moving picture will have its art values stressed in a city such as Kansas City and its sex angles in Chicago. "Likes and dislikes in movies are more a question of small-town vs. large-town or downtown vs. neighborhood audiences than anything else. Small-town audiences want Westerns, comedy and action pictures. Heavy dramas make their big money in the metropolitan centers. Message pictures go well in urban centers and die in small towns." [3]

The differences and similarities in regional, state, county, and city areas are so numerous that each marketer finds it necessary to analyze and be guided by them. Sears, Roebuck and Co., for example, has found these differences and similarities so important that their general catalog is printed in 11 different editions to fit the conditions of the sections where their 11 major distributing centers are located.

THE SMALL-TOWN MARKET

Slightly more than one-half, 51 per cent, of the population of the United States is located in the country and in towns smaller than 10,000. About 8 million families live in towns of less than 2,500 population, not including farms. About half of these are true small-town communities, not suburban towns. These true small towns are so important in marketing that several

[2] From Marketing Pictograph by *Sales Management*, Jan. 15, 1953.

[3] Statement of Nathan Cohen, Associate Editor of *Boxoffice*, reported in *Printers' Ink*, Aug. 12, 1949, p. 54.

magazines and weekly newspapers are published for them, most notably *Town Journal* and *Grit*. *Grit* is a weekly newspaper that goes to 16,000 small towns throughout the United States. *Household* magazine also has 70 per cent of its circulation in towns of less than 10,000. Small towns are becoming increasingly important economically.

A survey of 1,000 nonsuburban towns indicated that employment had increased on an average per town from 257 persons in 1939 to 408 in 1947 and to 550 in 1954.[4]

The answer to the question, "What is a major market?" depends upon the commodity. Big cities, for example, are poor markets for baking powder; only 7.6 per cent of the flour and 10.8 per cent of the baking powder is sold in the big cities, as compared to 65.9 per cent of the flour and 57 per cent of the baking powder sold in the small city-rural areas. Small city-rural markets have been slow to adopt canned baby foods. Soluble coffee and hand lotion sales are high in the big cities. Spiced meats and ready-to-eat cereals do better in the smaller areas.[5]

CITY MARKETS

Buying habits differ among cities as well as among regional areas. Linoleum sales, for example, in Washington are a third less per thousand families than in South Bend or Miami. Furthermore, in the Minneapolis-St. Paul area, soft floor covering sales are 50 per cent higher than in Boston. Marketers of the footwear industry note such area differences as the low shoe sales in Boston and the low hosiery sales in Philadelphia. Sales of clocks, watches, and silverware are especially high in Memphis.

Why do such differences occur? The low shoe sales in Boston and St. Louis arise from the fact that there are many factory outlets in these areas and some people buy from them. Such sales are not recorded in the census. The same situation occurs in Philadelphia where hosiery mills are found. But the answer is not always so simple. The reason for the high volume in sales of hard-surface floor coverings in Salt Lake City and the low volume in Kansas City is not so apparent. This applies also to the unexplainably high sales of jewelry, clocks, and silverware in Memphis.

Despite the lack of explanation for some variations, it is important for

[4] Donald S. Stroetzel, "Those New Jobs in American Towns," *Town Journal*, May, 1954, p. 27. *Town Journal* sent a questionnaire to the mayor of every town in the United States in the 1,500 to 10,000 size group, asking a reply "even if your city has not been particularly successful . . . in bringing in new industry, or doesn't want new industry." The figures used are based upon the first 1,000 returns received from *nonsuburban* towns of less than 10,000 population.

[5] From Marketing Pictograph by *Sales Management*, July 15, 1950. Data from Food-Drug Index of the A. C. Nielsen Company. The 5,000 to 500,000 group was omitted in making the above comparisons.

the marketer to know that there are certain city and regional differences in people's buying habits, whether they develop because of differences in income, environment, or racial origins.[6] The modern marketer does not try to change them; he caters to them. It is cheaper to fill a need than to create one.

In the 1940–1950 decade we rang up an over-all population gain of 19 million, or 14.5 per cent; however, 1,518 counties, or 48.9 per cent, lost in population while 1,585, or 51.1 per cent, gained in population. The typical marketer whose customers lived in the 22.8 per cent of the counties that lost 10 per cent or more of their population probably had certain difficulties which never became a problem for the marketer whose customers happened to live in the 28.5 per cent of counties that gained 10 per cent or more in population.

The real gains were in the suburbs and the outlying parts of the big cities, which gained 35.6 per cent in population. Big cities of 100,000 and up gained 13.9 per cent. Farms and rural areas gained only 6.1 per cent.[7]

Studies show that for every 1 per cent increase in the population of an area, there is an increase of several percentage points in retail trade, construction, and several other economic activities, depending upon the previous situation in the area.

Residents in top income groups are more likely to be found in certain city sizes. Of the 10 million families and individuals who made $5,000 or more in 1952, the percentages of distribution by city size groups were as follows:

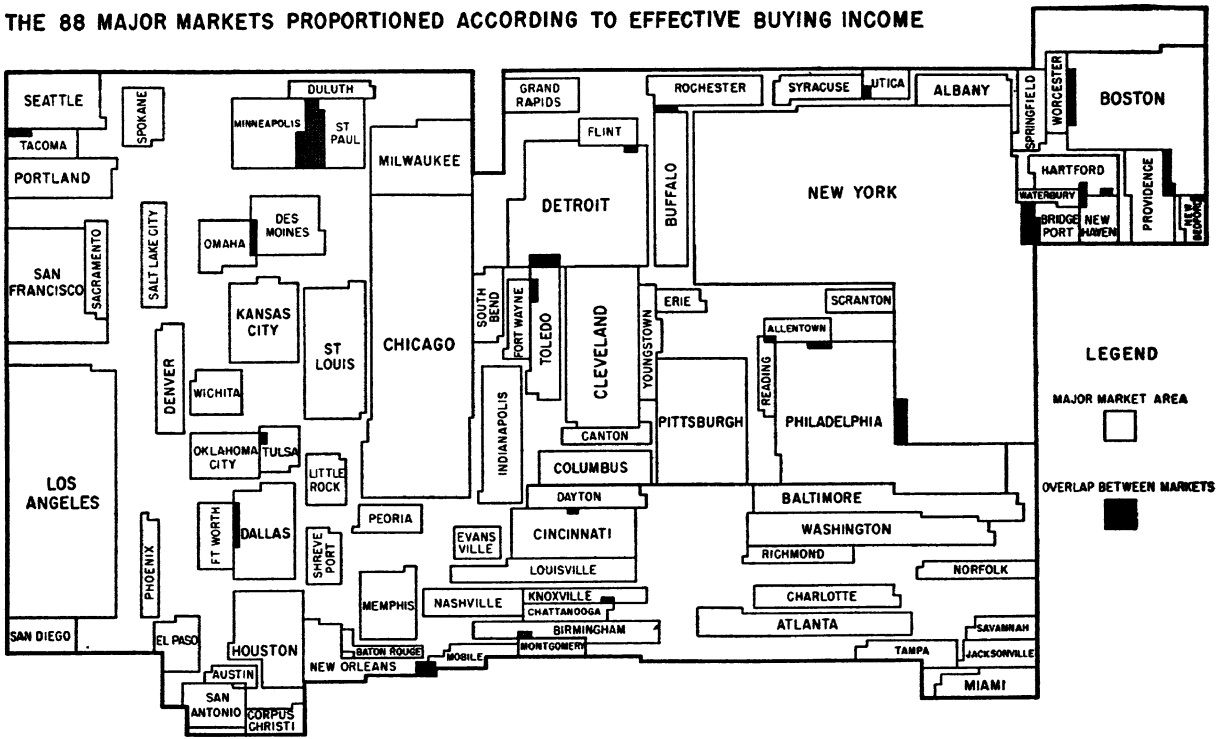
Population size group	Percentage of all $5,000 income units in the size group
1,000,000 and over	18
250,000–999,999	14
50,000–249,999	15
10,000–49,999	22
2,500–9,999	5
Rural nonfarm, including unincorporated suburban communities	17
Farm	9

SOURCE: Bureau of the Census and Institute of Life Insurance. See Marketing Pictograph by *Sales Management*, Nov. 20, 1952.

[6] "Big Differences Revealed in Product Sales by Areas," *Advertising Agency*, October, 1952, p. 83.

[7] Bureau of the Census, Series PC-9. See also Marketing Pictograph by *Sales Management*, Jan. 15, 1953.

THE 88 MAJOR MARKETS PROPORTIONED ACCORDING TO EFFECTIVE BUYING INCOME



Of the total United States effective buying income, 71 per cent is in the 88 major markets.

SOURCES: Redrawn from (1) Major Market Areas–Audit Bureau of Circulations' City and Retail Trading Zones (see explanatory note). (2) Effective Buying Income–*Sales Management's* Survey of Buying Power, May 10, 1951; further reproduction not licensed.

Contrary to what most people think, New York is one of the biggest industrial cities in the country. About 20 per cent of all manufacturing establishments are located in the New York area. The area, however, has only 11.2 per cent of all employees and 10.7 per cent of all production workers of the United States. In addition to having a large share of the plants, New York contains the executive, financial, and buying offices of many industrial firms with plants in other areas. Decisions made there affect industrial production throughout the country.

Total retail sales in metropolitan New York with its several adjacent counties are greater than those of Chicago, Los Angeles, St. Louis, and Cincinnati combined–bigger than any state in the nation except New York. Total yearly retail sales in New York State are 11.2 per cent of the national total, but the population is only 9.84 per cent. "The people of New York state buy 12.7 per cent of all the food bought in the country and 12.37 per cent of the general merchandise, apparel and general classifications." [8] New Yorkers buy almost half the delicatessen sales in the nation but only 7.5 per cent of automobile sales. They do buy 12.3 per cent of the motorboat sales.

STANDARD METROPOLITAN AREAS

These have been delineated by criteria set up by the Bureau of the Census. Descriptions and data are published in the *County and City Data Book,* which gives the market analyst basic data for each of 170 metropolitan areas which have been standardized in the sense that, if all market analysts accept the Bureau's definitions and boundaries of each metropolitan area, they can use data that are comparable. Before metropolitan areas were standardized, each market analyst had to decide for himself what areas around a metropolis should be included or excluded.

The *County and City Data Book* is a means of ready reference for all who need basic statistical data for various geographic areas. It contains statistics taken from the censuses of agriculture, population, and housing. It also covers such subjects as agriculture, area and population, banking, city government finances and employment, climate, construction, education, family income, housing, labor force, manufactures, services and trades, and vital statistics. For counties and standard metropolitan areas, 128 items of statistical information are presented, while for cities 133 items are shown. Summary figures also are presented for the United States, regions, divisions, and states.

[8] Vergil D. Reed, "New York Market Outpaces Nation," *The New York Times,* May 27, 1952.

REGIONAL GROWTH PATTERNS

Some marketers have a keen interest in regions and regional growth changes. In the years 1939 to 1953, the Pacific Coast, for example, more than doubled as an industrial market. The Middle Atlantic states and the New England region grew 46 and 30 per cent, respectively. The actual share of each region in the total United States industrial market in a recent year compared with a prewar year was as follows:

Region	Percentage	
	1939	1953
New England	11.6	9.3
Middle Atlantic	28.6	25.9
South Atlantic	11.7	10.9
East North Central	28.2	29.8
East South Central	4.3	4.6
West North Central	5.1	6.1
West South Central	3.5	4.5
Mountain	1.1	1.1
Pacific	6.0	7.8

SOURCE: Arthur H. Dix, "Are Your Sales Quotas Out of Date?" *Printers' Ink*, Mar. 12, 1954.

These regional growth patterns mean that sales managers must adjust sales quotas in accordance with the growth rate for the area. The fact that annual sales for a given region have doubled since a base year has little value in itself unless the growth pattern is known.

Several sources of current regional data are available. One is the Department of Commerce *County Business Patterns.* Another is the Dun & Bradstreet regional trade barometers. Each marketer who plans his marketing programs by regions can discover suitable sources of data to guide his market analyses.

TRADING AREAS

The definition of a trading area varies for the particular product or class of products. It may apply to many hundreds of square miles in the case of a general store whose customers live in a sparsely settled desert, or it may comprise the few city blocks where the customers live who patronize an independent neighborhood grocery store. Any grocer who

wants to find out the size of his trading area can do so by offering his customers a premium such as a can of beans if each will fill his address on a coupon. From the locations of these addresses he can plot a map of his trading area.

A market's geographical location, its transportation facilities, and the surrounding terrain are factors that influence the size of the trading area. A wholesale drug trading area is likely to be larger than a wholesale grocery trading area. Several magazine publishers and trade associations as well as map makers have prepared maps of the United States that delineate the trading areas for specific types of products or retailing operations. Most of these maps use county boundaries as the basis for definition, but some trading areas do not follow political divisions. Some newspaper publishers provide maps that show the distribution of the paper's circulation; these maps are used as indications of the area from which consumers come to a trading center to purchase the more expensive items such as refrigerators.

Another method of determining the extent of a trading area is to tabulate charge accounts by zones or districts. For retail trading areas that draw from several counties, the county license numbers of parked cars can be tabulated. License numbers can also be analyzed for addresses within a county. This information, which can be obtained with reasonable effort, is used by some organizations in locating new shopping centers and supermarkets.

Curtis Publishing Company provides much trading-area data. Their recent reports divide the country into 501 market areas, consisting of central cities and surrounding satellite counties. The 501 central cities have 38 per cent of the households, and the surrounding areas 62 per cent. The cities account for 51 per cent of the retail sales; the surrounding areas, 49 per cent. Curtis Publishing Company was one of the first magazine publishers to furnish advertisers with county and city circulation breakdowns that enable a salesman to walk into a jewelry store in Anniston, Alabama, for example, and say, "My company is running a half-page ad in *The Saturday Evening Post* and umpteen hundred people in and around Anniston will see this ad about the product you sell." Later, other publishers developed trading-area data. The Hearst map, *Trading Area System of Sales Control for Consumer Durable Goods Industries*, is widely used, for example, in the appliance industry.

Marketing would be much simpler if where-buyers-live coincided exactly with (1) where-buyers-buy and (2) how-much-they-buy. Unfortunately for those who seek Utopia, elements such as buying power, availability of merchandise, mobility of people, and what people think constitute frameworks within which consumer marketing operates. Usually, the greatest differences occur in so-called "shopping lines," where

fashion, price, and value are more important than they are in "convenience goods." [9]

DO RETAIL CUSTOMERS ALWAYS PATRONIZE THE NEAREST STORE?

In one study of urban families, 33 per cent passed the nearest drugstore in order to patronize another store. About 40 per cent did not patronize the nearest grocery store. The distances they traveled varied with the kind of transportation used. Obviously, customers who use an automobile to shop will travel farther than those who walk.

The distance customers are willing to travel in order to shop varies with the area conditions and the type of store. In the case of supermarkets, about one-quarter of the customers reside within ¼ mile of the store, one-half within ½ mile, two-thirds within a mile, and one-third beyond a mile. Some customers may travel several miles to patronize a supermarket, but the majority trade at supermarkets located within a relatively short distance of their homes.

CENSUS TRACTS

Statistics on a small-area basis are compiled by the Bureau of the Census. "Large cities" and "standard metropolitan areas" are subdivided and information is gathered for the divisions, which are termed *census tracts.* They are small, permanently established geographical areas for which census data are compiled and by the use of which comparisons can be made from one census to the next. They are laid out with a view to approximate uniformity in size, and each is designed to include an area fairly homogeneous with respect to racial characteristics and economic status.[10]

Census data by tracts can be used as a basis for dividing a city into administrative or business areas having homogeneous populations or populations of known characteristics. Businessmen can find all sorts of information about their potential markets in census tracts. Some products sell best to persons who own their own homes, others sell best in homes equipped with radios and mechanical refrigerators. The kind and amount of clothing purchased is related to age, sex, and occupation as well as to income. With census tracts, the businessman of a city can find out in which areas the characteristics he requires are concentrated.

Retail outlets also must be located wisely with regard to market poten-

[9] *Market Areas in the United States,* Curtis Publishing Company. See also Marketing Pictograph by *Sales Management,* Mar. 15, 1953, p. 70.

[10] *The Definition and Establishment of Census Tracts by Local Tract Committees,* Bureau of the Census, November, 1952.

tials. For example, a suburban ladies' apparel shop, open from 9 to 5, has little chance of success in an area where most of the women are employed downtown during the same hours.

Tract data can be very useful in analyzing a store's sales. By calculating per capita sales by tract areas, retailers can learn the relationships between sales and characteristics of neighborhoods, such as percentages of foreign-born, homeowners, or a specific income level. With such information, selling and advertising can be more effectively focused.

Census tract data are sometimes put to unusual uses. There is the case of the two elders of the Church of Jesus Christ of Latter Day Saints who had been assigned to do missionary work in New York City and often went from door to door talking to people. They wanted to find those sections of the city where the population consisted mainly of families of Scandinavian, German, or English descent. Census tracts provided the answers.

To aid those interested, the Bureau of the Census publishes a *Key to Published and Tabulated Data for Small Areas.* This pamphlet contains an index of the material available for census tracts. The Key also lists a great deal of data which the Bureau does not publish but which are available on request.

BUYING POWER INDEXES

A "buying power index" is a tabulation that shows the amount of money available, usually by counties, for the purchase of goods. As everyone knows, the people of some counties have more money to spend than those of other counties. The tabulations may be made on the basis of the number of persons having a telephone, owning a car, owning a home, or other factors that indicate income. General buying power indexes can be obtained from government sources, the Curtis Publishing Company, and other publishers.

Indexes provided by publishers are likely to apply only to products that are purchased by everyone regardless of income. The sales of most products, unfortunately for the marketing analyst, do not line up nicely with indexes of general buying power. Other factors based on race, religion, or local custom are more influential.

Sales of cooking fat, for example, may vary with religious ideas, dietary laws, or the custom of saving "drippings." Sales of other products such as soaps or brands of tea may vary with the hardness of the water. This means that each marketing analyst who wishes to use a buying power index in setting sales quotas for specific areas must develop an index that correlates with the sales of his specific product.[11]

[11] See *Advertising Agency,* July, 1952, p. 132, and October, 1953, p. 108.

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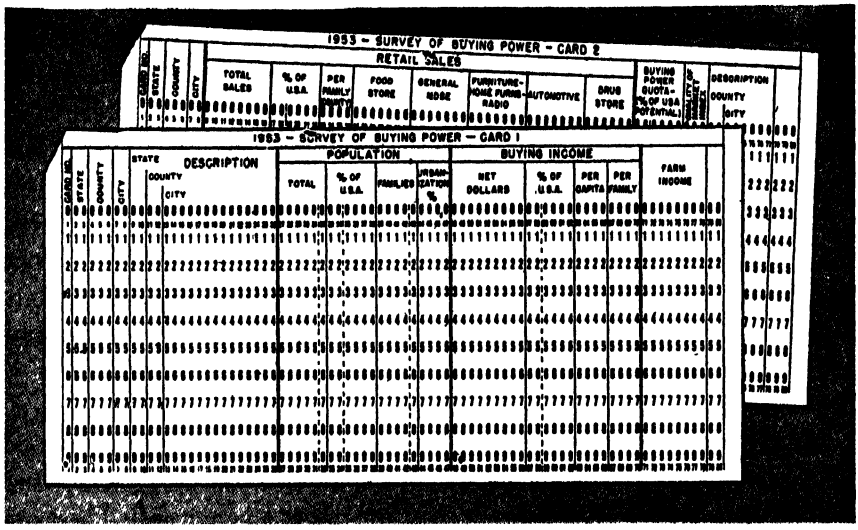

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INTERSTATE TRADE BARRIERS

In theory, the United States is one big national free-trade area. In spite of the initial prohibition of interstate tariffs in the Constitution, the United States has developed a confusing system of regulations, taxes, and tariffs in interstate commerce.

Examples of regulations imposed on commerce in different states are those that apply to trucking, such as the ruling that a 50,000-pound trailer cannot drive from New York to Miami by way of the direct seaboard route because Virginia prohibits gross weights of more than 35,000 pounds. Furthermore, labels on containers of eggs from Georgia must omit the word "fresh" if they are to sell in Florida because only eggs laid by hens in Florida can be labeled "fresh."

Other examples are those of the limitations on milk sales in New York State, where dairy products from such areas as Ohio and Michigan cannot be sold. In Alabama, the basic tax for alcoholic beverage manufacturers is $1,000 per year. There is a stipulation, however, that if 75 per cent of the ingredients used in wine are Alabama-grown, the manufacturer is required to pay only $25 annually.

More than 50 per cent of the states operate their taxes in this fashion in order to protect the manufacturer within the state against the consumer who buys in neighboring states in an effort to get a better deal. These are only a few of the many instances which complicate marketing for the American businessman. Every marketer, whether he sells consumer or industrial goods, must find out what interstate laws and regulations affect his business operations.

During the Second World War, the government attempted to alter these complications in interstate commerce in order to hasten the war effort. But today neither the Federal nor state governments are moving in an economically sound manner on this problem. The situation has improved in some businesses, for example, the nursery trade, which once required such a bevy of invoices and certificates that they were difficult to fit on the package.

One of the most outstanding problems in free interstate commerce is that of the restrictions placed on truck operators with regard to size and weight. Usually, these difficulties are most serious in the East where companies must often reroute their trucks to avoid violations.

An immeasurable amount of political effort goes into the devising of new barriers by state legislators, in order to favor local businesses by restrictions on competition from other states. In many states, for example, restrictions on the erection of public buildings require that only domestic material be used in construction. In this way, Maryland protects its marble-quarry manufacturers and Indiana its limestone-quarry businesses.

Some curbs on these practices have been issued by the United States government regarding the nation as a whole. The stipulation was made that a state "may not use its admitted powers to protect the health and safety of its people as a basis for suppressing competition." Although no estimates have been made as to what these barriers between states cost consumers, it is obvious that the cost is high and the sooner some of them are banished the better, to spare the dollars of the consumer who ultimately suffers from them.[12]

ADAPTABILITY OF DECLINING AREAS

Markets in the United States can be analyzed as one big national market, as a lot of local markets, or as many separate markets that cut across wide areas in accordance with occupational or other influences. Areas can be analyzed in terms of growth, stability, and decline, but one of their important aspects is adaptability. Some areas that declined for years found new means of growth, especially in regard to specific industries. New England is a good example.

In New England, natural resources are scanty and the soil is niggardly. The bulk of raw materials, fuel, and food must be brought into the area. It has few or no minerals for export. Textiles and leather products constituted major industries early in the region's history. These declined because other areas had more raw materials and other advantages. When clipper ships were an important part of its income, steam-propelled vessels drove the clipper ships off the seas. When free lands were opened in the West, there was an exodus of farmers from the area; farm lands sank in value on several occasions, but each time the challenge was met and capital was shifted into profitable channels.

In recent years, a shift has been made from a textile-based economy to one in which the metal industries predominate. Employment in these industries has more than doubled in the last 15 years.[13] In the same period, employment in textiles declined about 20 per cent but electronics and plastics increased rapidly. The density of population of New England is 148 per square mile, as against 51 for the rest of the country. About one-sixth of the nation's research laboratories are now located within its borders. Its resources in intelligent manpower, power facilities, invigorating climate, and financial institutions have made New England an important location for many manufacturers. On a per capita basis, New

[12] See "Those Silly Fences between the States," *Changing Times, The Kiplinger Magazine*, December, 1949.

[13] *Monthly Review of the Federal Reserve Bank of Boston*, January, 1954, presents an analysis of employment changes in the article, "Employment in New England: Part I—How Did Employment Change, 1947–1953?"

England exceeds the national average in savings, income, insurance, and the ownership of television sets and telephones. Similar patterns of adjustment and growth are likely to take place in other areas that, at times, are statistically defined as dying. The alert marketing man does not pigeonhole permanently certain areas as good or bad—he watches them for the signs that signify renewed vigor or further decline.[14]

SOURCES

Every alert market analyst has at hand numerous sources of information about geographical areas. Many are Bureau of the Census reports or adaptations of them. Some of the most useful of these are the *Reports on Housing*, Bureau of the Census, Washington. Certain reports of this set present data for the individual city such as tabulations on the number of dwelling units classified by occupancy and tenure, plumbing facilities, color of occupants, and numerous other facts.

Population and Its Distribution, The J. Walter Thompson Company, 420 Lexington Ave., New York. This book, fashioned from the raw material in the 30-odd volumes by the Bureau of the Census, is an indispensable tool for men who are responsible for selling effort of virtually any sort. It reveals the greatest shifts in population and in sales potentials. It offers, in addition to accurate classifications of markets, complete facts on all markets and detailed maps and data for every county in every state. Complete population figures for all towns over 1,000 inhabitants are listed alphabetically for quick reference. A large four-color map shows where the markets are by population and by retail volume.

Dun & Bradstreet, 99 Church St., New York. This firm has issued its regional trade barometers for several decades. Each month these reports check the business climate by measuring consumer spending in 29 United States trading areas. They are an aid in adjusting shipments, assigning sales personnel, and spotlighting areas where promotional dollars should have the greatest yields.

Most leading publishers of magazines maintain well-staffed research departments that are constantly gathering information not only about the readers of their magazines and the larger interest groups of which they are a part but also about the industries represented by their advertisers and advertising prospects. For example, *Fawcett Publications, Inc.*, 67 W. 44th St., New York, which has initiated some original research in connection with *True* magazine in the liquor field, is a good source of informa-

[14] These data are based upon material contained in the June 30, 1953, issue of the *New England Letter*, published by The First National Bank of Boston.

tion on sales volume in that industry by brands and by geographical locations. It also maintains, in connection with *True Confessions* and *Motion Picture*, a beauty forum made up of a number of young women who answer questions on their preference and use of cosmetics.

Editor and Publisher Market Guide, published by The Editor and Publisher Co., Inc., 1700 Times Tower, Times Square, New York. This is an annual guide of statistics on key markets. It contains estimates of the preceding year's population, retail sales, and individual incomes. It includes surveys of about 1,500 key markets, market strength indexes for all states and their relation to national totals, a "special index" to markets arranged in order of their size, and full-page state maps showing the new economic-area divisions as set up by the Department of Commerce. Each of these divisions includes a county or group of counties having similar economic characteristics. This is considered one of the useful methods of estimating market strength. This book can give you a quick and complete fact picture of almost 1,500 markets and help you select a test market for products. Facts in the guide are readily accessible and easy to use. The guide is planned especially to serve the particular requirements of sales managers, advertising directors, agency executives, market research specialists, media directors, and business reference librarians.

The Hearst Corporation, 959 Eighth Ave., New York. They publish numerous current marketing maps and market data books. Two publications are of special value to researchers in the durable-goods industries. *The Trading Area System of Sales Control for Consumer Durable Goods Industries Map* shows 613 principal trading centers, and on a county background the trading-area boundaries for each key city. This map was published for the particular use of manufacturers and distributors of consumer durable goods. The *Directory of Consumer Trading Areas of the United States for the Durable Goods Industries* shows the counties comprising each consumer trading area and also where each county is located on a trading-area basis for the special durable-goods trading areas.

Sales Management's "Annual Survey of Buying Power" has been mentioned in the preceding chapter. This is a widely used source of data concerning all major areas.

The Retail Trading Area Analysis, Bureau of Business Research, Iowa State College, Ames, Iowa, is helpful for retail trading areas.

Numerous associations and magazines publish data of value in the analysis of specific markets so frequently that journals in the field of marketing list the new materials that become available from time to time. The regular reading of these journals is essential for anyone who wants to keep up with current information about marketing areas.

COLLATERAL READINGS

Agnew, Hugh E., and Dale Houghton, *Marketing Policies*, New York: McGraw-Hill Book Company, Inc., 1951, Chaps. 8 and 23.

Clewett, Richard M., *Marketing Channels for Manufactured Products*, Homewood, Ill.: Richard D. Irwin, Inc., 1954, Chap. 18.

Vaile, Roland S., E. T. Grether, and Reavis Cox, *Marketing in the American Economy*, New York: The Ronald Press Company, 1952, Part 5.

QUESTIONS AND EXERCISES

1. We have noted many ways in which various markets had peculiar characteristics. Do you think that such differences are going to become more or less important in the future? Why?

2. How important is the small-town market to the average manufacturer of food products? Would some manufacturers be more interested in this market than others? Why?

3. What size towns have the relatively highest share of people in the top income group?

4. How can a retail merchant determine his trading area?

5. What kinds of decisions would be influenced by an accurate knowledge of the retail trading area for a particular store?

6. Many firms use state boundaries as trading areas. Are these areas likely to define properly the natural trading area of a particular city or region?

7. Describe ways in which census tract data might be useful to a department store.

8. What are the limitations on using a general buying power index in establishing sales goals for a particular area?

9. What are some of the major interstate trade barriers?

6 The Farm Market

THE ALERT MARKETER

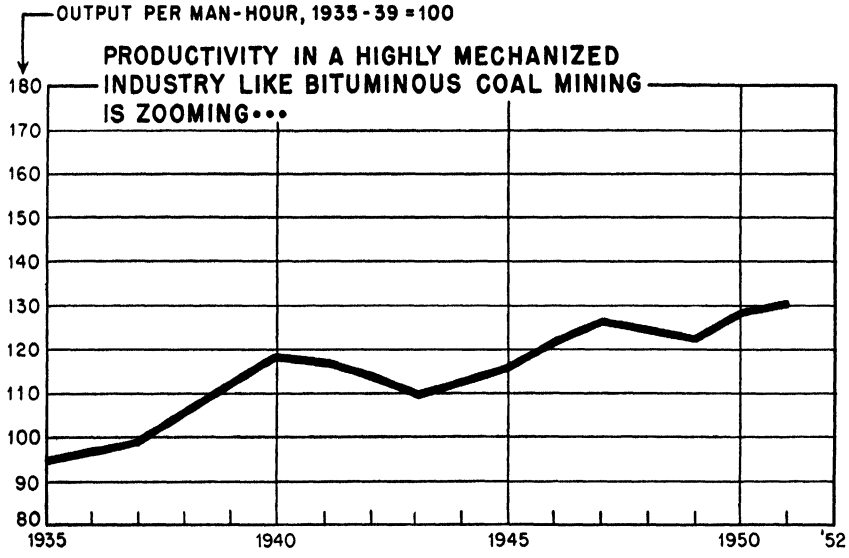
1. **Studies the changes and trends that affect the farm market as an outlet for manufactured goods.**
2. **Becomes acquainted with the kinds of farms that constitute the farm market.**
3. **Learns the methods of marketing that are especially effective with farmers.**

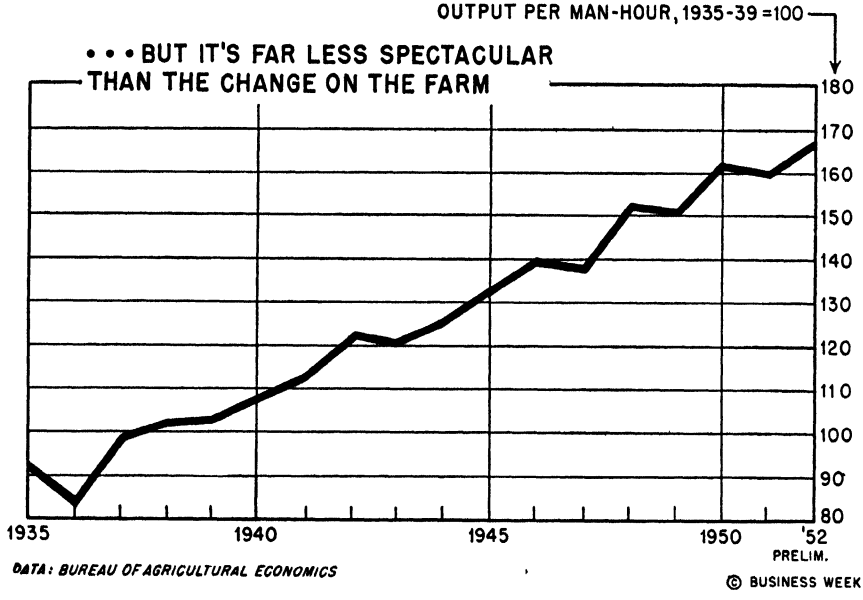
Agriculture and farm products are of major interest to theorists of marketing and to marketing students, especially those in agricultural colleges. The theorists want to know, for example, how agricultural products are moved from the farm to granaries, to processing mills, to wholesalers, to retailers, and to consumers. Such investigations are of great value to the marketing man who seeks a rich background of information about marketing. In this book, however, our interest in regard to agriculture is in the farm as a market for purchasing rather than the producing and selling of farm raw materials.

TRENDS IN THE FARM MARKET

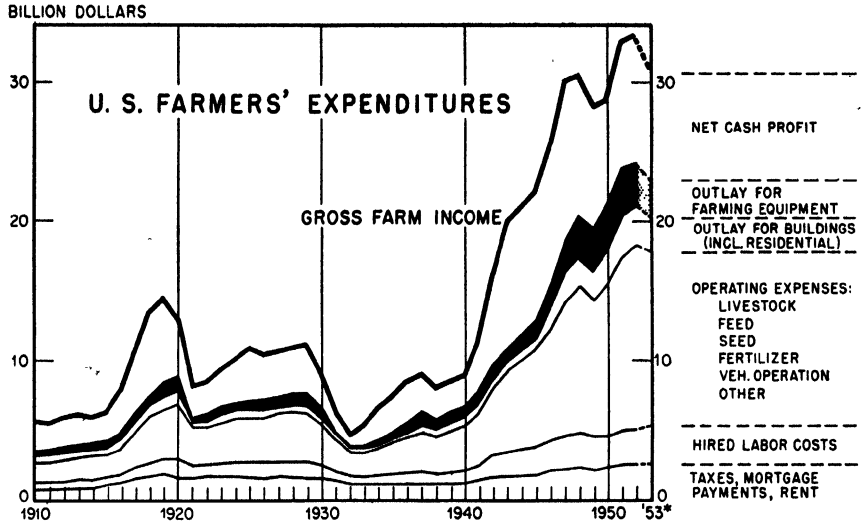
Farmers are business enterprisers and their business, agriculture, is America's biggest industry. The value of its products is more than that of steel and iron and all transportation industries combined. In a sense, the American farmer is bigger than Wall Street. The nation's farmers could pay off all their debts and have left the tidy sum of $130 billion. This amount is about $20 billion more than the market value of all stocks listed on the New York Stock Exchange.[1]

[1] Date to which this statement applies is the closing day of 1951. Sources: Department of Agriculture, Federal Reserve System, and New York Stock Exchange. From Marketing Pictograph, *Sales Management*, May 10, 1952.





SOURCE: "Technology Takes Over the Farm and the Farmer," *Business Week*, June 6, 1953.



*ESTIMATED

The above chart indicates certain reasons for the increased use of mechanical equipment on farms. In the 1950's, the wages of hired hands were five times higher than in 1910 while costs of farm equipment and farm buildings were but two and one half times greater. Continued improvements in machinery at costs less than for manual labor enable farmers to produce more with fewer hands.

In the decade, 1920–30, the purchases of tractors and equipment were 4.5% of the farmers' total cash receipts; in 1939–41, 6.6%; in 1948, 8%; in 1949, 9.3%; in 1950, 10.1%; in 1951, 10.5%, and in 1952, 8.8%. These figures give a partial explanation for the great increase in farm production over the years in spite of the decrease in the farm population.

SOURCE: Chart and data from *Forbes Magazine*, Oct. 1, 1953, p. 27.

The industries related to and dependent upon agriculture, such as food, are huge enough to have powerful effects on the whole economy. Farmers are businessmen first and consumers second. As such they constitute a dual market. In this chapter, our major emphasis will be on farmers as a market for manufacturers and others who want to sell to farmers.

As businessmen, farmers purchase millions of dollars' worth of equipment and materials. Chemical fertilizers to replace the chemicals taken from the soil are an example. Unless replenished, soil soon loses its fertility. A full-grown stalk of corn stands 8 feet high, bears one or more ears of corn and 15 to 20 leaves, and weighs 6 to 8 pounds. A 100-bushel crop takes from an acre of topsoil about 150 pounds of nitrogen, 53 pounds of phosphorus, and 94 pounds of potassium. The farm market, in short, is a market for industrial goods for the more than 3.5 million commercial farms and a market for consumer goods for the 23 million persons who live on farms.

This is true even though the over-all trend in population is away from the farm. In 1790, more than 95 per cent of the people lived on farms; now, less than 16 per cent do. Since birth rates are higher in the

country than in the city, several hundred thousand people leave the farm for the city each year.

Counteracting this trend is the fact that well over half of the farms in the United States are now mechanized. Almost half of them have tractors, one-third have trucks, and five out of eight farmers own cars. The total horsepower used in all our factories of manufacturing industries is only half that provided by the tractors, trucks, and engines used on our farms.

More than twice as many farms had electricity in 1950 as in 1940. During one 5-year period electricity was installed at the rate of 300,000 farms a year. By 1950, electricity was in use on 78 per cent of the farms in the United States (see Table 6–1).

Table 6–1. *Major Purchases of Electrical Equipment*

Percentage buying	Year after electrification			
	1st	2nd	3rd	4th
Refrigerator	28%	22%	12%	8%
Washing machine	10	12	8	5
Water system	10	7	5	3
Cook stove	4	5	3	2

These are the results of a survey based on 425 independent farm operators in the Clay Hills area of Mississippi.

By 1952, the Rural Electrification Administration estimated that electrification had reached 88.1 per cent of farms in the United States. The installation of running water follows electrification with a time lag said to average about 5 years. Some 30 per cent of farms now have running water but the sales of bathtubs, showers, and flush toilets have not reached the same level.

SOURCE: Table and comments from Richard Y. Giles, "Life on the Farm Gets Better and Better," *Printers' Ink*, Oct. 31, 1952, p. 30.

Furthermore, farms are growing larger. An average-size farm now contains about 215 acres. It is operated by fewer workers, but the output per acre, breeding unit of livestock, and farm worker is considerably higher than it was in 1940. Many things have furthered this increased efficiency and output including mechanization, the increased use of fertilizer, better feeding and breeding of livestock, the use of new, resistant strains of crops, and better farm management. All these things made it possible for the nation's farmers adequately to feed the population from 1940 to 1950, even though it increased 15 per cent during that decade. At the same time, the farmers furnished food for many people overseas.

Though the number of farms has decreased, more farmers now own their own land and the farm market itself is increasing. The number of

tenant farms is declining and even tenant farms are increasing in average size. Farm income is largely concentrated both geographically and among certain classes of farms.

Farming is becoming a commercial pursuit rather than a way of life. Today, much of our agricultural production is intended to be sold rather than used by the farmer. The modern farmer is using a smaller and smaller percentage of what he produces and buying more and more of what he consumes. Farmers even buy a large part of the food they eat. Their high cash incomes are encouraging them to raise their standards of living.

Other trends that might be noted are that from 1940 to 1950 there was a major westward shift of land under cultivation. To a lesser degree, there was also a slight shift to the South. In New England, in the East North Central states, and in the Middle Atlantic states, there was a decrease in total farm acreage. Together these states reach from Maine to the Mississippi River and constitute the northeastern section of the United States.

Changes in American agriculture are being brought about by chemistry as well as power. Pesticides and new chemical fertilizers are playing a part in the increased efficiency and stability of farm production. As to the human side of farming, comparable changes are being brought about by improved rural schools, more recreational and cultural facilities, and the increased technical improvements farm operators now find available. Incidentally, a "farm operator" is defined by the Department of Agriculture:

> A "farm operator" is a person who operates a farm either performing the labor himself or directly supervising it. He may be an owner, a hired manager, or a tenant, renter, or share cropper. If he rents land to others or has land cropped for him by others, he is listed as the operator of only that land which he retains. In the case of a partnership, one member is included as the operator. The number of farm operators is considered the same as the number of farms.[2]

KINDS OF FARMS IN THE UNITED STATES

About 3.7 million of the 5,379,250 farms in the United States may be considered commercial farms. These produce more than 97.5 per cent of all the farm products which are sent to market and constitute our main agricultural factory (see Table 6–2).

Even among the commercial farms, however, there is a great deal of variation in regard to their volume of production. About 100,000 of these farms produce over one-fourth of all farm products sold. These 100,000 farms represent only 2 per cent of all farms and 2.8 per cent of commer-

[2] From *Economic Class and Type of Farm, a Graphic Summary,* Bureau of the Census and Bureau of Agricultural Economics, Vol. V, Pt. 9, December, 1952.

cial farms. The farms are, of course, quite large, have a number of hired laborers working them, and represent an average investment of $125,000 on the part of the owners. The owners of the farms spend most of their time doing supervisory tasks and handling general management problems.

Table 6–2. *Economic Classes of Commercial Farms*

Economic class	Value of farm products sold	Number in United States
All farms		5,379,250
Commercial farms		3,706,412
Class I	$25,000 or more	103,231
Class II	$10,000–$24,999	381,151
Class III	5,000– 9,999	721,211
Class IV	2,500– 4,999	882,302
Class V	1,200– 2,499	901,316
Class VI	250– 1,199	717,201
Other farms		1,672,838
Part-time		639,230
Residential		1,029,392
Abnormal		4,216

Commercial farms were classified into six groups. Classes I through V were classified solely on the basis of the value of the farm products sold. For class VI farms, in addition to the value of farm products sold, the days of off-farm work by the operator and the relationship of family income from nonfarm sources to income from sales of farm products were also taken into consideration.

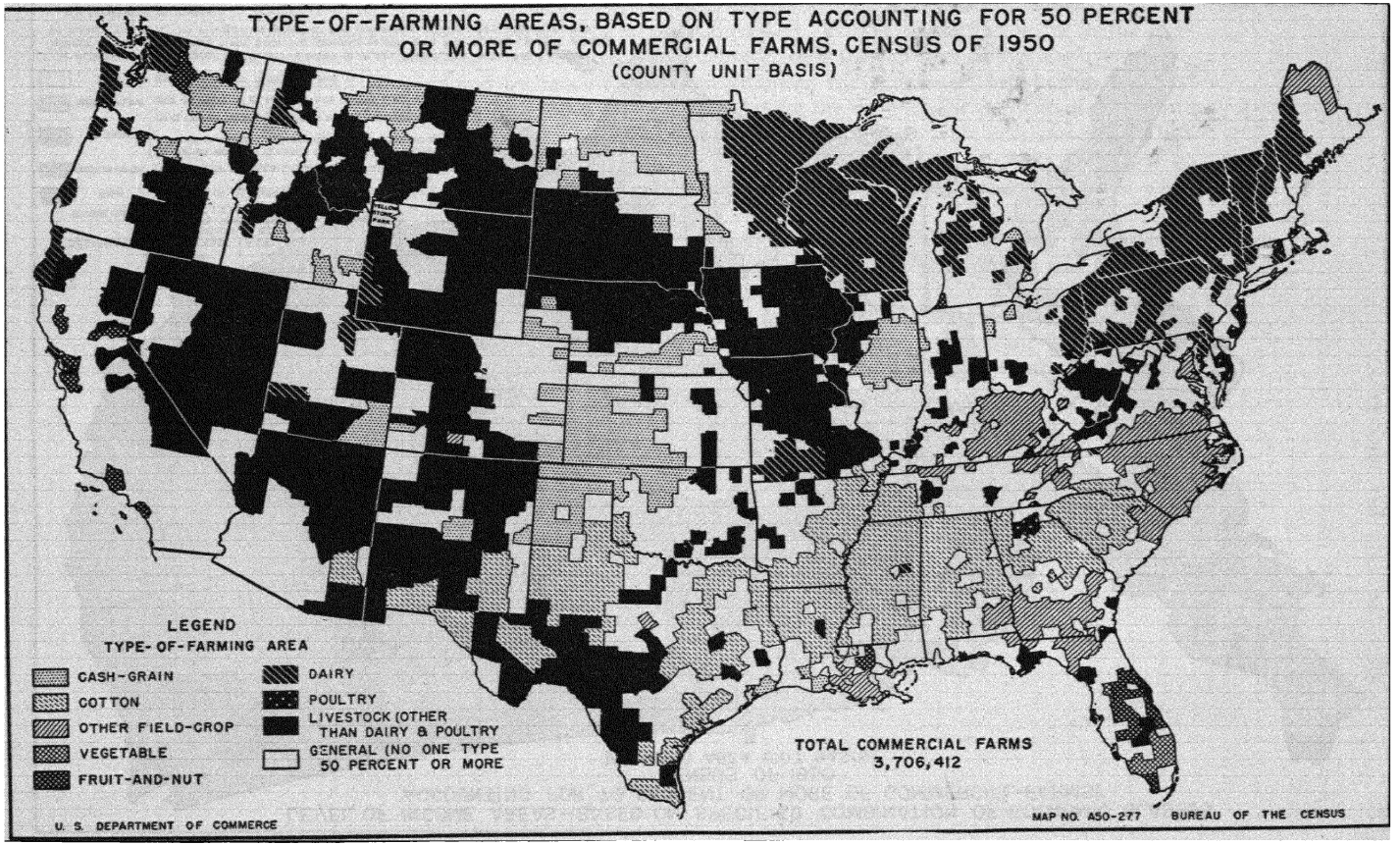
Commercial farms include all farms, except those classified as abnormal, with a value of sales of farm products amounting to $1,200 or more. Commercial farms also include the farms with a value of farm products sold of $250 to $1,199, provided the operator worked off the farm less than 100 days and provided further that the income of the farm operator and members of his family received from nonfarm sources was less than the total value of all farm products sold.

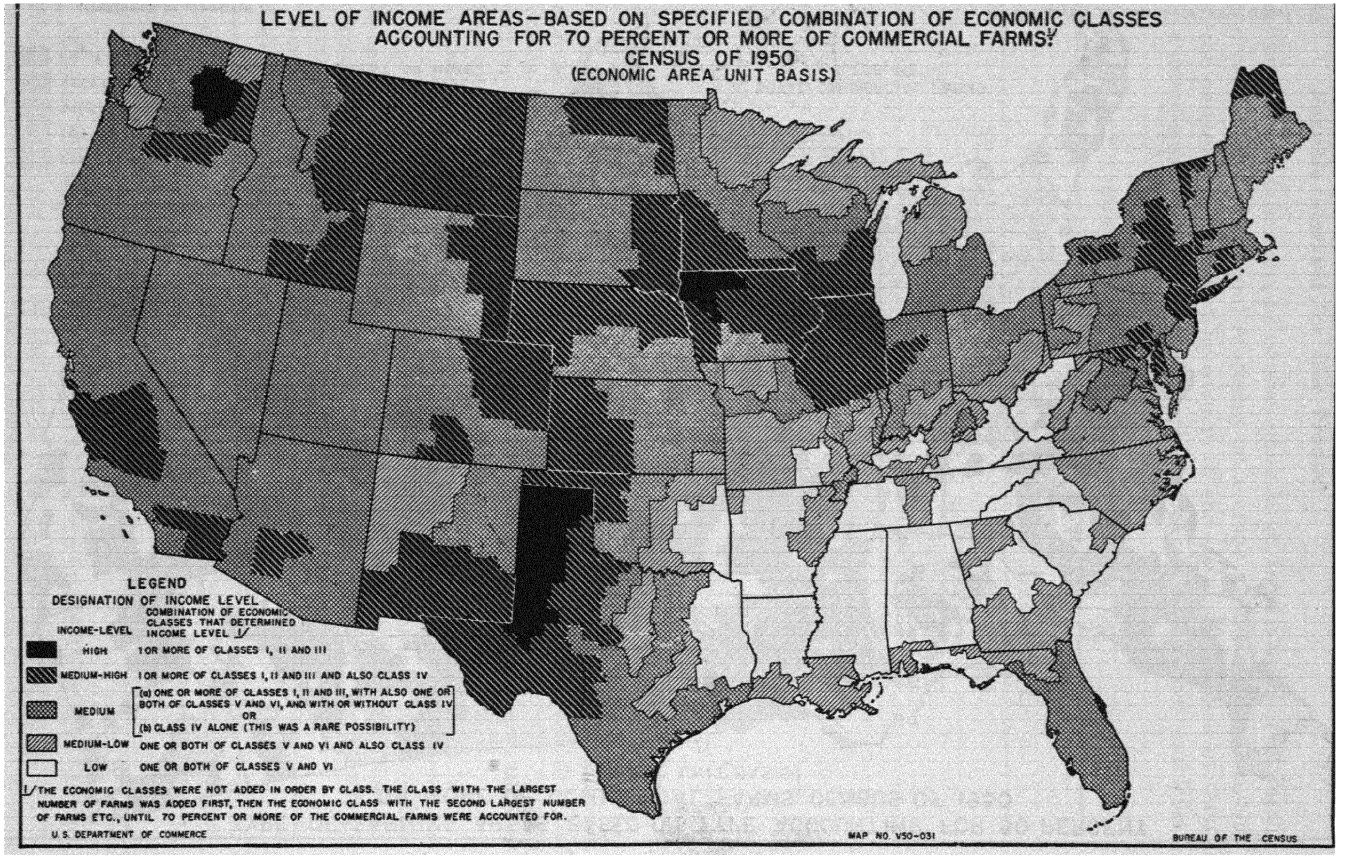
Abnormal farms consist of public and private institutional farms, experiment farms, grazing associations, Indian reservations, etc.

SOURCE: Table and comments from *Economic Class Type of Farm, a Graphic Summary,* Bureau of the Census and Bureau of Agricultural Economics, Vol. V, Pt. 9, December, 1952.

Most of the large-scale commercial farms are in the West and Middle West. Over 75 per cent of the farms with gross sales ranging between $10,000 and $25,000 are in those regions.

On the other hand, the remaining 3.6 million commercial farms are usually family affairs. Since they account for 67 per cent of the total


TYPE-OF-FARMING AREAS, BASED ON TYPE ACCOUNTING FOR 50 PERCENT OR MORE OF COMMERCIAL FARMS, CENSUS OF 1950
(COUNTY UNIT BASIS)
LEGEND
TYPE-OF-FARMING AREA
CASH-GRAIN
COTTON
OTHER FIELD-CROP
VEGETABLE
FRUIT-AND-NUT
DAIRY
POULTRY
LIVESTOCK (OTHER THAN DAIRY & POULTRY
GENERAL (NO ONE TYPE 50 PERCENT OR MORE
TOTAL COMMERCIAL FARMS
3,706,412
U. S. DEPARTMENT OF COMMERCE
MAP NO. A50-277 BUREAU OF THE CENSUS


LEVEL OF INCOME AREAS—BASED ON SPECIFIED COMBINATION OF ECONOMIC CLASSES ACCOUNTING FOR 70 PERCENT OR MORE OF COMMERCIAL FARMS 1/
CENSUS OF 1950
(ECONOMIC AREA UNIT BASIS)
LEGEND
DESIGNATION OF INCOME LEVEL
INCOME-LEVEL
COMBINATION OF ECONOMIC CLASSES THAT DETERMINED INCOME LEVEL 1/
HIGH
1 OR MORE OF CLASSES I, II AND III
MEDIUM-HIGH
1 OR MORE OF CLASSES I, II AND III AND ALSO CLASS IV
MEDIUM
(a) ONE OR MORE OF CLASSES I, II AND III, WITH ALSO ONE OR BOTH OF CLASSES V AND VI, AND WITH OR WITHOUT CLASS IV
OR
(b) CLASS IV ALONE (THIS WAS A RARE POSSIBILITY)
MEDIUM-LOW
ONE OR BOTH OF CLASSES V AND VI AND ALSO CLASS IV
LOW
ONE OR BOTH OF CLASSES V AND VI
1/ THE ECONOMIC CLASSES WERE NOT ADDED IN ORDER BY CLASS. THE CLASS WITH THE LARGEST NUMBER OF FARMS WAS ADDED FIRST, THEN THE EGONOMIC CLASS WITH THE SECOND LARGEST NUMBER OF FARMS ETC., UNTIL 70 PERCENT OR MORE OF THE COMMERCIAL FARMS WERE ACCOUNTED FOR.
U.S. DEPARTMENT OF COMMERCE
MAP NO. V50-031
BUREAU OF THE CENSUS

If farms with high gross incomes are the most numerous in a given area, it is likely that the entire community has a high level of living. Conversely, if most of the farms are in the low-income groups, it is likely that the entire community has a low level of living. Each state economic area was classified by income levels by grouping the economic class having the next largest number of farms with the economic class having the next largest number of farms and so on until 70 per cent or more of the commercial farms in the area were accounted for. High gross income does not always result in high net income. Furthermore, the data are based on reports representing only one year's operation. These limitations should be kept in mind when interpreting the above map.

Only five state economic areas qualified as high-income areas. Two of these are adjacent areas in northwestern Iowa, two others are adjacent areas in the High Plains and Panhandle of Texas, and the fifth is the Palouse area of Washington.

The areas of medium-high farm income are more widespread. Some of these areas have highly productive land, for example, northern Illinois, southern Wisconsin; most of Iowa, southwestern Minnesota, and Aroostook County, Maine. Other areas of medium-high farm income such as Montana and the fringe areas immediately west of the 100th meridian have land low in productivity but farm size and type of farming are well adjusted to the physical environment. The areas of medium-high income in California, Arizona, and New Mexico have highly developed irrigation.

The areas classified as low income have a predominance of farms in economic classes V and VI.

SOURCE: From *Economic Class and Type of Farm, a Graphic Summary,* Bureau of the Census and Bureau of Agricultural Economics, Vol. V, Pt. 9, December, 1952.

number of farms, 97 per cent of the commercial farms, and produce 71 per cent of all farm products sold, they form the bulk and the backbone of the farms of our country.

There are about 1.7 million noncommercial farms in the United States. Thus they represent 31 per cent of all farms but account for only 3 per cent of all farm products sold.

The noncommercial farms can be broken down into two groups. About 600,000 of them are part-time farms. This means either that the farmer works at other jobs one-third or more of the year or that the farm receives most of its income from nonfarm sources. Many such farms are located on the fringes of cities and towns. Part-time farms present something of a problem to the marketing man. The market they represent is difficult to measure, since their farm income is no indication of the income they may receive from other sources. At present, they are a market of increasing importance for such products as garden tractors, lawn mowers, hand tools, fertilizers, insecticides, and so forth.

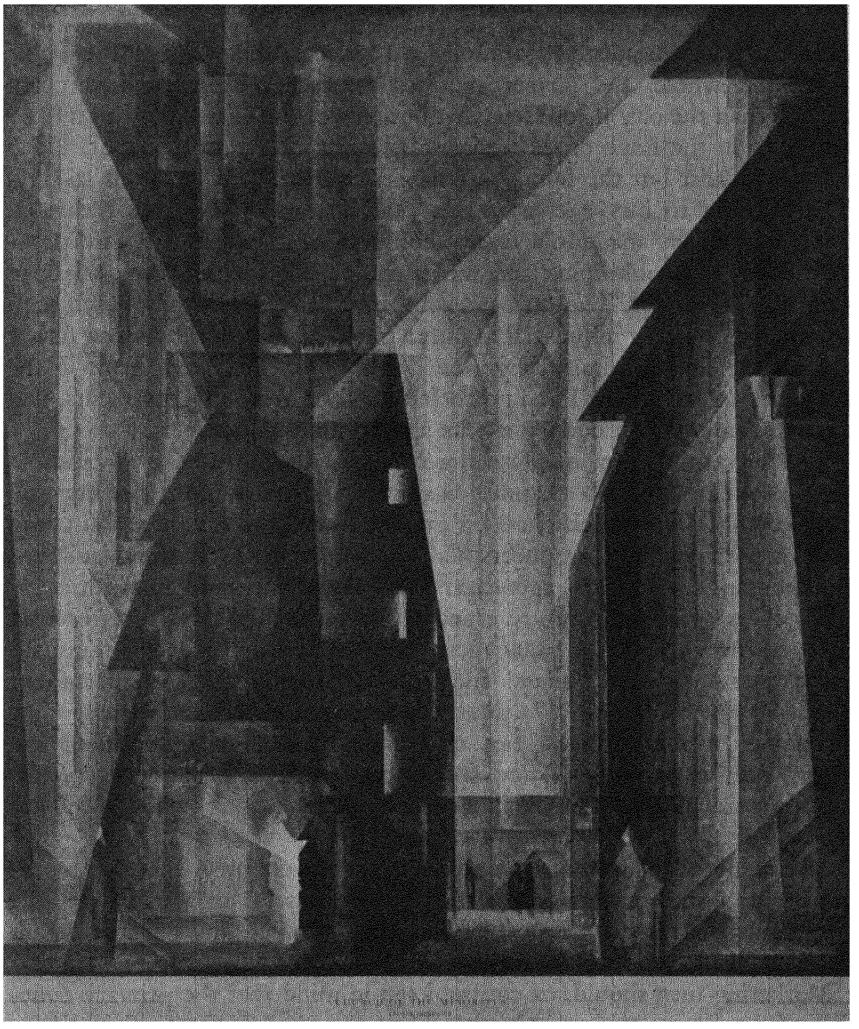
There are more than a million farms in the second group of noncommercial farms. They are usually either rural residences, homes of retired people, subsistence farms, or farms operated by people over 65 years of age. Product sales from such farms do not exceed $250 a year.

Patterns of living also vary from one area to another. In some places, food gardens are common and food bills are low. On the other hand, in the Kansas wheat belt, gardens are rare and food bills are high. According to one study of farm operators, average food bills vary from a low of $364 per year in western Tennessee to a high of $937 a year in Kansas. Clothing expenditures follow the same trend, with a low of $247 per year found in Minnesota and a high of $511 a year in Kansas.

In view of the differences which exist among the farmers who make up the farm market, careful appraisal of the pertinent facts is necessary if marketing to farmers is to be successful. Manufacturers, advertisers, and distributors find it profitable to study the characteristics and needs of specific classes of farmers, the level of the incomes of the areas where the marketing is to be done, the type of farm in the area, etc. Such data are available from the most recent Census of Agriculture.

SELLING TO FARMERS

Marketers tend to approach farmers either as businessmen or as consumers. Farmers often apply the same standards to their homes and other nonbusiness purchases as the industrial man does to his buying. However, some experts think that selling and advertising appeals should be largely rational to the farmer who is an industrialist and primarily emotional to the same farmer in his capacity of consumer.



The modern marketer does not assume that all farmers are "backwoods" in their tastes. When *Farm Journal* offered examples of good art to their readers, one of the most popular choices was this picture, "Church of the Minorities," by Lyonel Feininger, collection of Walker Art Center, Minneapolis.

The places where farmers buy are far more diverse than the mail-order catalog and the general store. Some farmers shop as much as 100 miles from home and in many different stores. The shopping centers built in the suburbs are often closer to the farms than to the metropolitan centers and are being increasingly patronized by farmers. One survey by the Bureau of the Census of the shopping habits of farm families, made in Morrow County, Ohio, revealed that they bought their groceries in 18

different places, beauty preparations in 12 places, and work clothes in 9.[3]

On the whole, the farmer requires somewhat different advertising appeals than the city man. He is in a business of his own. Many purchases are made in the hope of increasing his profits or easing his labor. He is an individualist but the family often participates in his decisions to buy. The decision to buy a tractor this year instead of a set of bathroom fixtures is usually made in a family conference. The farmer's wife probably does the bookkeeping and writes the checks for the truck salesman and the feed dealer. The farmer's sons, especially when they reach high school age, are very influential in purchasing. Partnerships between father and son or sons are increasing (see Table 6–3). The boys share in the profits at an early age. They go to farm shows, read advertisements, and discuss farming with county agents and agriculture teachers.

The successful farm marketers are those who know how to promote their products through channels that reach farmers most directly and most often. Among such channels are the leaders of the numerous farm clubs and associations, engineers and economists in agricultural colleges, the thousands of county agents, and the Department of Agriculture.

Teachers of agriculture are especially important. Aside from those at colleges, there are about 10,000 vocational agriculture teachers throughout the country who are Federal and state employees. As a result of the Smith-Hughes Act of 1917, these teachers are hired to "increase proficiency in farming on the part of those now engaged in farming and of prospective farmers." They are selected by the local school boards and are paid partly through Federal and partly through state and local funds.

Averaging about three to each county in the country, the local vocational agriculture teacher is a friend and a counselor of the farmers. He commands the respect of most of the farm families, and his suggestions are listened to and often followed.

Marketing men should, of course, keep in mind that the primary function of these teachers is to educate. They can suggest that various labor-saving devices are useful on farms but they are not free to recommend a specific brand or product. If such limitations are respected, the teachers can be of help to the marketer.

Farm papers and magazines are another good channel through which to reach farmers. The following is an example. Well over half of the farmers in Iowa were found to be using a new stock feed which contains antibiotics. Researchers asked them how they had first heard of the new product. The most frequent replies to this question were "talking to others" and "reading about them." Most of the farmers had done some reading about the feed before deciding to use it and for this information

[3] See "The Farm Market," *Tide*, Aug. 26, 1949, p. 40.

Table 6–3. *Population by Age Groups*

(Figures for rural nonfarm population omitted)

Age group (years)	Rural farm, per cent	Urban, per cent
Total	100	100
Under 14	32	25
14–19	11	7
20–24	6	7
25–29	6	9
30–34	6	8
35–44	12	14
45–54	11	12
55–64	9	9
65 and over	7	8

The farm market contains a much heavier concentration of children than the urban market. Of the farm population 32 per cent is under 14, compared with 25 per cent of the urban market. On the other hand, the urban market contains somewhat larger percentages of the age groups from 25 to 45. The greatest difference is at the 25 to 29 level; for the farm population 6 per cent and for the urban population 9 per cent. This indicates that there is still a marked exodus of young people from farm to urban life. To offset the exodus, many farmers are taking their sons into partnership.

SOURCE: Richard Y. Giles, "Life on the Farm Gets Better and Better," *Printers' Ink,* Oct. 31, 1952, p. 30.

they turned to the farm papers and magazines. Only 5 per cent of those questioned said that they had read manufacturers' pamphlets and bulletins in order to get information. Newspapers and magazines are definitely an important source of information to the farmer.

Now that most farmers have good cars and good roads, many come to town to do their shopping. The purchases they make in supermarkets, drugstores, and other places represent a good-sized percentage of the total amount of consumer goods sold today.

According to some studies, farmers save a higher percentage of their total income than does the general public. Only 4 per cent of all families are able to save 50 per cent of their income, but 13 per cent of farm families do.[4] This suggests that many farmers have a large backlog of cash with which they could make even greater purchases if manufacturers produced more highly salable items and salesmen were sufficiently persuasive.

[4] *Federal Reserve Bulletin,* September, 1951.

THE FARMER'S SHARE OF THE CONSUMER'S FOOD DOLLAR

When the subject of the farmer's income arises in a discussion of either farmers or city people, someone is almost sure to say, "The farmer doesn't get enough of the consumer's food dollar." A common complaint is that the farmer receives only 45 cents of the consumer's food dollar. Studies by the Bureau of Agricultural Economics reveal that during the 22 years from 1920 to 1942 the farmer got less than 45 cents. In some of the years after 1942, he got more. The heyday for the farmer in modern times was 1945, the last year of the Second World War, when he got 54 cents out of every dollar spent for the food he grew.

The Bureau of Agricultural Economics has a statistical "market basket" representing the farm-grown foods purchased by a family of 3.3 persons. This "market basket" differs from the "market basket" of the Bureau of Labor Statistics in that it excludes fish, imported foods such as coffee and bananas, and the cost of restaurant meals.

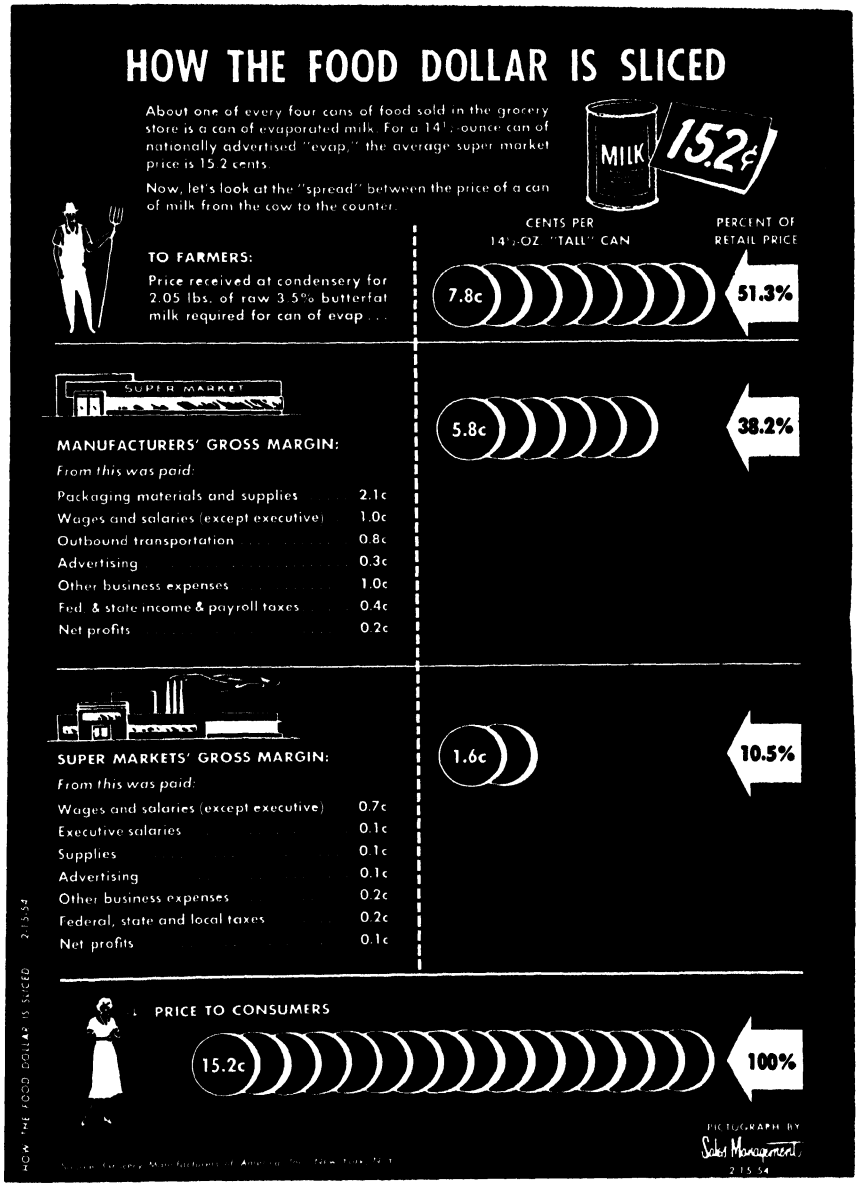
The market basket cost $955 a year in the 1947–1949 period, and of that amount the farmer received $468. In June, 1953, prices had risen to the point where the cost of the market basket on an annual basis was $1,017, or $62 more than in the base period, but the farmer's share was $20 less. For every $10 the housewife left at the market to pay for her groceries in 1947–1949, the farmer got $4.68. In June, 1953, he got $4.46. "Middlemen" got the other $5.54.

This does not necessarily mean that "middlemen," those in the complex of transportation, processing, and distributing organizations that transfer food from the farmer's fields to the consumer's table, profit unfairly at the expense of either the producer or the consumer.

The middleman's costs have gone up too. Labor costs account for about half of the cost of marketing food, and wages have gone up in the food-marketing business as well as in other businesses since the period prior to the Second World War. Transportation costs, which account for about 12 per cent of the cost of marketing food, rose 70 per cent between 1946 and 1953. In addition, middlemen are providing more and more services, and these cost money too. The chicken the housewife buys, for example, comes ready for the oven, dressed, drawn, disjointed, quick-frozen, and wrapped in a cellophane package which contains either the parts of a whole chicken or a collection of the more delectable pieces from several chickens. Such services cost money and all of them are paid for out of the food dollar.

Recently the Department of Agriculture cooked the same meals three different ways.

First they cooked one day's meals for a family of four entirely in the kitchen. Next, using the same menus, they bought partially prepared foods and finished



the cooking in the kitchen. Last, they bought the same foods in the ready-to-eat, heat-and-serve state. These are the results:

The meals when home-prepared cost $4.90, when purchased partially prepared, $5.80, and when bought ready-to-serve, $6.70. That's a saving of $1.80, from low to high point, in just one day! (True, it was a Sunday sort of day from the looks of the menus.)

Of course when the economists figured time, the advantage was reversed.

The home-cooked meals consumed 5.5 hours in preparation, cleaning up kitchen utensils and serving. Partially prepared meals took 3.1 hours and ready-to-serve meals only 1.6 hours.[5]

The increasingly greater spread between farm prices and grocery store prices is due to demands by the consumer for better products and more service. The growing use of cake mix is an example of the reason for the increased spread. Most wives still know how to follow a recipe and could blend the proper amount of flour, sugar, eggs, butter, salt, vanilla, and milk, but many use a prepared mix.

Also, the consumer wants frozen orange juice instead of laboriously squeezing oranges; canned peas, ready to eat, instead of spending an hour separating peas and pod; neatly packaged candy instead of old-fashioned homemade fudge or taffy; sliced, wax-papered bread instead of baking it in a hot kitchen. The American consumer wants express-shipped delicacies when they are out of season locally—avocados from California, apples from Washington, and grapefruit from Texas and Florida regardless of season.

Increased costs of better products and better service are probably no greater for foods than for other commodities. This is indicated by the fact that for more than two decades the amount of each consumer dollar spent for food has varied narrowly between 23 and 28 cents. If food costs were rising more rapidly, they would take a larger share of the consumer's income.

The poultry and egg farmer gets the largest share of the consumer's food dollar, compared to the share going to the middleman. In 1953 he got 68 cents of it, while meat raisers got 61 cents. For other farmers the percentages ran dairy, 59 cents; bakery and cereal products, 23 cents; fruits and vegetables, 32 cents; and fats and oils, 34 cents.

Not only does the farmer get less of the consumer's dollar in some years than in others, but his own costs for labor machinery, fertilizer, and other products often go up, so that he feels a double squeeze.[6] The spread between farm and retail price is unlikely to get any smaller, unless a severe deflation should take place as in the early 1920's and early 1930's. This is because of the relative stability in the cost of processing and distribution—especially labor costs. If the price of a farm product were to decline sharply, handling costs would tend to remain constant. The result would be lower prices, but an even greater proportion of the consumer food dollar would go to the middleman. If the price were to rise sharply, the middleman's share would be lower—at least for a time—

[5] "Do-it-yourself in the Kitchen, Too," *Changing Times, The Kiplinger Magazine*, February, 1954.

[6] Joseph Hanlon, "Food Prices Go Up—But Farmer Gets Less," *St. Louis Post-Dispatch*, Aug. 29, 1953.

but the consumer would be paying more anyway. Any decline in retail food prices is more likely to be reflected in lower prices paid to farmers than in lower marketing costs.

Historically, the cycle in farm prices has greater amplitude than prices at the consumer level. This is owing to the relative inflexibility in marketing costs, which constitute about one-half of the retail food dollar. Once marketing charges rise, they tend to remain at their higher levels and to resist any downward pressures.[7]

In general, when the price of a specific commodity drops by the same amount at both the farm and retail level, the percentage decline is greater at the farm level; marketing costs, in dollars, remain unchanged in the short term and increase as a percentage of total retail price.[8]

"If the past is any indication, the spread between farm and retail prices will widen. Since the middle 1930's, the number of agricultural workers has decreased 30 per cent. At the same time workers in processing and marketing probably have increased more than 30 per cent. And the more middlemen, the more that must go to pay them." [9]

The fact that the farmer's share of the food dollar is controlled by economic forces that he cannot change does not mean that the farmer placidly accepts his financial situation. Rather, he looks toward other means of making and saving more money. One of these is the cooperative (see Chapter 21).

SOURCES

United States Census of Agriculture, U.S. Department of Commerce, Bureau of the Census, published at 5-year intervals. These census reports include data such as the number of farms, the acreage and value of farms, and characteristics of farm operators; farms by size, by color and tenure of operator; facilities and equipment, farm labor, and farm expenditures; livestock and livestock products; specified crops harvested; farms and farm characteristics for commercial farms; farms classified by value of products sold, by type of farm, and by economic class; and value of products sold by source. The reports are available through purchase from the Superintendent of Documents, Government Printing Office, Washington 25, D.C.

[7] See Walter W. Wilcox and Willard W. Cochran, *Economics of American Agriculture*, Prentice-Hall, Inc., 1951, p. 315.

[8] Philip Golden and Shirley S. Hoffman, "Marketing Costs," *Business Record*, National Industrial Conference Board, Division of Business Economics, November, 1953, p. 422.

[9] Elmer Roessner, "High Middleman Costs Will Remain as Long as Consumers Demand Better, Varied Food," *St. Louis Globe-Democrat*, Dec. 26, 1953.

Successful Farming magazine published the following advertisement, given in part, in *Tide*, Aug. 26, 1949.

In the last two years a dealer in a crossroads town in Wisconsin has sold more 18 cf home freezers than any department store carrying the line.

The manufacturer's sales manager made a trip to the town to find out why and how the sales were made.

The dealer's place of business was a single front frame store, with a few small radios on display but no freezers. A young chap was trying to repair an old console receiver.

"Gus's out makin' deliveries," he said. "Back some time this afternoon." So the sales manager waited.

Gus was a big, blond, good natured, fat man who'd been selling electric appliances for more than twenty years. He knew everybody in the county, and kept his stock in a barn in the back. Couldn't understand why his freezer sales should interest anybody.

"Nothing to it," he said. "I load two 18-footers in the truck and drive out to some farmer who ought to have a freezer. Figure a farmer should have the 18-foot box, or he'll be sorry later on. Your 18-foot box is a good one.

"I drive up to the house, and get the hired man, or one of the boys, or even the farmer himself to give me a hand unloadin' the freezer. If he asks any questions, I don't answer. Just set the freezer down in the kitchen, and tell 'em why they need it.

The Department of Agriculture has established a publication series, *Marketing Research Reports*, to facilitate prompt publication of agricultural marketing research studies. The series is designed to cover the results of research work in the fields of packing, processing, refrigeration, transportation, storage, wholesaling, and retailing. *Marketing Research Reports* differ from the Department's technical bulletins, circulars, and monographs. They are more informal, sometimes preliminary in nature, and more restricted in circulation. They are in semitechnical style, adapted for use by persons primarily engaged in some phase of marketing farm products.

Agricultural Marketing Service administers programs relating to (1) marketing research, outlook, and related statistical and economic research;

"Often the man says he hasn't the money. I tell him his credit is good with me, pay when he can.

"Generally the woman cottons to the freezer right away, but sometimes she's more afraid of spending money than her husband. I sit there and let him sell her.

"Once in a while, both the farmer and his wife are busy, or don't show any interest. So I plug it in, tell 'em to try it a while and if they don't like it, I'll come and get it. Never took one back yet. Sooner or later they come by the store some Saturday and leave the money.

"Young couples are usually easy to sell. The trouble with the older people is that a lot of them still don't realize they have money, and what they can do with it. Doesn't occur to them to come in and buy something. But I bet half of the farmers in this county are well enough fixed to quit work tomorrow, and never want the rest of their lives.

"I'd starve to death in a jerkwater town like this waitin' for customers to come to me. Go to the farmers, and you make a lot more sales."

Compare this kind of personal selling with the recommendations made in Chapter 26, "The Salesman in Modern Marketing."

The kind of selling done by Gus, the appliance dealer, is more aggressive than usually recommended. Why does it work with these farmers?

(2) crop and livestock estimates; (3) marketing services, including market news, standardization, grading, inspection, and classing of farm products; (4) freight-rate services; (5) marketing regulatory programs; (6) marketing agreements and orders; (7) surplus removal, export and diversion programs; and (8) the national school lunch program.

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QUESTIONS AND EXERCISES

1. From a marketing point of view, the farmer has a dual role. What are these roles? How do they fit into their respective marketing patterns?

2. What are the major trends in connection with the farm market? What influences have these trends had on marketing?

3. What percentage of our farms are considered commercial farms? What percentage of our farm products are produced by these commercial farms?

4. Are the characteristics and needs of various classes of farmers in various regions similar throughout the United States? Give examples and explain.

5. What is the relation of the Smith-Hughes Act to farmers and marketing?

6. What percentage of the food dollar goes to the various marketing institutions? What percentage is paid to the farmer?

7. If you had a new product of particular value to farmers, how would you go about informing them of the new development?

8. How do you explain the increasing spread between farm prices and food prices at the consumer level?

9. How does the population age distribution of the rural-farm market compare with the age distribution of the urban market? Is this of any importance to marketing? Explain.

10. According to *Markets after the Defense Expansion*, Department of Commerce, 1952, more than a million farmhouses were classified as dilapidated in 1950 and 3.5 million, or more than half, lacked running water. As of mid-1952, 0.6 million farms were still not electrified. What opportunities does this situation offer the modern marketer?

7 Industrial Marketing

THE ALERT MARKETER

1. **Notes the channels of distribution used by manufacturers who sell to industrial customers.**
2. **Studies the advantages and disadvantages to the manufacturer of industrial goods who sells through distributors rather than through his own salesmen who call on industrial customers.**
3. **Pays extra attention to the methods used by manufacturers to increase the sales of their products through distributors.**

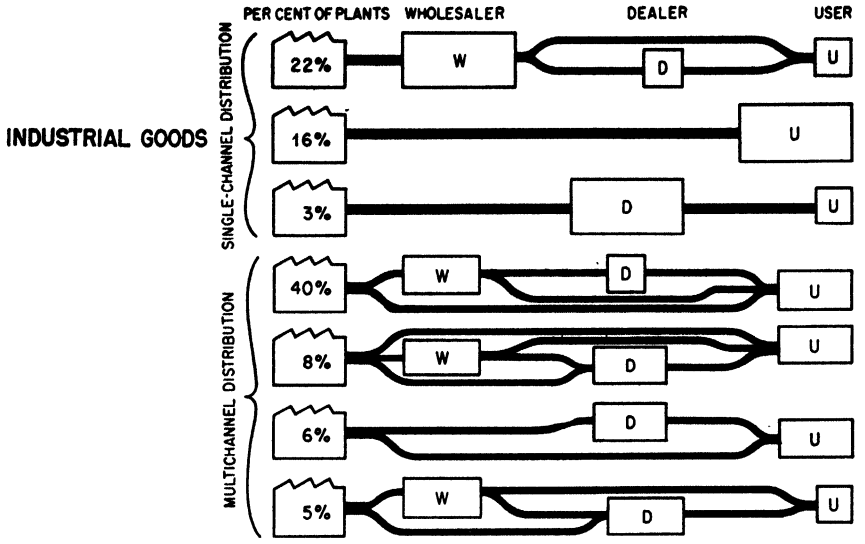
Industrial Goods. Goods which are destined for use in producing other goods or rendering services as contrasted with goods destined to be sold to the ultimate consumer. They include land and buildings for business purposes, equipment (installation and accessory), maintenance, repair and operating supplies, raw materials, fabricated materials.

Comment. The distinguishing characteristic of these goods is the purpose for which they are destined to be used, in carrying on business or industrial activities rather than for consumption by individual ultimate consumers or resale to them. The category also includes merchandise destined for use in carrying on various types of institutional enterprises.

Relatively few goods are exclusively industrial goods. The same article may under one set of circumstances be an industrial good and under other conditions, a consumers' good.[1]

An individual manufacturer typically uses several channels of distribution. The extent to which a specific channel is used varies with the industry and the unique experience of the individual company. A com-

[1] "Report of the Definitions Committee," *The Journal of Marketing*, October, 1948, p. 208. See also Industrial Marketing Committee Review Board, "Fundamental Differences between Industrial and Consumer Marketing," *The Journal of Marketing*, October, 1954.



Industrial products are distributed through a variety of channels. Each product has sales channels appropriate to its markets. The above chart is based on a survey made by *Modern Industry* of 1200 plants.

SOURCE: Part of a chart in *Modern Industry*, May 15, 1947. See also E. S. Bradford, *Marketing Research*, McGraw-Hill Book Company, Inc., New York, 1951, p. 79.

pany that has become accustomed to the use of certain channels tends to continue to use them (see chart on this page and Chapter 13). The industrial marketer who is interested in learning about the channels of distribution normally used for the marketing of a specific class of products must make an investigation of his own. An easy way to make such an investigation is to get the latest annual copy of the *Industrial Marketing*, "Market Data & Directory Number," turn to the "Index to Markets," and follow through with the pages and publications listed for him.

HOW MANUFACTURERS OF INDUSTRIAL PRODUCTS INCREASE THEIR SALES

The problems involved in the marketing of industrial products are exceedingly varied. These few examples indicate their types:

1. The manufacturer whose product is used, and its identity lost, in the process of remanufacture by another manufacturer. The sales manager of the Equipment and Appliance Division of the Owens-Corning Fiberglas Corporation described this kind of situation as follows:

Our customer, generally speaking, is the manufacturer of some appliance or piece of equipment requiring insulation. But to support our customer in getting business we have for a long time carried on a program aimed at selling not only our customer but our customer's customer and our customer's cus-

tomer's customer. Our customer's customer is the distributor and dealer; our customer's customer's customer is the home owner.

This three-step method of merchandising may sound complicated, but really it is fairly simple. It works like this: (*a*) We must convince the manufacturer that the use of Fiberglas gives him a superior product, one that, because it is wanted, will sell more readily and at better profit; (*b*) We must convince the jobber and the dealer of the superiority of products made of Fiberglas and teach him how to get the story across to the retail customer; (*c*) We must advertise and promote Fiberglas to acquaint the home owner with our product so that he will be more susceptible to the dealer's sales presentation.[2]

2. The manufacturer who sells to another industrial user must often sell a new theory of manufacturing to his customer. Addison-Semmes Corp., for example, had a new idea in a throwaway shipping platform. They believed that it would be a time and money saver to its user. But how were they to contact buyers? They found that in order to sell their product they also had to sell a whole new theory of materials handling.

Our work showed us that the corrugated board expendable pallet was in reality only an extension of the package. It seemed that all the development in our program leaned toward re-design of the customer's present package so that the expendable pallet would work. This re-design usually developed into a super-large container which we term the "Power Package" or an all-corrugated unit load. Our theory has been that there is no line of demarcation between packaging and handling, that they are one continuous and synonymous operation. . . .

We felt that these men who had been exposed to speeded-up Army and Navy methods and were familiar with the use of fork trucks, pallets and unit loads, would be easy to sell on the idea we were proposing. We knew, too, that the prime vendors to the war effort had been the large manufacturing plants, primarily automotive and electrical manufacturers, foundries and similar firms.

We decided that the logical place to start merchandising our pallet was to the automobile industry. We knew that the component parts section of the automobile industry would fit into our picture. The Nash Motors company, a nearby neighbor in Kenosha, was one of the first to be approached. Nash buys large quantities of coiled springs, to cite an example, from manufacturers in Detroit and Logansport, Ind. Originally they were piled hit-or-miss in box cars. They'd shake down in transit, coils becoming interlocked. Untangling them was a tedious job.

Later they were packed in metal boxes or two-way pallets weighing several hundred pounds each. That meant extra freight costs, to Kenosha first and then back to the factory. We worked out a sturdy expendable corrugated board pallet that gave a better package, handled far easier and because of its low cost, saved money even though it was thrown away when its job was done.

[2] John R. McCord, "Fiberglas Talks to Consumers about a Product They Never See," *Sales Management*, May 20, 1950.

When the advantages of our pallet had been proved by Nash operation it was a simple matter to convince other automobile manufacturers. Soon after that our designers developed packages for various other parts purchased from outside suppliers, such as lights, wiring assemblies, batteries, fans, heaters, etc.[3]

3. Some industrial products, such as chemicals, require special technical knowledge to sell them. Take the case of Knapp Mills, Inc.,[4] who manufacture lead-made products. New developments in manufacturing processes and methods seemed to indicate that many machine parts manufactured by their customers would have to be made out of a substance more durable than lead. As a result, Knapp Mills found their salesmen encountering many more competitors who offered new substitutes. Therefore, their own research department developed new methods of using lead in combination with other metals and thereby producing products even more suited to modern technology. This meant that they had to sell anew their product. Their sales strategy was to convince their customers that they must use the Knapp lead product in order to keep up with the most advanced technical methods.

This kind of selling requires a great deal of technical knowledge. It is no wonder, then, that one company chooses salesmen who can sell a technical product and another chooses engineers who can be taught how to sell. Knapp Mills uses men who are primarily salesmen to do their selling. However, when they think a customer can be handled better by another member of the firm, such as an expert engineer, the salesman calls him in to help make the sale. These experts, of course, can offer technical knowledge appropriate to the production problem. Knapp does not, however, give them any formal sales training in order to equip them for such instances.

A firm with a different policy in regard to salesmen-engineers versus engineer-salesmen is the Magnaflux Corp. The company manufactures equipment designed to detect flaws in machine parts before actual breakdowns occur. It sells entirely to industrial users and has no dealings with distributors. Since the company executives felt that the primary responsibility of their salesmen was to know technical methods and equipment thoroughly, they hired engineers to do their selling. They believed that they could make better salesmen out of engineers than they could make engineers out of salesmen. Therefore, a formal training program was instituted for engineers. This system has proved successful.[5]

Apparently, there is no final answer to the question of salesmen versus

[3] Ray E. Frase, "Markets for Industrial Pallets? Creative Selling Found Them," *Sales Management*, Aug. 1, 1950.

[4] Albert P. Knapp, "3-way Cure for an Industry Suffering from Lead in Its Feet," *Sales Management*, Mar. 1, 1952.

[5] W. E. Thomas, "Engineers Reverse Sagging Sales by Talking Prospect Benefits," *Sales Management*, July 1, 1950.

engineers. Each company must analyze its unique needs and plan its selection of salesmen and training program accordingly. But a company in this kind of marketing should always bear in mind that the industrial salesman is the most important and expensive factor in a selling program.

4. Many industrial products must be sold by means of performance reports. Towmotor Corp., for example,[6] makes wide use of performance reports which they call certified job studies. Prospective Towmotor buyers do not have to rely on a salesman's report alone. They can read the job studies made by disinterested companies who have used Towmotor's products. These studies are not merely testimonials; they are carefully worked out analyses of users' experiences. They include not only technical data about the machine itself but also cost and economy reports. Naturally, such reports lend credibility to salesmen's claims only when the prospect believes in the honesty and adequacy of the report.

In most cases, the performance report must be explained to other members of the prospect organization in addition to the purchasing agent. The purchasing agent may be the salesman's first contact, but others such as the chief engineer, the processing engineer, maintenance superintendent, and vice-president in charge of operations must also be convinced of the adequacy of the product. Long extended negotiations are usually necessary.

The Penton Publishing Company, for example, conducted a study of all inquiries made in a typical month to advertisements in its publication, *New Equipment Digest*. Each inquirer was mailed a letter listing the products about which he had asked and was requested to indicate what action had followed. Were any of the products bought? Were purchases still under consideration? Here's what the study revealed:

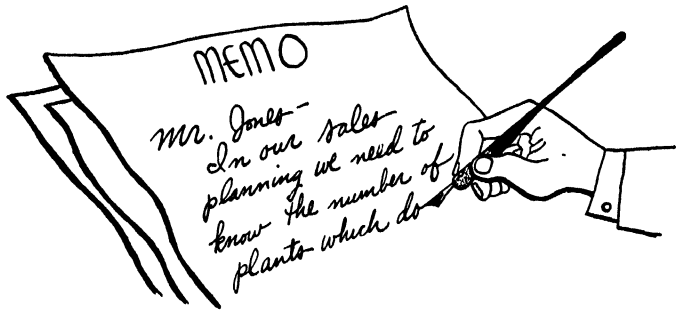
As a result of about 6,000 replies, a total of 8,917 sales had either been actually completed or were still pending at the time the study was closed. Some 2,488 product inquiries had turned into sales, and 6,429 sales were pending. The survey showed that most purchases were the result of conferences between men in the plant, with recommendations approved by a variety of plant officials. Industrial selling is selling to several persons, not merely one. It was further found that plant operation and maintenance men were responsible for 1,110 sales, engineering and design personnel for 804 sales, management men for 420 sales, and purchasing agents, by themselves, accounted for the least of all—154 sales.[7]

5. Whatever channel of distribution is used by the manufacturer, whether he sells direct, through distributors, or through manufacturers' agents, he must keep them and their sales forces informed and alert. Many firms have developed factory schools to keep their sales representa-

[6] Alfred H. Roth, "Clincher for the Industrial Sales Presentation: The Performance Report," *Sales Management*, Apr. 15, 1952.

[7] Survey published by the Penton Publishing Company. See *Tide*, June 20, 1952.

tives well-informed. Here they receive intensive instruction about the product, its development, construction, and applications. Sales policies, sales promotions, and advertising campaigns are usually fully described in the factory school course. Follow-up methods such as periodic mailings to distributors and agents as well as special promotions in which manufacturer and distributor cooperate are also utilized in order to maintain the enthusiasm of factory and distributor salesmen. Literature about recent



What Kind of Marketing Information Should You Expect From a Publisher?

The better trade publications can supply a great deal of information about the industries they serve . . . and they will often do a surprising amount of work to dig up the answers to your questions. Taking advantage of this service has helped many companies with their marketing problems.

In the fields covered by Penton publications, there are a number of things we should be expected to know—or we couldn't be doing a very good publishing job. Market information of this type is gladly given to persons who need it for sales planning.

We wouldn't attempt to give a blanket definition of the type of information generally available from publishers (it is bound to vary greatly in different fields) but we can mention some of the things which Penton publications have available. Our continuing Census of Metalworking, for example, was started in 1939—the first real census of this industry ever developed outside the U. S. Bureau of the Census. It has cost to date over half a million dollars . and each year it produces a wealth of information about the metalworking market Such thorough knowledge of the industry enables a publication like STEEL to tell you

. the number of plants in each Metalworking Classification.
. . . what these plants make
. . . where they are located
. the operations they perform
. the number they employ
. the growth of the industry in past years.
. . production trends, etc

Of course, there are many other more specific questions which the research department or the editors may be able to answer All kinds of requests for information are tossed at us every day. Some we can answer . . some we can't. But we'll do our best to supply the information if we have it.

Yes, there are some limits to the help that a publication can give. We are not in the commercial research business, and it often isn't practical to undertake extensive projects to develop data which is not available through our normal operations. Certain information about individual companies must be kept confidential. Most publishers will not furnish or sell copies of their lists, although many will make mailings for you at usual letter shop rates.

But nine times out of ten, if you have a problem concerning an industrial market, the alert trade publications will be both able and willing to help you with marketing information and editorial opinion.

If you are seeking market data in the fields covered by STEEL, MACHINE DESIGN, FOUNDRY or NEW EQUIPMENT DIGEST write to us. We will be glad to help you in any way we can.

THE PENTON PUBLISHING COMPANY
PENTON BUILDING CLEVELAND 13, OHIO

technical developments is sent to each salesman so that he will always have available the latest information concerning the applications and benefits of the product. Such literature often includes direct comparisons with competition to help salesmen answer objections that may arise. Of course, genuine cooperation between manufacturers and salesmen is necessary in order to have the literature used effectively.

MANUFACTURER AND DISTRIBUTOR RELATIONS

THE IMPORTANCE OF DISTRIBUTORS IN INDUSTRIAL MARKETING

Industrial distributors are wholesalers or middlemen who sell to industrial users or to dealers. They operate "department stores" for the local industrial consumer. Usually, they sell basic materials, semifinished goods, tools, supplies, machinery, or equipment. They are known by various names: mill, railway, marine, mine, or textile supply house; hardware wholesaler with an industrial department; plumbing and heating wholesaler with an industrial department; and others. In general, they perform the same functions for manufacturers of industrial goods as those performed by merchant wholesalers for makers of consumer goods. Some carry as many as 30,000 items in stock.

In the industrial supply field, there are four main types of distributor organizations:

General Line Distributor. One whose entire organization—purchasing, sales, service and finance—is geared to stock, sell and give service on all industrial supplies used in his trading area.

Departmentalized Distributor. A compromise between a general line house and a specialized distributor. The departmentalized distributor carries a broad line, but selling and other phases of operations are departmentalized to achieve the benefits of specialized effort.

Selected Lines Distributor. He restricts the number of lines he stocks and sells. He stocks completely and concentrates his sales effort on all of a relatively narrow range of industrial supply and equipment items.

Specialized Distributor. He gears his stock, organizational setup and selling effort to the distribution of one or two broad lines and kindred items. His specialties imply intensive technical knowledge of the line or lines handled, plus a broad familiarity with the applications and use of the products in his trading area.

The general line distributor was probably first on the scene historically and still ranks first in terms of numbers.[8]

[8] "1955 Market Data & Directory Number," *Industrial Marketing,* June 25, 1954, p. 289.

The distributor has been described in the following way:

The distributor—the traditional "middleman"—would like to enjoy the same esteem as the manufacturer on the one hand and the retailer on the other. He's no different from the rest of us in selling. He wants to feel that he is providing a useful service, that he's having some fun in his work, and that he can make an honest dollar. Traditionally, though, the middleman is the whipping boy, either because of sheer ignorance of the function of the distributor, or deliberate distortion. Usually, the distributor—call him jobber or wholesaler—is defending himself.[9]

Sometimes a manufacturer decides to distribute his products through his own branches and thereby eliminate the industrial distributor. This means that he sets up district sales offices and staffs them with his own personnel. He provides them with his own warehouse facilities. Stuart W. McFarland analyzed the costs of operating manufacturers' sales branches in comparison with those of industrial distributors. Some of his findings are the following:

Both sales branches and distributors increased 32 per cent during the period 1939–1948, in terms of number of establishments. However, the manufacturers' sales branches forged ahead with a 208 per cent increase in the amount of business realized as compared with an increase of 126 per cent for distributors, after adjustment for changes in the dollar. The greater volume of sales undoubtedly assisted sales branches in reducing operating expenses as a per cent of sales from 15.8 in 1939 to 11.4 in 1948, a reduction in this ratio of 28 per cent. Distributors managed to reduce their per cent ratio of expenses as a per cent of sales from 16.7 in 1939 to 14.1 in 1948, a reduction of only 16 per cent. . . .

A further qualification may be seen in the fact that sales branches are used in specific markets carefully selected for large volume and the industrial distributor may operate in larger, thinner markets less promising in sales volume and profits. . . .

In defense of the industrial distributor, it should be emphasized that his inventory is four times as large as that carried by sales branches, and that an inventory of that size is expensive to carry in terms of equipment, space, personnel, and capital expense. The manufacturers' sales branch does not perform the buying function normally, since this is done by the parent company, nor does it always perform the credit and collections function. Both of these functions are usually performed and paid for by the industrial distributor.[10]

The distributor must defend himself against those who claim that removing the distributor-middleman would cut costs to the customer. What these persons do not realize is that someone must perform these functions

[9] "Bouquet for Distributors," *Sales Management*, Aug. 1, 1952.

[10] Stuart W. McFarland, "The Marketing Position of Industrial Distributors," *The Journal of Marketing*, April, 1953.

or else the distribution of products from the factory to the consumer would become a disorganized and expensive procedure.

G. H. Halpin, Executive Vice-President, Minnesota Mining & Manufacturing Co., declares:

> The distributor knows the manufacturer—the people—the methods of getting orders to the manufacturer expediently; his local stocks and services make the difference between a plant closing down or continuing to operate. . . .
>
> The average distributor's stock turns over six times a year. That is proof that he has scarcely any dead stock. A breakdown of the average dollar a distributor takes in is: 76½ cents for the merchandise itself, 9¾ cents for office and administration work, 3½ cents for warehousing and delivery, 7¼ cents for sales and engineering, 1¼ cents for taxes and 1⅓ cents for profit. The average distributor salesman services 145 accounts and for each outside salesman he has five men inside. Naturally, all local personnel serve both the manufacturer and his ultimate customers and prospects. It should be obvious that no individual manufacturer can afford to provide this kind of localized service.
>
> In effect, a manufacturer benefits as much as if he were one of a number of manufacturers who pooled their needs and hired a common sales, engineering, warehousing, and financial branch. The local distributor is much more likely to succeed than would any scheme of this kind because he is in business for himself. He has to make good—or else! The cautious manufacturer may select only established distributors whose success is achieved or assured.[11]

There are other advantages to using distributors provided the products in question are of a sort that can be properly handled through industrial distributors. Such products as packings, paint, brushes, hose, grease pumps, rope, nuts, bolts, pipes, hand and electric tools lend themselves to this type of distribution.

Among the services that a distributor offers are the following: He stockpiles products in his warehouse; since he has invested his own money in the stocks, he tries to be sure that he is stocking what the community wants and needs, thus ensuring rapid turnover. He maintains a stockpile at all times and can provide emergency services to buyers. Naturally, this builds good will for the manufacturer whom the distributor represents.

A manufacturer who deals with distributors needs only a few salesmen to call on the distributors instead of the many he would need if he sold direct. The manufacturer's paper work is considerably simplified. He receives a large order from the distributor who does the work of breaking this down into the smaller individual orders from his dealers. Even the extension of credit is handled on a local basis by the distributor.

[11] Louis H. Brendel, "When You're Tempted to Cut Out Distributors," *Sales Management*, Sept. 1, 1951. Data on costs of distributors were taken from *Industrial Distribution.*

HOW MANUFACTURERS DEVELOP PRODUCTIVE TEAMWORK WITH THEIR DISTRIBUTORS

Many distributors could be of more service to the individual manufacturer, but most of them handle so many different competitive lines that they carry out their function in a methodical manner and do very little creative marketing unless given stimulating cooperation by the manufacturer.

An excellent example of cooperation was developed by the Polyken department of Bauer & Black. The feeling of management in this case was that the success of the relationship between the distributor and the manufacturer depended upon complete agreement on basic policies, careful definition and follow-through of responsibilities, and, above all, mutual trust and respect.

Bauer & Black believed that they could use a distributor plan and still maintain the same degree of control of their own business as though they were using their own sales force. They accomplished this by adhering to policies such as the following: They outlined exactly which companies they desired to sell to directly and left all other business, with no exceptions, to be handled by the distributors. They limited the number of distributors they used so that each one would find their line a profitable one. They felt it would be to the distributor's benefit to sell their product and that the distributors knew this. Bauer & Black also knew, however, that many of the distributor's salesmen did not have the know-how necessary to push their line so they initiated a practical training program for them.[12]

The success of this company and many others indicates that companies who have unorganized distribution systems and policies would do well to put their policies in writing. They should include a clear statement of the responsibilities of both the distributor and the manufacturer. Distributors prefer to work with a company that has done this because they know exactly where they stand and what is expected from them. They know which accounts the manufacturer plans to sell direct and what customers or areas will be left to the distributor.

To improve relations with their distributors, companies should maintain the attitude that theirs is a partnership and that mutual considerations should underlie their dealings with each other.

Manufacturers should inspect the distributor's stock from time to time and make sure he is not being overloaded or carrying slow-moving stock. A cooperative attitude about the return of slow-moving stock helps both the manufacturer and the distributor.

[12] See George C. Stinebeck, "Productive Teamwork between Manufacturer and Distributor," *Sales Management*, Oct. 15, 1952.

Almost all distributors agree that their salesmen should undergo some sort of sales training under the supervision of the manufacturer whose product they sell. Ideally, these programs should be carried on at the manufacturer's plant and expenses should be divided between the manufacturer and distributor.

Merchandise deals in which the distributor gets an assortment of goods at a certain price concession are helpful in introducing a new line. To make a general practice of offering free-goods deals, however, is not a good practice because distributors may, after a time, resent paying the regular price. The practice of including selling aids with a certain size order is greeted enthusiastically by almost all distributors, since anything designed to produce more sales is of benefit to the distributor as well as to the manufacturer.

Much the same thing is accomplished when manufacturers send their salesmen—missionary men—out with the distributor's salesmen. Interest in the product is stirred up, resulting in benefit to all.

When the manufacturer's representatives call on prospective customers in the company of the distributor's salesmen, the distributor should feel that the manufacturer's salesmen are not trying to take business away from the distributor but to help get more business for the distributor.

Visits to buyers by the manufacturer's salesmen, made without the company of the distributor's salesmen, may also result in increased sales and therefore are appreciated by the distributors. Of course, some missionary men will take an order from a buyer for delivery through a distributor who does not carry the line. This forces the unstocked distributor to stock the line in order to keep his customers happy, but this practice is not good policy because it engenders ill will on the part of the regular distributors.

MAKING THE DISTRIBUTOR AN ADVISER OF THE MANUFACTURER

Some manufacturers are finding that a small committee of strong distributors can be very useful in helping manufacturing executives develop advertising plans, sales campaigns, and product development programs. Distributors can supply information and ideas that will have a realistic approach to the problems of the dealer and the consumer. They can also give assistance based on their experience on the best ways to organize salesmen's training programs.

More and more manufacturers are realizing that their primary job is to keep merchandise flowing off production lines and into the hands of the customer. When they take their distributors into their confidence to solve their mutual problems on a colleague basis, they can facilitate this production flow. Such relations can get down to facts, eliminate

prejudices, and build a foundation that will enable a manufacturer better to serve his customers.

SALES MEETINGS FOR DISTRIBUTORS' SALESMEN

Geare-Marston, Inc., of Philadelphia recently conducted a survey for the Automotive Booster Club, an organization of manufacturers' agents, representatives, and salesmen selling to the automotive trade in Philadelphia, to find out what automotive distributor salesmen think of sales meetings held for them.

A mailed questionnaire was used in the survey and 693 replies were tabulated. When asked to state what made sales meetings particularly helpful, most salesmen mentioned such points as description of the product and its use, comparison of the product with competing products, question and answer periods to clear up problems, tips on how to sell, and good visual sales aids.

Mistakes were easier to pick out than good points. Salesmen most frequently mentioned the following points: meetings were too long, too much irrelevant material was included, they were oversold, competitive products were knocked, and they were given an overdose of technical data and marketing statistics.

When the salesmen were asked to give their reasons for liking their three favorite lines, the most frequent answers were, "The product is widely used and is a good 'door opener,'" "It gets a large annual dollar volume," and "I have a good knowledge of the product."

While information on current advertising plans is a part of most sales meetings, it is apparent from the answers given on the questionnaire that many salesmen are not well sold on advertising. Only a few gave good advertising as a reason why they liked to sell a product.[13]

From the results of this survey, it became evident that sales meetings can be made effective if they are carefully planned with the needs of the salesmen the main influence in the planning.

HOW TO AID THE DISTRIBUTOR THROUGH THE MANUFACTURER'S ADVERTISING

The problem of making advertising effective for the distributor is usually assigned to the advertising department but an important marketing problem is the question, How can the manufacturer promote better relations with his distributors through advertising?

First and foremost, advertisements should mention that the product can be obtained through local distributors. If the name and the address

[13] For a full treatment of this survey, see "What Do Jobber Salesmen Really Think of Manufacturers' Sales Meetings?" *Sales Management*, July 1, 1952.

of the distributor can be included, so much the better. An advertisement cannot be considered wholly successful if it creates a desire for the product but fails to tell the prospect where he can satisfy his desire.

Distributors may want to sell a product, but they do not always have the time to introduce a new item. It is, therefore, up to the manufacturer to create product acceptance through his advertising. Product acceptance can best be stimulated by stressing the user benefits. A good approach is to emphasize each sales feature of the product in terms of what it will do for the user: save time, materials, money, maintenance, shutdowns, repairs, and so forth. Such advertising also serves to educate the distributor salesmen about the important benefits of the product.

Distributors should be encouraged to send in case histories that demonstrate how the product has benefited users. Another wise policy is to encourage inquiries from advertisements and then send the local distributors lists of those who desire further information. Some of these lists contain many prospective customers.

Manufacturers should coordinate their promotion campaigns so that national advertising coincides with distributor sales effort. A synchronized plan will always achieve better results than an uncoordinated one. Keeping distributors informed about advertising makes them feel that the manufacturer is backing up their efforts and encouraging their further efforts.

A manufacturer should explain to distributors *why* he is advertising as well as when he is advertising. Company and distributor salesmen are more likely to approve of an advertising campaign and incorporate it into their own sales effort if they understand the strategy and objectives behind it. It is to the benefit of all to utilize the advertising to the fullest possible extent rather than to think of it as a kind of necessary evil of business.

CATALOGS

Catalogs are widely used as advertising by manufacturers, wholesalers, and mail-order houses in selling to industrial buyers and dealers. Their usefulness as advertising is increased because of their relatively greater length of life when compared to other forms of advertising.

Catalogs serve a definite marketing function because, in most cases, they are the buyer's first-used source of information for comparing competing products and deciding which companies should be asked to have a salesman call.

In a good catalog, every word sells and the pictures as well as the headlines give necessary information to the reader. It is obviously beneficial to the manufacturer, distributor, and mail-order house that catalogs containing comprehensive information and technical data be in the hands

of all important potential buyers, readily accessible for instant use whenever buying needs arise.

Compiling such catalogs is a laborious, time-consuming job that requires specialized knowledge. For this reason there are various business services in the industrial and institutional field who arrange to develop catalogs for their clients and circulate them to customers.

Sweet's catalog services. Sweet's is an organization of catalog specialists. Founded in 1907, Sweet's, in a recent year, handled more catalogs than any other organization—over 40 million copies for 1,353 manufacturers.

Sweet's endeavors to help clients find the answers to their individual catalog problems. Its services fall into three categories: Catalog design, production, and distribution.

In the area of catalog design, Sweet's maintains that good design starts with an analysis of the client's products and markets. The most effective catalogs are *market-specialized* to meet the different product information needs of each buying group. Market-specialized catalogs describe only products of possible interest to the prospect and interpret them in terms of his special requirements. Moreover, market-specialized catalogs are economical to produce and distribute, and to replace when they become obsolete.

Manufacturers' catalogs distributed by Sweet's are delivered to selected organizations and individuals representing the bulk of the buying power in each market served. Sweet's maintains an up-to-date record of the most important concerns and of the individuals in each concern who have real buying power for the following markets: Product engineering, plant engineering, general building, industrial construction, and light construction. Their aim is to get the right information to the right people at the right time.

Men in the industrial field who do marketing in any of the areas in which Sweet's specializes are likely to consult them or use their services at some time.

SOURCES

Annual Survey of Manufactures, U.S. Department of Commerce, Bureau of the Census, Washington. This survey presents data on shipments of products, employment, earnings, and man-hour data, value added by manufacture, metals consumed, size of establishment data, etc.

National Industrial Advertisers Association, 1776 Broadway, New York. The NIAA is the largest individual-membership advertising association in the world. It is comprised of upward of 4,000 individuals who are actively engaged in various phases of industrial marketing and sales. The

majority of these are organized into 33 chapters in the United States and Canada. Members-at-large, those persons who because of geographical location cannot affiliate through a local chapter, carry the influence of NIAA from the North American mainland to Trinidad and across the oceans to Europe and Asia.

NIAA was organized in 1922 for the purpose of cooperative action in matters pertaining to industrial marketing. The Association's influence has been expanded to such a degree that it has become an authoritative voice in every major industrial area of North America. It is universally recognized as a first source of practical industrial marketing knowledge. Some of the purposes for which the Association was organized are:

To develop industrial marketing as a profession and to promote common understanding and good fellowship among industrial advertising people.

To improve all advertising through cooperative effort with associations such as the American Marketing Association, The Association of Canadian Advertisers, and all agencies of the governments of the United States and of the Dominion of Canada.

Market Data Book—McGraw-Hill Census of Manufacturing Plants. The McGraw-Hill census of manufacturing plants was developed to get behind the statistics of industry and see what is really there for the industrial marketer. The Bureau of the Census and other government sources provide complete and worthwhile over-all statistics of industry. McGraw-Hill felt, however, that one cannot sell to a statistic; it is necessary to identify the prospects individually.

Taking the larger plants in manufacturing as potential prospects, the McGraw-Hill census has identified all plants with over 20 employees by name, location, product, and size. It classifies plants by size and by the principal product each manufactures. Each plant is also coded by state, city, and county. Therefore, up-to-date statistics of industry by size of plant, industry classification, city, county, or state, or various combinations of these characteristics can be developed from the census.

Although census lists of manufacturing plants are not available for sale, the McGraw-Hill Research Department is prepared to help manufacturers determine potentials, evaluate the importance of the industries to which they are selling, and rate their sales territories. Detailed statistics, tailor-made for manufacturers on the basis of their sales territories and the industries to which they sell or may wish to sell, can be developed by McGraw-Hill Research on a fee basis. Such figures will show the potential business that can be expected from each sales territory and from the industries to which the manufacturer is selling. They will also uncover industries which are not fully penetrated and new markets for the manufacturer's products.

The McGraw-Hill census provides a helpful base for industrial market research. The plants which constitute the potential prospects for almost all industrial companies have been identified and rated. The logical prospects for a particular manufacturer's goods can therefore be selected from the census and surveyed.

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QUESTIONS AND EXERCISES

1. What are the major ways in which the industrial market differs from the consumer market?

2. On the basis of the charts of distribution channels used by certain industries, describe how manufacturers distribute their industrial goods.

3. Does personal selling or advertising carry the biggest burden in the sale of industrial goods? Explain why this is to be expected.

4. What are some of the advantages of a manufacturer selling his product through an industrial distributor? What are the limitations?

5. What is a missionary salesman? How would he be used by the manufacturer of industrial goods? Why?

6. What are the elements which make for a successful sales meeting for dealers or distributors?

7. How would the advertising of industrial products differ from the advertising which we usually associate with consumer products?

8. Why would the manufacturer of an industrial good advertise to the consumer in such publications as *The Saturday Evening Post* and *Life?*

8 Interest Group Markets

THE ALERT MARKETER

1. **Studies the changing needs and interests of people in the hope that he may be able to market his product to the members of an active interest group.**
2. **Makes surveys to discover whether his product is being purchased, without his realizing it, by people who have certain interests.**
3. **Attends trade shows in order to discover the interests of customers of his industry.**
4. **Watches the outcome of the efforts by certain food industry groups, such as the cereal and baking businesses, to overcome the sales effects of modern dietary practices.**

"His market," as a marketer thinks of it, has whatever meaning he gives it. It is not a standardized term. The corner grocer may refer to his market as consisting of all the people of a small area near his store. Another grocer thinks of his market as only those people of a larger area who want high-priced quality food products. A manufacturer of electrical equipment may define his market as consisting of certain types of power plants for mining operations scattered all over the world. Each man or company who has something to sell thinks he knows the kinds of companies or people who buy or should buy what he has for sale. His prospects may be easily found, as in the case of the manufacturer of a signal system for railroads—only railroads have any need for it. Or the prospects may be difficult to find because the possible purchasers are not aware of a need for what the marketer is offering. Also, prospects may not belong to any specific area or industry group. Perhaps they may be found among consumers in all areas and industries as in the case of the gift market.

THE GIFT MARKET

Sometimes a manufacturer makes an article which he considers a natural for the gift market. He sets up a distribution plan designed to reach the buyers of gifts. More often, however, he manufactures an article for what appears to be a logical market for the product, only to discover that most of his output is sold as gifts. That happened to the Hickok Manufacturing Co., Rochester, New York. Hickok, primarily a belt and buckle firm dating back to 1909, previously spread its advertising and promotional efforts over a 12-month period aimed exclusively at the male market. Recent investigations of consumers' buying habits and the men's gift market revealed that (1) of all items generally bought in certain kinds of retail stores as gifts for men, Hickok produced 68 per cent; (2) gift-buying opportunities (Father's Day, Christmas, birthdays, anniversaries, etc.) for men reached the staggering total of 846 million annually; (3) June is second only to Christmas in gift-buying potential, with sales amounting to $2.5 billion; and (4) women —*not* men—buy the greater percentage of men's gift items.[1]

As a result of this, Hickok realized that the previous marketing policy of the company had to be revised since the company had underestimated the potential and misjudged the rhythm of the gift market. The policy was changed. New gift items, manufactured by other companies, items that could be sold as Hickok products, were also purchased for retail sale by Hickok dealers. These were pencil sets, cigarette accessories, ties, etc. Gift ensembles were made by grouping related items such as tie jewelry with a matching initialed wallet.

Furthermore, the Hickok company supplied the displays, mailing materials, and radio commercials for the stores carrying Hickok items. Sales incentives in the form of bonuses and prizes were set up for its dealers and retail salesmen. Hickok had the foresight to realize that ultimately the sales volume in a retail store depends on the desire to sell on the part of the sales personnel. A $30,000 contest, including 927 prizes, was held, with the prizes going to the retail store personnel who compiled the largest dollar volume of sales. These promotional efforts reaped encouraging results.

Many other companies have found that the gift market does not revolve entirely around holidays. Instead, much gift giving arises out of family life. This is indicated by Table 8–1, which provides estimates of the total percentage of business, on various types of products, that is believed to be gift business.

However, we should remember that many of these purchases are those

[1] "When 34-year-old Ray Hickok Shook Up the Sales Plan," *Sales Management*, Oct. 1, 1952.

Table 8–1. *Estimated Average Percentage of Sales as Gifts*

Consumer item	Percentage sold as gifts	Consumer item	Percentage sold as gifts
Books (for entertainment)	22	Mufflers and scarfs	71
Bottle warmers	51	Musical instruments (family)	76
Cameras (home)	38	Neckwear	47
Candy (boxed)	47	Nightgowns	40
Casseroles (electric)	63	Pen and pencil sets	46
Cedar chests	80	Perfumes	77
Cigarettes	11	Pianos	43
Cigars	17	Radios	20
Coffee makers (electric)	62	Refrigerators	17
Cosmetics	29	Roasters (electric)	56
Double boilers (electric)	66	Sandwich grills (electric)	60
Egg cookers (electric)	70	Silverware (plate)	70
Electric blankets	57	Silverware (sterling)	87
Electric shavers	53	Sports equipment (family)	56
Flowers	92	Sport shirts	40
Furniture	19	Sweaters	47
Furs	78	Television sets	25
Gloves	45	Toasters (electric)	58
Handkerchiefs	43	Toys and games	86
Hardware	20	Typewriters (portable)	79
Hosiery (men's)	17	Vacuum cleaners	23
Hosiery (women's)	21	Waffle irons (electric)	66
Jewelry	52	Washing machines	21
Liquor	15	Watches (men's)	54
Luggage	46	Watches (women's)	77

SOURCE: Peter B. B. Andrews, "The Gift Market in 50 Consumer Items: Some New Estimates," *Sales Management*, Oct. 15, 1951.

which have been planned to coincide with birthdays, graduations, anniversaries, etc. A husband is planning to buy a new car but he arranges to have the delivery coincide with his wife's birthday or wedding anniversary. As shown in Table 8–1, the items which rank high on the gift market are such things as women's watches, flowers, perfumes, and cedar chests, whereas cigarettes, refrigerators, hardware, and vacuum cleaners rank low. Nevertheless, such items are occasionally bought as gifts and their gift value should be considered in a merchandising plan.

The assumption that only special days like Christmas and Mother's Day are gift occasions is highly fallacious. Marketing studies indicate that every day in the year has possibilities for gift sales. This potential arises from the everyday occurrences of birthdays, weddings, showers, anniversaries, quarrel patchups, merit awards, and numerous other events when gifts are in order. See Table 8–2 for first-year-of-marriage needs.

Table 8–2. *Most Frequent Types of Gifts Received from the Wedding or Shower and the First-year-of-marriage Purchases*

10 most frequent wedding or shower gifts	Percentage	10 most frequent first-year purchases	Percentage
Tablecloths	80	Radio	58
Blankets	73	Camera	47
Sheets	72	Luggage	37
Bath towels	70	Refrigerator	34
Pillowcases	69	Bath mats	32
Toasters	61	Phonograph	31
Coffee makers	60	Sheets	31
Clocks	57	Dishes (everyday)	31
Bedspreads	57	Bath towels	31
Dishes (everyday)	52	Pillowcases	30

The differences between these two tables indicate the extent to which the brides failed to receive as gifts the articles they needed. Even though 72 per cent of the brides got sheets as wedding or shower gifts, 31 per cent had to buy sheets during the first year of housekeeping.

SOURCE: *Bride's Pilot Study*, Dell Modern Group, March, 1953. See also Marketing Pictograph, *Sales Management*, June 15, 1953, p. 70.

Within the family, gift giving involves all ages; the span extends from bottles for baby to shawls for grandma. One especially popular type of gift for men is a tool for the workshop. This has been capitalized on by so many marketers as a part of the do-it-yourself trend as to merit extra treatment in this chapter.

Christmas gift giving by business firms. At Christmastime every year a great many American businessmen are faced with the annual headache of buying gifts for their customers, clients, business associates, and customer prospects. This practice is so firmly entrenched in some industries that attempts to get away from it only lead the firm into serious difficulty. Many competitors do it and some customers expect it. As a result, the costs of these gifts may run so high as to have serious effects on the company's promotional budget. A survey of a selected list of subscribers by a journal of marketing indicated that 60 per cent of the companies gave Christmas gifts. The average firm of these responding companies gave 210 gifts to top customers and prospects, 470 gifts to other customers and prospects, and 345 to others.[2] This method of approach to "good

[2] "The Use of Christmas Gifts in Business," *Advertising Requirements*, October, 1953.

business," however, is not liked by everyone and many concerns are troubled with "where it will all end."

Some firms have tried to break away from this practice by sending out letters in advance asking suppliers not to send presents to the firm's personnel, but the employees still receive them and are then faced with the problem of returning them. Apparently, there is little consistency in either the selection or cost of these gifts, which varies from company to company. Sometimes a company prohibits gift giving to its own employees but still doles out gifts at holiday time to reporters and certain select customers.

Often this variance is a result of the nature of the industry itself. Sometimes there is a close friendship between certain individuals of two firms. Also, a manufacturer may feel that gift giving serves as a better promotional device than advertising. Vague influences such as these tend to justify the discrepancies between the policies and the actual practices of a firm. In spite of its admitted difficulties, gift giving still persists in business. Those firms which sell products used largely in the gift market are, of course, glad to see the gift idea persist; when a company does assume the role of "gift giver" it must face the problem of what to give.

The merchandise for gifts in business consists mainly of the following products: cigarette lighters, pencils, liquor, gift baskets, books, and other low-cost items such as fountain pens and letter openers. Business gift givers rarely repeat the same kind of merchandise for their customers. They want to give something new and different each year. In the case of employees, however, food gifts predominate, notably turkeys, and with them repetition is traditional.

THE DO-IT-YOURSELF MARKET [3]

A decade ago, a manufacturer of building supplies was careful to advertise that only a craftsman could apply or install his material or equipment in the home. Otherwise, the dealer might object. Gradually, floor covering and other manufacturers used advertising illustrations that showed a woman herself making the application in her home. Today, approximately 90 per cent of the 30,000 lumber and builder's supply dealers operate full-line stores where the amateur builder is encouraged to buy supplies and make his own applications and installations. One trade publication for building supply dealers advertises the values of "sweat equity," the building of part or all of a home by oneself. The self-using customer has become especially important to lumber and building supply

[3] Sometimes the synonym "Build It Yourself" is used; however, this is a copyrighted term, owned by the Easi-Bild Pattern Co., division of Pattern Publishing Co., Pleasantville, N.Y.

dealers because the big builders who construct numerous houses usually by-pass the dealers and buy direct from distributors and manufacturers.

Several important changes in American life have stimulated the do-it-yourself market. The old-fashioned handyman in the community who worked for $1 an hour is no longer available. The $75 a week office worker cannot afford the $150 a week carpenter or paperhanger. Our tax system means that the man who is in, say, the $6,000 a year bracket, must earn about $300 to pay a $250 bill for a home-repair job.

Investigations by psychologically minded researchers, however, indicate that the force behind the do-it-yourself movement is not so much a desire to save money as "an accumulation of intense resentment" on the part of the homeowner against the often dictatorial union repairman.[4] Most analysts of the movement think that it has grown out of such influences in modern life as the available leisure time from long week ends and the natural desire to do and see what has been accomplished. This last-mentioned desire has been accentuated as a result of our complex large industrial organization where a man works 8 hours a day in a factory or office but seldom sees the completed article in use.

War experiences have helped to make many men more competent in the use of tools. It was discovered by manufacturers of power tools that during the war millions of men and women in war plants and the armed services learned to handle power tools. As a result, they wanted such tools of their own for leisure time and also to help combat rising building costs. The first tool put out by power manufacturers to the general public was a ¼-inch electric drill. During the next 5 years, they sold a million such tools. The next tool was a portable power saw. Although it was believed that amateurs could not handle such an instrument, today we find more than 100 different similar power tools with nearly 5,000 accessories.

This multitude of do-it-yourself workers consumes 25 per cent of America's work clothes—18 million work pants, 15 million overalls, and some 17 million work shirts.

All kinds of portable power tools are now available for the home workshop. They are fun to use and they help men to build up their self-esteem. As a result, some 11 million homes have home workshops. About 75 per cent of all paints sold is applied by amateurs. About 60 per cent of all wallpaper is applied by the homeowner or tenant. The total sales volume of the do-it-yourself market annually amounts to several billion dollars. Alert manufacturers and dealers have capitalized on its potentialities for increasing their sales volumes.

Building supply and other dealers conduct "Home Remodelers Clinics" and other types of evening meetings to instruct hopeful home builders

[4] Survey by Politz Research, Inc., reported in "Do-it-yourself: The Greatest Market Development since Self-service," *Tide,* Oct. 10, 1953.

and remodelers in the tricks of the trades. In some areas, the building supply dealers carry their sweat-equity customers on open account. One procedure is to sell the owner-builder a package of $2,500 worth of materials and persuade a bank or building and loan company to give him a $4,000 mortgage, with the dealer giving the bank a guarantee on the loan. Of course, before the builder will guarantee the loan, he must be satisfied that the owner-builder is competent and reliable. This kind of confidence is often gained by the dealer from his instructional contacts with the customer. The result is that many supply dealers have gone into the financing business as well as into teaching.[5]

The chief effect on the merchandising practices of these dealers has been that they display their stocks attractively for the benefit of the do-it-yourself customer. They do a kind of supermarket selling where customers can examine and buy a wide variety of equipment and supplies. Customers who attend night instructional sessions can see the dealer's stocks and learn how to apply them. They are even assured that the dealer is ready to take over if the customer gets stuck on the job.

Do-it-yourself exhibits have drawn big crowds: 182,000 in Los Angeles, 90,000 in Boston, and 70,000 in Dallas. When a trade exposition on home workmanship was held in New York City recently, 50,000 people paid admission fees to learn how to use power tools, to install plastic wall tiles, to hang wallpaper, to use paint rollers, and to see exhibits of built-in plywood furniture. Attendance was evenly divided between city dwellers and suburbanites, with about one-third of the visitors being women. Purchase orders from apartment dwellers outnumbered those of homeowners five to one.

An important aspect of the do-it-yourself movement is that once a man gets started on a project, he is apt to extend the project into a whole series of larger projects. He may, for example, start to build a small bookcase and wind up with a 20-foot wall of shelves, cabinets, and sliding doors that also set off his TV receiver. He starts off the purchases of his tools with a carpenter's hammer and saw but soon buys a power saw, electric drill, and, in time, hundreds of other tools, large and small. He always needs another and better tool.

When he has finished the book shelves, he is apt to get an urge to turn the basement into a game room, to finish off an extra bedroom in the attic, to build an outdoor grill, to paint the exterior of the house, or to install new cabinets in the kitchen. The total effect of these self-help tendencies on the market for tools and supplies runs into billions of dollars each year.

[5] "Marketing Updates," *Business Week*, Oct. 18, 1952.

THE DIETETIC MARKET

America's millions of dieters have established a trend of major significance to many marketers. For some, it has increased sales; for others, decreased them. Current evidences of the wide interest in diets and dietetic foods are the following:

1. Dietetic food lines are now carried by approximately 90 per cent of supermarkets. Most of the foods offered are of the low-calorie kind to control overweight and diabetes; some are of the low-sodium variety to control certain disorders of the heart and kidneys; and a few are of the hypoallergenic variety to control food allergies and sensitiveness. Examples are soybean flour, gelatin, eggless cake mix, nonnutritive sweeteners, salt-free canned soups, evaporated goat milk, dry milk, water-packed fruits, sugar-free juices, low-calorie soft drinks, saccharin, etc.

Supermarkets usually display all dietetic foods, clearly marked, in one section of the store. This is done not only to attract the dieter but also to prevent the nondieter from inadvertently getting water-packed fruit when she thought she was buying fruit in syrup.

2. Life insurance companies publish mortality studies of cases rated for overweight. This is an example from an advertisement addressed to businessmen:

> Here are the facts which are based on an extensive study of men: The death rate from all causes was found to be about a fifth higher for men who were from 5 to 14 percent overweight than for those of proper weight. Moreover, among men who were 25 percent or more overweight, the death rate was about 75 percent higher.[6]

These and other published data on the relation between overweight and mortality show why doctors and insurance companies encourage sensible weight control. As a result, public interest in diets is heightened. One estimate has placed the number of people in the United States who are overweight at 30 million, an average of 16 pounds each. A more conservative estimate is 25 million. About 5 million are dangerously obese, or 20 per cent above normal.

3. Publishers have found a ready sale for calorie guides and for books and pamphlets on dieting. Many of the books have sold in the hundreds of thousands. Examples are *Look Younger, Live Longer*, *You Are What You Eat*, *The Fat Boy's Book*, *Reduce and Stay Reduced*, and *The Low Calorie Cookbook*. Publishers of magazines have known for years that their readers respond quickly to articles such as "Diet and Look Beautiful," "Spice That Salt-free Diet," and "Want to Reduce?" When a maga-

[6] From an advertisement by the Metropolitan Life Insurance Company, appearing in *Forbes Magazine*, June 1, 1954, p. 7.

"Dieters crave food for the mind as well as for the body. Publishers fill their appetite—and stimulate it in more people."
SOURCE: *Sales Management,* Sept. 1, 1953.

zine article includes a free offer of a diet plan, the responses are immediate and run into the thousands.

Publishers have found that women are more responsive to the idea of dieting for beauty than to the idea of dieting for health or longer life. Advertisers utilize this tendency by showing slim girls in bathing suits in order to sell low-calorie soft drinks. Fat people are pictured as unhappy with captions such as "So . . . the *pretty clothes* don't come in your size?" Appeals to vanity are stronger than appeals to health.[7] Diet-conscious people are so anxious to read about their problems that one publisher has found it profitable to bring out a new book on dieting almost every month.

4. Surveys of what women like and dislike about current packages have revealed that about half of those polled want the vitamin content to be stated on the label. A fourth want the label to contain information concerning the number of calories per serving.[8]

The interest in dieting is so obvious that many advertisers build their TV commercials and periodical advertising around the "lose weight" or "control your calories" appeal.

Kinds of dieters. Etna M. Kelley [9] has investigated the interest in dieting

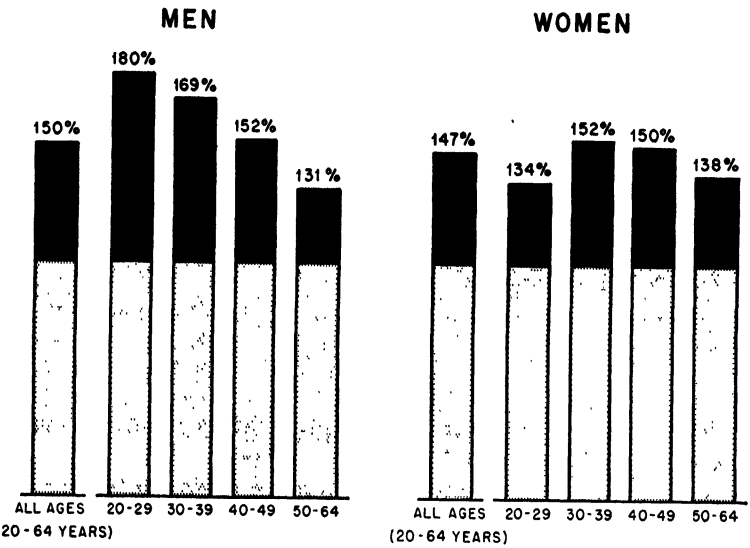
[7] Etna M. Kelley, "Our Dieting Millions: They're Playing Hob with the Food Industry," *Sales Management,* Sept. 1, 1953.

[8] "What Women Like and Dislike about Packages Today," *Sales Management,* July 15, Aug. 1, and Aug. 15, 1951.

[9] *Op. cit.*

Percent Actual of Expected Deaths Among Men and Women Limited to Substandard Insurance Because of Overweight By Age at Issue of Insurance Issues of 1925–1934 Traced to Policy Anniversary in 1950 Metropolitan Life Insurance Company

Death Rates of Standard Risks in Each Sex = 100%



Overweight people suffer a materially higher mortality than those of normal weight. New aspects of this problem are brought out in a study just completed by the Metropolitan Life Insurance Company on policy-holders who were limited to Substandard insurance solely because they were overweight; they were first-class risks in all other respects—that is, with regard to physical condition, medical history, and occupation. The findings are based upon the mortality experience of 25,998 men and 24,901 women who were insured in the period 1925 to 1934 and traced to the anniversary of their insurance in 1950. During the period of observation there were 3,713 deaths among the men and 2,687 among the women. The mortality of these overweights was measured by the comparable experience for each sex among persons accepted for Standard insurance.

The adverse effect of overweight makes itself felt at every period of life, as may be seen from the above chart. Among overweight men between the ages of 20 and 64 years at the time their insurance was issued, the mortality was 150 per cent that of men accepted for Standard insurance. The mortality ratios decreased regularly with age at issue from a maximum of 180 per cent at ages 20 to 29 years to 131 per cent at ages 50 to 64. Among overweight women the mortality was also 1½ times that of women accepted for Standard insurance and varied relatively little from that figure in the several age groups.

The mortality in each sex increases with the degree of overweight. Thus, men with marked obesity had, in the aggregate, a mortality 79 per cent above Standard risks, compared with an excess of 42 per cent for those moderately obese. Among females the excess amounted to 61 per cent and 42 per cent for the marked and the moderately obese, respectively.

The excess mortality of overweight people is accounted for by very high death rates from various diseases, partic-

and its effects on marketing. She has described the main categories into which dieters fall:

The overweight: 25 million of them, plus a large undetermined number of those fearful of becoming overweight.

The diabetics: 1 million known, plus 1 million who have the disease but do not yet know it.

The low-sodium dieters: chiefly victims of hypertension, heart trouble, etc. Their number is undetermined but it is obviously large, judging by the dozens of canners and other processors who are offering low-sodium, salt-free products.

The allergic: whose idiosyncrasies vary widely. They form a market for such products as wheatless flour, eggless dessert powders, and milk substitutes.

The underweight: their plight is not pertinent to the subject of this treatment, since many ordinary foods are suitable for them.

Today, the emphasis on "fitting into last year's suit" is becoming a major business influence in the marketing of many foods. Millions fighting the "battle of the bulge" provide business for the modern marketer. They consume protein bread, nonfat dry milk, oilless salad dressings, sugarless soft drinks, water-packed fruits, and nonnutritive sweeteners. In other fields, too, the dieters are providing a market; they visit psychiatrists, join gym classes, buy bathroom scales, and purchase massage machines as well as many other "reducing" gadgets. Clubs are formed for the purpose of mass weight reduction. Is all this preoccupation with weight a good or a bad thing? In some cases, it becomes an obsession and serious conse-

---

ularly the degenerative conditions. . . .

The mortality from the cardiovascular-renal diseases among the overweight men was nearly 50 per cent above that expected on the basis of the Standard experience.* For chronic diseases of the heart, including coronary artery disease and angina pectoris, the observed mortality was about 40 per cent higher than among Standard risks; for cerebral hemorrhage it was approximately 60 per cent higher; and for chronic nephritis about 90 per cent.

Diabetes showed the greatest excess mortality among the major causes, the number of deaths among overweight men being almost four times that expected on the basis of Standard experience. The mortality from cirrhosis of the liver, appendicitis, and gallstones was double or more the Standard. On the other hand, tuberculosis and ulcers of the stomach and duodenum showed a considerably lower mortality for overweight men than for the Standard experience. For tuberculosis the mortality ratio was little more than one-fifth. The mortality from cancer and from pneumonia was about the same as the Standard.

The most encouraging feature of this study is the finding that weight reduction improves the health outlook for overweight individuals.

* The mortality comparisons by cause relate to attained ages 25 to 74 years. From *Statistical Bulletin,* Metropolitan Life Insurance Company, October, 1951.

SOURCE: Adapted from "Mortality among Insured Overweights in Recent Years," by Louis I. Dublin, Second Vice-President and Statistician, and Herbert H. Marks, Metropolitan Life Insurance Company, presented at the 60th Annual Meeting of the Association of Life Insurance Medical Directors of America, New York City, Oct. 12, 1951.

quences may result. However, it often leads the truly obese to "mend their ways." Another good thing about the emphasis on dieting is the fact that from need for dieting comes a sounder knowledge of nutrition. Nevertheless, especially among teen-agers, dieting often becomes a fad and serious nutritional deficiencies may result. Two recent surveys highlight this.

One was a survey of the "Food Habits of 3,489 Young Women," conducted by the Elmo Roper organization for the Cereal Institute. It disclosed, among other things, that while 72 per cent of the homemakers thought it essential for their husbands and children to eat three regular meals a day, only 42 per cent counted themselves in; 15 per cent thought breakfast a meal they might best eliminate or cut down on, and twice that many felt that way about lunch. "Perhaps the most important factor operating against good food habits is young women's interest in losing, or in not gaining weight," the report stated.

However, the most disturbing reports were those of the diet habits of teen-agers. In a 10-year teen-age nutrition study made by Pennsylvania State College, sponsored by Lever Brothers Co., it was found that 18.5 per cent of the girls and 19.5 per cent of the boys tested were underweight. Many skin defects were noted. Although the girls' desire to be slim can be an explanation for their underweight condition, it is evident that lack of proper use of foods is a cause when the boys, too, suffer from this condition. "Such surveys do not prove that there is too much dieting to reduce, but that the wrong people may be doing it, and doing it in the wrong way." [10]

Health authorities support the fact that obesity is one of America's health problems. In addition to those interested in streamlining themselves, there are the diabetics and low-sodium users who provide a huge market today. Business has risen enthusiastically to its demands by introducing new products suited to its special requirements, modifying existing products to make them more acceptable, and calling attention continuously, through advertising, to what is available for its benefit.

Of course all this interest in dieting has made the marketing problems of some industries more difficult. The producers of certain food products have been put on the defensive. They have conducted experiments and published booklets to induce dieters to use their products. One example is the Wheat Flour Institute's pamphlet, *Common Sense Weight Reduction.* This contains menus for 10 days, adaptable for various weights and recommending the eating of four slices of bread per day. Another example is *Breakfast in the Modern Reducing Diet,* a 24-page pamphlet distributed by the Cereal Institute, which gives arguments against skipping

[10] See the series of articles by Etna M. Kelley in *Sales Management,* beginning with the issue of Aug. 1, 1953.

breakfast to reduce pounds. The National Dairy Association as well as numerous others, some of whom are public-interest groups, have done research or published reports to combat the dietary trends inimical to their interests.

Those marketers whose interests fit into the dietary trend of our time have a marked advantage over those who are put on the defensive. The alert marketer will watch the trends and note how the conflicts in interest develop over the next few decades.

SHOULD THE MARKETER BUCK OR RIDE WITH THE TRENDS?

Almost every marketer, if he is active over many years, is certain to find that his efforts are especially effective saleswise because his product or service fits into established trends in behavior. Conversely, he is also likely to find that other efforts turn out to be ineffective because his marketing efforts conflict with strong currents in American life. When he happens to be in the latter situation, he usually works harder in the hope that some new promotional idea may put the product over profitably.

An example of this hope, usually futile, is the efforts of the hat makers to induce men to wear hats to the extent that they were worn several generations ago. Even though garter manufacturers have used advertising to ridicule the sloppiness of the male who does not wear garters, millions of men prefer to be dressed sloppily. Large amounts of money have been spent to induce men to smoke more cigars, but cigarette sales have soared instead. Nor has the promotion of coal caused homeowners to discard their gas and oil furnaces in order to return to coal.

Hundreds of examples such as these litter the graveyards of marketing history. The sensible marketer recognizes the trends that help or hinder his efforts. He rides the helpful ones whenever possible. He tries to find relationships or tie-ins between his product and the currents of the time. At any rate, he avoids bucking them because he knows that the amount of money necessary to buck them successfully is rarely available.

SOURCES

Hobby Publications, Superintendent of Documents, Washington, lists books and pamphlets issued by various government agencies that might be useful to hobbyists.

The Do-it-yourself Market, Research Department, Curtis Publishing Company, Philadelphia, Pa.

QUESTIONS AND EXERCISES

1. Examine several October to December issues of journals edited to interest business executives. How many advertisements are directed to the businessman who buys gifts for customers? What kinds of products are offered?

2. Page through several women's service magazines and note the advertisements that mention the gift idea for the product. Is the gift idea a dominant or a subordinate appeal?

3. Do the same with several magazines for men in regard to the do-it-yourself idea for products usually purchased by men.

4. What are the major changes in American life that have stimulated the do-it-yourself market? What has been the alert marketer's reaction to the do-it-yourself market? Why were so many firms handling logical do-it-yourself products so slow to enter the consumer field?

5. Make a study of other trends in the use of leisure time, such as our increased interest in pets or art, and the ways in which marketers have capitalized on the established trends.

6. Page through several mass magazines and note the articles and advertisements that deal with dieting. Are the appeals and facts presented obviously objective and scientific or biased to further commercial benefits to certain industries?

7. Assume that you wish to market a soft drink. Would you avoid use of the "wholesome, nutritious" sales theme in favor of "reduced in calories"? If you use the latter, will it tend to cause workmen and children to assume that your soft drink is a no-food-value drink? Would such an assumption on their part tend to increase or decrease the sale of your soft drink?

8. Visit several supermarkets and study the displays of dietetic foods. To which of the five categories of dietary customers do the products appeal? List all the products you can find that are sold primarily for some special interest group. How large do you estimate each group to be? Where were the products displayed?

9 Marketing Research

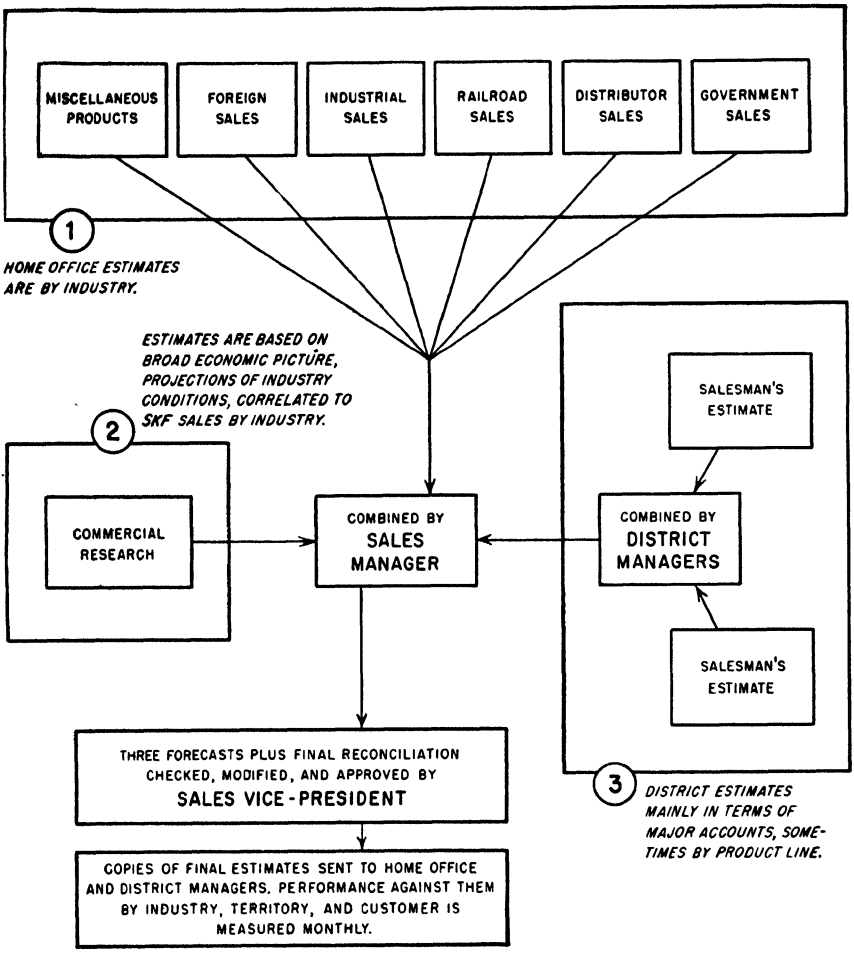
THE ALERT MARKETER

1. **Appreciates why research will be more important in directing marketing in the decades ahead than it was in the decades past.**
2. **Finds out the practices in marketing research of companies that are leaders in the use of progressive methods.**
3. **Learns how to evaluate or to get technical assistance in evaluating the research reports that come to his desk.**
4. **Believes in the value of business genius but wants the judgments of the genius to be confirmed by valid statistics.**

When a modern management man is responsible for marketing operations, he realizes that he has many problems that call for data not immediately at hand. He wants facts to guide him in making decisions and formulating policies. He must, for example, make sales forecasts that have bearings on budgets, inventory buying, production scheduling, and labor requirements.

A single company such as a chemical company may market 300 different products, each of which must have its sales forecasted in order that raw materials may be purchased and production scheduled months in advance of sales. Many companies have been forced to set up elaborate procedures and extensive programs to do their sales forecasting. See the chart on the next page, "How SKF Organizes Its Sales-Forecasting Program," as an example. The chart indicates the large number of persons and factors that are involved in the program: estimates by distributors and salesmen of major divisions, reports on broad economic conditions, forecasts by executives, and others.

How SKF Organizes Its Sales-Forecasting Program



SOURCE: *Dun's Review and Modern Industry*, August, 1953, p. 45.

THE NEED FOR RESEARCH IN MODERN MARKETING

Needless to say, modern sales forecasting and many other aspects of marketing require the services of highly trained statistical men who know marketing. More than statistical knowledge, however, is essential. In modern practice, the statisticians sit down with management and work out agreements on the most likely courses of events, including general business conditions, assumptions about the company's sales, production capacities, changes in costs, price levels, technological developments, promotional plans, and actions by competitors.

The researchers are called upon for market research studies such as

defining profitable and unprofitable markets, consumers' purchasing preferences, competitors' activities, and the disclosing of unexploited sales opportunities. The needs for the benefits of research on the part of marketing executives are so many and so varied that marketing research has become a profession.

Marketing research is the inclusive term which embraces all research activities carried on for the management of marketing work, the gathering, recording, and analyzing of all facts about problems relating to the transfer and sale of goods and services from producer to consumer.

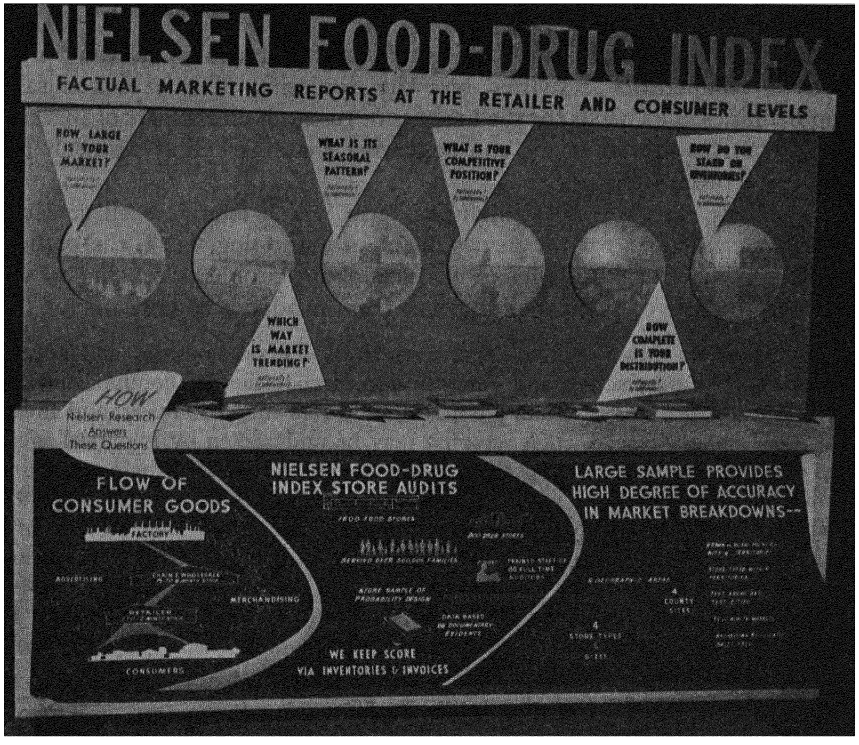
Among other things it involves the study of the relationships and adjustments between production and consumption, preparation of commodities for sale, their physical distribution, wholesale and retail merchandising, and financial problems concerned. Such research may be undertaken by impartial agencies or by specific concerns or their agents for the solution of their marketing problems. . . . It includes various subsidiary types of research, such as *Market Analysis, Sales Research* which is largely an analysis of the sales records of a company, *Consumer Research* which is concerned chiefly with the discovery and analysis of consumer attitudes, reactions, and preferences, and *Advertising Research* which is carried on chiefly as an aid to the management of advertising work. The term *market research* is often loosely used as synonymous with *marketing research.*[1]

The last-mentioned term, *market research,* is becoming more narrowly defined by modern marketing men as the study of those who buy or distribute.

Marketing research as an organized department of business did not begin until the twentieth century was well under way. It is usually dated from 1911, when the Curtis Publishing Company began its marketing research activities by making studies of the agricultural implement industry, department store lines, and the automotive industry.

There are two main reasons for marketing research getting a late start. One was the fact that the United States, prior to the early 1900's, was largely a new country that had many unsatisfied needs. Business enterprises were concerned principally about production because they could usually sell whatever they produced. It was not until the later nineteenth and early twentieth centuries that the American market began to show less appetite for the enterprisers' products and marketing problems became more acute. Marketing research developed as an attempt to solve these problems. At the same time, incomes in the United States reached the point where a large proportion of the population was above the subsistence level. This helped bring about a greater demand among consumers for products that were different or better, and the process of anticipating

[1] "Report of the Definitions Committee," *The Journal of Marketing,* October, 1948, p. 210.



The A. C. Nielsen Company, Chicago, is the world's largest marketing research organization. In addition to the food and drug indexes, their other indexes are radio, television, variety, pharmaceutical, and consumer. They also provide special research services such as answers to *why* questions: "Why is there more response to promotion I than to II, III, or IV?" "Why does a certain brand have leadership in one stratum of homes vs. mediocrity in others?" and numerous others.

the wants of consumers became more difficult. As a result, the need for marketing research was enhanced.[2]

A second reason for the eventual use of marketing research was that American businesses that grew to have large sales volumes could not be managed effectively by the founder only. They became corporations with boards of directors who hired able managers. The owner could depend on hunch and intuition from personal experience, but the more objective-minded managers wanted facts and statistical data to guide them. This does not mean that the hunch is no longer used by modern executives—they only minimize it when they seek more trustworthy bases for their decisions.

It is trite to say but important to appreciate that we have come into

[2] Stewart H. Rewoldt, "Economic Effects of Marketing Research," *Michigan Business Studies*, July, 1953, p. 10.

a great era of research. Research has been a determining factor in the uptrend of our industrial activity during the last few decades. The magnificent progress made in technological improvements that involved large expenditures for research has been reflected in the use of more productive machinery and betterments in plant construction. From these new plants and machines have come products unheard of by previous generations. Current generations enjoy the benefits of television, antibiotic drugs, synthetic fibers, and a growing stream of new aids to pleasure and comfort. Research in production has made them possible. Research in marketing helps to bring about their distribution and use in a technological age. Furthermore, it reduces the wastes and costs of distribution and thereby reduces the prices that consumers pay.

EXTENT TO WHICH MARKETING RESEARCH IS USED BY INDUSTRY

The larger the business firm, the more likely it is to have a marketing research department. One study of American industry revealed that only 1.8 per cent of the reporting companies with sales under $500,000 maintained organized marketing research departments. The study further found that of companies with annual sales of $2.5 million or less, a group including the vast majority of American firms, less than 6.7 per cent had organized marketing research departments. Of those companies whose sales volumes were above $5 million, 44.6 per cent had such a department.[3]

The situation and problems for which marketing research has been helpful are too numerous to list or even to classify adequately. Any classification that is made can be only an arbitrary one. The examples offered here will, however, indicate the scope of activities that are performed under the heading of marketing research.

1. The product. Any management that considers the launching of a new product or the improvement of an old one is likely to wonder whether people will want it or, if they do not have a conscious need for it now, whether they can be made to want it at a profit to the manufacturer. The sales manager who is confronted with this problem can sit at his desk for endless hours and never derive from his own limited mental effort more than an unsubstantiated guess. He can ask himself hundreds of times, "Do people want it? Would they buy it? What price would they pay? What color do they prefer?" and so on. Research may not give him an absolutely correct answer but it will reduce hunch playing to a calculated risk.

2. Seasonal use of a product. In a national survey of a food product, respondents were asked what season of the year they were most likely

[3] W. W. Heusner, C. M. Dooley, G. A. Hughes, and Percival White, "Marketing Research in American Industry, Part I," *The Journal of Marketing*, April, 1947.

to buy it and how frequently they purchased it during the different seasons. Questions were also asked about use in warm-weather months and in cold-weather months. The study showed, more clearly in this instance than could have been determined by analysis of sales figures, certain important seasonal variations in consumers' use of the product. Hence, management made changes in the timing of the advertising, which resulted in lengthening the period of peak consumption of the product.

3. Variations of stock on hand in different types of stores. A special study was made in chain and independent drugstores to check on the volume of a product in stock at the time of the survey and to find out which kinds of stores had it on order. Warehouse figures were obtained for competitors' products as well as the company's products. Variations in stocks on hand were noted in the different types and sizes of stores as well as in the different cities in which the survey was made. These data gave the manufacturer a clearer picture of where he stood with competition.

4. Checks on inventories and sales. To get a picture of distribution and sales, a weekly check was made in a number of stores throughout the United States. The number of units sold, the average sale per store, and any promotional activities were recorded each week for every store. This study ran over a period of 4 months so that definite retail sales patterns could be established.

5. Relative effectiveness of a manufacturer's outlets. A certain manufacturer makes five types of his kind of product. A national survey of retail outlets showed that nearly 70 per cent of all "available" retail outlets stocked at least one of the five types of his brand. Thus, he was already represented in a major part of the possible outlets, and his opportunity for expanded distribution through the addition of new outlets was somewhat limited. However, the same study showed that *less than 2 per cent* of the outlets stocked *all five types* of his products, only 3 per cent stocked as many as four, only 12 per cent stocked three, 22 per cent stocked two, and 31 per cent stocked only one type. It was immediately apparent that this manufacturer's greatest opportunity for expanded distribution lay in inducing more of his present retail outlets to stock more types of his product—a form of expanded distribution which he could accomplish far more economically than by trying to get distribution in outlets, many of them of dubious value, in which he was not already represented.

6. Point of sales study. Experienced investigators interviewed all shoppers who stopped at certain counters in selected department and chain stores. Interviewers were stationed at the counters and talked to persons who examined the merchandise but did not buy it as well as to those who did. Information was secured on the extent to which clerks influenced

sales, consumers' preference for various items in the line, effect of a newspaper insertion that was running at the time the survey was made, and other general reactions of customers at the point of sale.

7. Most suitable premium to use for a product. A list of 48 premium ideas associated with a manufacturer's product was submitted to representative women customers. They were asked to check any three for which they would be most likely to pay 25 cents. One premium—plastic bowl covers and refrigerator set—proved to be an overwhelming favorite. Almost one-third of the women favored this item.

8. To avoid a possible costly mistake in the advertising of a product. A classic example occurred in the case of a proprietary product. Serious consideration was being given to emphasizing the product's "beautifying" values. To have done so would have subjected the product to a high special cosmetics tax. Research showed that most users of the product bought it because it had therapeutic values; very few bought or used it because it might add to their beauty. Thus, research pointed the way to a far less expensive advertising appeal than would otherwise have been developed.

These are random cases to show the variety and scope of marketing research. All are examples of marketing research applied to a specific problem at the time that the problem happened to be important to management. Now let us consider the continuous type of marketing research that is one of the most commonly used kinds—forecasting sales.

SALES FORECASTS

In times past, managements made "dream forecasts" of sales. Executives established some nebulous goal such as "10 per cent more than last year" and bullied the salesmen into selling or trying to sell what production dumped into their laps. In some cases, the forecasts were so high as to discourage the salesmen; in other cases, they were too low. The modern method is to have statistically trained experts make realistic forecasts which guide not only sales management but other members of management as well. These forecasts are on a continuing, not a sporadic, basis.

Sales forecasts are easy to make when an industry's volume is improving at a steady rate. Calling the turns in the rises and falls that occur is more difficult. One survey of 56 companies showed that for 1951 the companies reported an average accuracy for their forecasts of 93 per cent. The range, however, was from 65 to 99.5 per cent. "The durable-goods forecasters were generally not as accurate as their non-durable brethren." [4]

Accuracy in sales forecasting is being improved as researchers learn how to develop their techniques and to obtain more significant data on which

[4] A. C. MacGowan, "Techniques in Forecasting Consumer Durable Goods Sales," *The Journal of Marketing*, October, 1952.

to base their forecasts. Their work is too technical for adequate treatment here. We can, however, appreciate more fully how sales forecasts are used by modern managements.

One of the most important uses is in the planning and control of production and inventories. Finance departments plan their long- and short-term financing on the basis of sales forecasts. The price of the product in the market is often determined by the volume of production; since the volume depends on sales, the sales forecast becomes an important factor in setting the market price. Dividends to stockholders may rise or fall in accordance with proper pricing.

The sales department generally thinks in terms of sales forecasts. The forecast establishes a target for the sales force. Usually, the forecast is broken down into quotas for products, regions, and individual salesmen. The sales quotas are likely to be the basis of the salesmen's compensation plan. Forecasts also help to reveal the areas and territories where the company or the salesmen are doing effective or poor jobs. Sales and promotional efforts can be adjusted accordingly.

The real purpose of sales forecasting goes beyond the sales promotion angle. The whole tempo of all a company's operations is closely related to the sales it can and hopes to generate. Modern managements think and act largely in terms of their objectives, many of which tie into the sales forecasts.

Harold F. Waite, Director of Market Research, Burroughs Adding Machine Company, has outlined the procedure used in planning marketing goals and shown how the forecasts aid company operations. Excerpts from his explanation are the following:

> The first thing we do, and this is a continuous operation, is to keep thoroughly abreast of all current political and economic events. . . .
>
> Our next job, and this is also continuous, is to make a series of tentative projections of our probable order outlook based upon charts which we maintain of historical company records by product lines and by lines of business and our own forecast of the general business outlook.
>
> Now, because we do not think we can sit in an ivy covered tower and arrive at safe conclusions, we secure outside advice but feel it would be unwise to rely on the opinion of one man or one organization.
>
> We retain two well versed groups of consulting economists who operate independently of each other, and arrive at their conclusions through different methods.
>
> These men meet and advise with us at regular intervals on the domestic and international outlook and I synchronize their meetings with the preparatory phase of our forecasts.
>
> After exploration of any divergent views we may hold, we arrive at what we believe are rather well reasoned agreements on the economic forces which will be in operation during and somewhat beyond the forecast period, because

we need to know both height and direction. We can then estimate on the basis of these national indices about what our business should be.

Next, we try to take a look at the prospects for our industry, because, as you know, all industries do not necessarily follow the trend of general business.

Here again, we seek outside assistance through two sources. One is our trade association, the Office Equipment Manufacturers Institute. . . .

We know, of course, our historical portion of the industry and we have knowledge of internal characteristics and plans peculiar to Burroughs operations which may change our position in the industry—so we can now project our own probable volume on this basis.

Now we are ready to put the pieces of the jig saw puzzle together.

At this point, we have five separate forecasts, all derived from different sources of data, our original forecasts by products and lines of business, a total forecast based on probable general business conditions as agreed upon with our consultants and another total and product forecast based on industry operations.

They should and do come fairly close together. A little smoothing out here and there and we reach rather concrete conclusions.

But, before we put a forecast together to submit to management, we need to test our thinking against and get the views of the heads of the revenue producing divisions of the company, the domestic sales manager, the export sales manager and the general service manager.

After we arrive at an amicable meeting of the minds, we also check with our manufacturing vice-president because we need to forecast production requirements.

Now we are ready to go to press with a forecast of revenue which means billings, new orders, inventories, unfilled orders and production, all screened through a system of checks and balances and composite opinion within and without the company which we feel and can prove insures a high degree of accuracy.

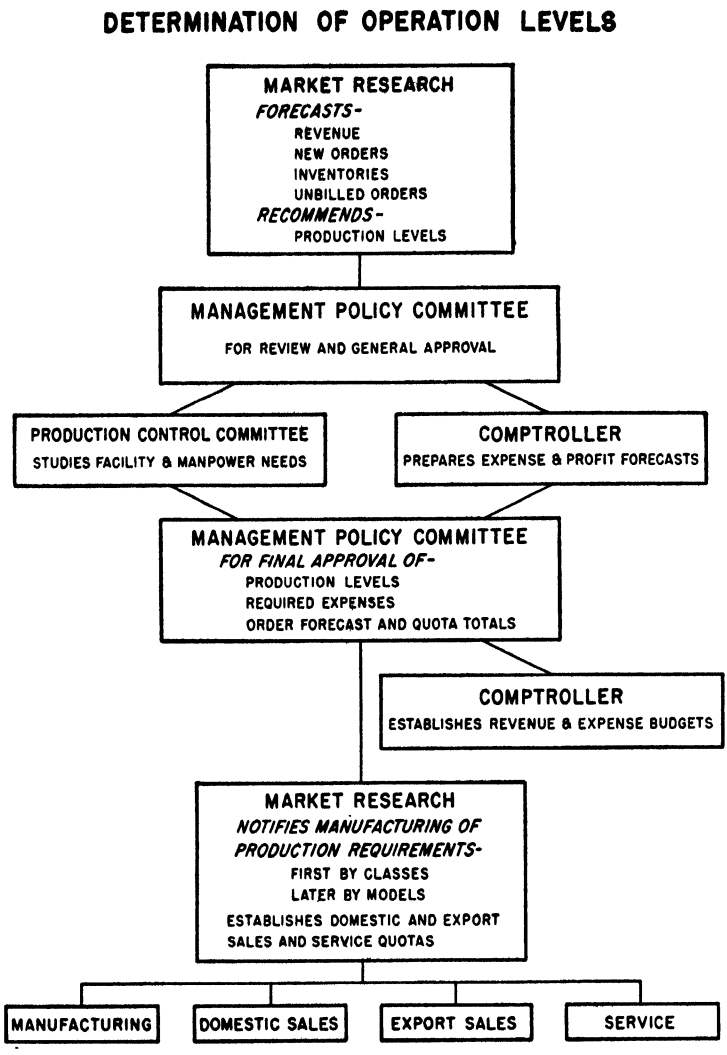
Is this system too cumbersome or too expensive? I do not think so when you consider the blue chips that ride on the way we turn the cards. . . .

To see what happens after we submit a forecast, see chart on the next page.

Actually, as you can see from the chart, these are more than marketing goals that are planned at this point. They are corporate goals.

After going through various committee operations, production levels are set, manufacturing is given an order to produce a quantity and variety of products which will suit marketing requirements, profit and expense targets are established for budgetary purposes, a basis for company quotas is determined and, in turn, marketing and manufacturing manpower and material requirements may be estimated.[5]

[5] "Planning Marketing Goals and Measuring Sales and Expense Performance," an address given by Harold F. Waite, Director of Market Research, Burroughs Adding Machine Company, at the Annual Marketing Research Conference, University of Michigan, Ann Arbor, May 9, 1952.



COMPANY PRACTICES IN MARKETING RESEARCH [6]

The American Management Association, under the direction of Richard D. Crisp, conducted a survey of current company practices in marketing research. They mailed out 425 questionnaires to companies on their mem-

[6] For a more complete discussion of this topic, see Richard D. Crisp, "Company Practices in Marketing Research," *Markets and Marketing Techniques,* Marketing Series, No. 89, and *Company Practices in Marketing Research,* Research Report 22, both published by American Management Association, New York, 1953.

bership list and received 180 completed questionnaires by the closing date. The survey therefore reports the practices of a group of companies that may reasonably be expected to be above average in their interest in management skills. The study is not reflective of "average" or "typical" companies. It was, rather, "planned to provide as accurate and informative a picture as possible of the marketing research practices of firms likely to be advanced in their use of this management tool." One of their primary interests was to discover the extent to which marketing research is carried on in this type of company. The answer to this question was that 93 per cent of the 180 reporting companies do some marketing research.

Various other practices of the reporting companies were also investigated. For example, it was found that in three out of four of the reporting companies, research is performed by full-time employees who have no other major responsibilities. These full-time specialists outnumber part-time workers by more than 2 to 1. In contrast to this, in a survey made 6 years earlier, part-time research workers outnumbered full-time specialists by almost 2½ to 1. This seems to indicate a definite trend toward greater specialization of the marketing research function.

The questionnaire listed some 37 specific activities which could be considered marketing research functions. These 37 functions were grouped into three major categories—those dealing with research on (1) products or services, (2) markets, and (3) sales methods and policies.

1. In the *products-services* area, studies of the competitive position of company products, including market-share analyses, were performed by more than 90 per cent of the companies doing marketing research. This type of activity was performed more often than any of the other 37 functions listed, regardless of category. Next in the products-services group was economic research, which was described in the questionnaire as including "determination of industry trends, correlation of company sales with economic indicators, etc." Marketing research was found to play a substantial role in the launching of a new product.

2. In the area of research on *markets*, the function most commonly performed was the analysis of market size. Close behind this was analysis of territorial sales potentials. Third in this area was estimating the demand for a proposed new product or service.

3. In the *sales methods* and *policies* area, measuring territorial variations in sales yield, including market share and sales effectiveness, was the most frequently performed activity. Second was the establishment or revision of sales territories.

Another interesting fact revealed by this study is that there appears to be very little difference in the nature of marketing research as it is performed by manufacturers of industrial or consumer products. This

means that the function of research is very similar in industrial marketing and in consumer marketing.

Respondents were also asked to estimate what percentage of their sales dollar they spent on marketing research. The median figure for all companies reporting was 0.1 of 1 per cent of sales. This means that for each $100 of sales, 10 cents is spent for research. Of course, there was a great deal of variation around this median figure. Generally speaking, manufacturers of consumer products spent a greater part of their sales dollar on research than did manufacturers of industrial products. There also seems to be a trend among all types of manufacturers toward increased spending for research in the future.

Let us briefly summarize how market research benefits the management employing it, as stated by Richard D. Crisp:

1. Marketing research tells management where the company stands in its industry.
2. Marketing research tells management what industry trends are and are likely to be.
3. Marketing research is an essential tool in appraising and improving sales management effectiveness. Specific activities in this area include measuring variations in territorial sales yield, market share, and sales effectiveness; measuring the effectiveness of individual salesmen; analysis of salesmen's activities.
4. Marketing research is an essential tool in the development and introduction of new products.

The questions marketing research is called upon to answer in new-product development usually include these:

a. Should we market a new product of this type? Specifically, marketing research estimates the demand for a proposed new product or service; analyzes the size of the market for specific products; and analyzes the characteristics of the market for specific products.

b. Is our proposed new product acceptable? How does it stack up against competitive products?

c. Where, how, and when should the new product be launched? The "where" takes us into studies of territorial potentials and of market profitability. The "how" involves tests of promotional devices and test-market activities.

d. How are we doing with the new product? This involves appraisals of progress on a continuing basis.

Many companies have launched new products and new projects without knowing what they were getting themselves into. Marketing research is widely used as an insurance policy against this sort of situation.[7]

[7] Crisp, "Company Practices in Marketing Research," Series No. 89, pp. 13–15.
For further information on Crisp's survey, see "Marketing Research Increasing in Size and Scope, Study of Large Companies Indicates," *Advertising Age*, Aug. 31, 1953, and "Companies Average 0.1% of Sales for Market Research," *Industrial Marketing*, October, 1953.

OPINION SURVEYS

Researchers in marketing are likely to be asked to make all kinds of studies such as opinion surveys. These surveys have a bearing on marketing in so far as attitudes affect sales. An example of an opinion survey is that of the Oil Industry Information Committee which asked one-half of a sample of people, "What is your idea of how retail prices of gasoline and oil are decided?" To this question 56 per cent said they did not know; 31 per cent said by competition; and 13 per cent said by collusion.

On the other half of the sample, the question was asked, "Which of these statements comes closest to your idea of how gasoline and oil prices are decided? (1) The oil companies get together and set prices for their products. (2) Each company sets prices to meet competition." When the question was phrased this way, 57 per cent said that the oil companies get together and set prices for their products; 31 per cent said that each company set its own prices to meet competition; only 12 per cent said, "Don't know."

A comparison of the answers obtained by the two methods of questioning indicates that when many people have no definite opinion about a subject, an opinion vacuum exists which is easily filled by the first plausible idea that comes along.[8] Marketing men are, of course, very much interested in finding opinion vacuums because they offer the marketer an opportunity to supply ideas that will fill the vacuum, ideas of importance to the marketer.

Generally, marketing researchers avoid any tie-in between research to learn facts or opinions and sales promotion. The Rum and Maple Tobacco Corporation's cigarette merchandising during the 1952 presidential campaign is, however, an example of one way political opinion study and merchandising efforts were combined.

The corporation manufactured both "I Like Ike" and "Stevenson for President" packages of cigarettes. They contained exactly the same ingredients, only the slogan on the package differed.

By measuring the state-by-state sales to jobbers and chain stores, Rum and Maple felt they could predict the outcome of the election. According to their poll, Eisenhower was leading in 40 states with an electoral vote of 461, leaving Stevenson 8 states and 70 electoral votes, as of October 23, 10 days before the election. Of the total number of packages of candidate cigarettes sold, Ike's accounted for 51.8 per cent of the sales and Adlai's for 48.2 per cent.

Rum and Maple felt that they might be in error by 1.5 per cent in either direction. Results proved that they stayed within their margin of

[8] From an address by Paul G. Hoffman before the Council of the International Chamber of Commerce, Lisbon, Portugal, 1951.

error. In fact, the results of their poll were unusually accurate when compared to the actual outcome of the election.

Rum and Maple estimated that they received at least $1 million worth of publicity from the promotion while actually spending only $40 for one paid advertisement. Because of its timeliness, their promotion was widely publicized. Members of the company's staff were interviewed on many radio and television programs and the entire production of the cigarettes was filmed for showing on television and in newsreel theaters. A final outcome of the campaign was that the company put on the market a new brand of cigarette named "President." [9]

The Rum and Maple campaign illustrates how a clever promotional program measures preferences for political candidates without asking people the direct question as to which candidate is preferred. This type of survey is likely to be used in future presidential elections; alert marketers will watch such surveys to note the extent to which the promotional efforts vitiate the findings on opinions.

MANAGERIAL "GENIUS" VERSUS RESEARCH

We must not assume that all members of present-day business managements are "sold" on marketing research. Some able executives, particularly in small business concerns, like to criticize marketing research even though they bow reverently before the throne of production research. They believe in research in physics and chemistry but not in human behavior. They argue that the great business successes of the past such as Henry Ford, Andrew Carnegie, and John D. Rockefeller never heard of such approaches to marketing as consumer research.

In many cases, these critics have had an unpleasant experience with marketing research. Perhaps, on the basis of findings from a research study, they made a decision that turned out badly. As a result, they turned to dependence on the executive's "gift for sensing" what will sell instead of figures in some statistician's report. Furthermore, such critics can point to some successful concerns that do no marketing research and to some low-dividend-paying companies that have large marketing research departments. These criticisms have been answered by Alfred Politz as follows:

> If a business is headed by a "genius," who has a gift for sensing the consumer's susceptibility to his propositions, he usually makes correct decisions. Let us assume that this ability is a gift, a talent, a kind of intuition which helps him in his decisions. But somewhere along the line the decision is based on his observations.

[9] See *Tide*, Oct. 31, 1952, p. 17, and *The New Yorker*, Nov. 1, 1952, p. 21.

The observations of a single man cannot go any farther than his sensory or literary contacts. Consumer research widens the observable area by employing more legs, more eyes and more tongues and, in the aggregate, more brains than any man has available. It applies tests under specific conditions, the outcome of which can be observed, while the "genius," at best, can only guess.

The function of consumer research, then, is to widen the observational area so that the premises leading to the conclusion take on more stability. The conclusions are drawn with a greater amount of confidence and with less risk.

Good research has the purpose of arriving, by systematic investigation and definable thinking, at what one hopes to get otherwise from luck or "genius.". . .

While there is danger from those who reject research where it can do what intuition cannot do, there is equal danger from those who seem to think that research techniques can take the place of intuition. The problem of management, in my opinion, is not whether or not to employ consumer research, but to discriminate between mere statistical or psychological exercises and real research that combines scientific methods and practical knowledge for the purpose of predicting the effect of management decisions in reference to products or to advertising policy.

The major difficulty for the businessman is that he cannot discriminate between productive research that uses scientific methods and the less effective types. There are amazing problems of design related to interpretation, problems of psychology and problems of statistics which do not reveal themselves to the untrained or to the casual observer.[10]

DEVELOPING A MARKETING RESEARCH PROGRAM

Many companies have successfully conducted marketing research programs. One of the primary facts to be learned from their experience is that such a program actually involves four basic steps. First of all, a starting point must be decided on, then a preliminary diagnosis should be made, a working plan developed, and finally, the facts must be obtained and put to use.

When there is not a specific problem apparent in the selling of the product, it is often a good idea to analyze distribution costs on a company-wide basis. This involves identifying the important distribution functions and determining the share of the sales dollar allotted to each function. Such an analysis will usually reveal expenses that do not seem to be justified. A detailed study is then in order to determine just how these costs can be cut.

An example of this took place in a large grocery manufacturing firm. The controller of the company discovered that his company's warehousing costs were kept at a high level because of the high labor charges involved in the materials-handling operations. A review of the actual

[10] Alfred Politz, Chicago Chapter, American Marketing Association, Chicago.

expense figures indicated the need for a study of the possibilities of cost reduction through the application of modern materials-handling methods in the company's warehouses.

Once a starting point of this nature has been established, a preliminary examination of the scope of the problems involved is often helpful in order to avoid undertaking too ambitious a program. It is obvious that if a problem is found to involve more time and money than is available, it is wiser either to narrow its scope or else postpone it to a more opportune time. A detailed study of too broad a topic would only result in a waste of time and money.

Research projects normally require the cooperation of a number of different people within the company over a fairly long period of time. For this reason, it is well to have a written working plan for the project so that these people will know what is expected of them and when. Such a plan will also aid in the effective administration of the project. The written plan should include an outline of

1. The objectives of the study
2. The major factors to be considered
3. The basic steps to be taken
4. The locations of the responsibility for each phase of the work
5. The approximate completion time
6. The approximate cost

Of course, changes in the plan will have to be made as the project progresses, but the necessity for such revisions should not be considered sufficient cause for the omission of a written plan.

An effective administrator of such a research program should bear in mind that his primary objective is to develop practical recommendations in the shortest possible time. The director of the program should be willing and prepared to conclude the program when sufficient evidence has been gathered to provide the basis for a sound conclusion. He must not, however, conclude his study too early in an effort to save time. Since his decisions may require the company to make substantial investments or to change their objectives or policies, he must endeavor to make judgments which are sound and solidly based on facts.[11]

Modern marketing executives who have the benefit of such a program must learn enough about research and statistics to formulate and execute policies and campaigns in line with the findings from the program. The day when the sales executive could play entirely by ear is gone. The raw materials of marketing research are recorded experiences. Some of

[11] For a more detailed description of the above recommendations, see Charles W. Smith, "Increasing Distribution Efficiency by Better Organized Research," *The Journal of Marketing*, January, 1953.

them may be found in sales and financial figures of other industries, reports by trade associations, government censuses, and the records of the company's business such as profitable and unprofitable accounts, inventories, sales forecasts, and budgets. Special experiments and investigations must be designed and executed by the trained researcher.

The future of marketing research must be viewed optimistically. "Marketing research technique is rooted in statistics and the discipline of psychology, sociology and economics." Such research will someday achieve a degree of precision which is not considered possible today. Progress in this direction is being made constantly. Such an optimistic view of the future increases the responsibilities which marketing research will have to meet in the years to come. Researchers are, of course, aware of the need for further growth, as stated in part by John E. Jeuck:

> It is unfortunate that marketing research, which is potentially valuable even if limited in its effectiveness, has contributed so little to an understanding of the nature of competition in the real world. A broader outlook on the part of professional students and practitioners could and ought to contribute greatly to an understanding of how competition actually works.
>
> The greater use of the historical method—the analysis of what happened in the past, the basis of information on which action was taken, and the results of past action—would seem to offer a promising avenue of investigation that is little employed by systematic researchers. Few other methods offer the opportunities for developing the dynamic view of markets that is the essence of an appreciation of the market problem. Too little attention is paid to defining clearly the market position of the firm in the general constellation of competition in which it operates, and surely this is crucial not only to an understanding of the nature of competition, but also as a guide to adopting appropriate policies for survival and profitability for the individual enterprise. . . .
>
> Unless marketing research can become vitalized by an understanding of and an adoption of some of the insights of other disciplines, and unless it can be released from its too didactic preoccupation with the survey method, and unless we can come to an appreciation of the limitations of our method, it seems likely that marketing research may prove to be less than adequate for the limited but important role that it ought to play in support of the artistry of management, which at its best constitutes the mainspring of economic progress.[12]

HOW THE EXECUTIVE SHOULD EVALUATE MARKETING RESEARCH REPORTS

Business executives will turn more and more to research for the factual guidance they need in performing the increasingly complex marketing activities carried on in today's dynamic economy. Fortunately, The Asso-

[12] John E. Jeuck, "Marketing Research—Milestone or Millstone?" *The Journal of Marketing*, April, 1953.

ciation of National Advertisers, Inc., has prepared the following two sets of check questions for executives who have to evaluate reports of marketing researches, one set for the executive himself to answer and a second set on which the executive may properly require the assistance of research technicians:

I. Check questions which may be answered by executives themselves when evaluating reports of marketing research studies:

A. Is the purpose of the research clearly and briefly stated early in the report? Advertising executives should be on the lookout for surveys that are conceived for "proving something." In this light, the purpose of the survey should always be clearly and briefly stated early in the report. It is important that the research company making the survey has a clear understanding of the objectives and that they not be changed for the purpose of proving a point. The contents of the report should be carefully reviewed to make sure they fulfill the stated purposes and objectives.

B. Who did and who paid for the research? (Reputation of research company.) It is highly important to evaluate the qualifications of the research company or organization conducting the study. Some are better equipped to study certain problems than others because of their training, experience, and facilities. Since there is a chance of bias or misrepresentation, it is also important to know who paid for the study.

C. Is there anything unusual or irregular about the timing of the research? (Time of year, after a price reduction or slump, etc.) Improper timing of a survey might mean that the results are intentionally colored in one way or another. Unusual market conditions must be avoided, as peculiar market conditions would make the sample nonrepresentative of the general market situation.

D. Are the limitations of the study and findings clearly set forth? Each survey, since it is not a complete census, has certain limitations. These must be clearly shown and defined in the report.

E. Is the interpretation in line with the facts? Those reading research reports ought not to accept another person's interpretations of survey facts too quickly. It is always well to make certain that the facts will thoroughly support the conclusions that have been drawn.

II. Check questions on which executives may properly require the assistance of research technicians:

A. Was the proper kind of research used to answer the problem? (Personal interviews, mail questionnaires, diary records, etc.) Due to the fact that there are so many types of marketing research—interviews, mail questionnaires, etc.—the most appropriate one must be chosen. The selection must be based on sound judgment of the technical problems involved and how best to approach the desired respondent. For example, consumer buying habits can best be determined by personal interviews.

B. Was the questionnaire or report form properly constructed to achieve the objectives? (No misleading or vague questions, no questions prompting a

prejudiced answer, etc.) Since it is very easy to unintentionally use misleading questions, or ones that require too general an answer, the questionnaire or report form should be carefully constructed. A preliminary or pilot survey, using a small representative cross section of respondents, is very valuable for finding and eliminating these faults. The questionnaire should be constructed by test use and not merely written out in an office.

C. Was the field survey properly conducted and supervised? (Check on training and experience of interviewers.) In all marketing research, the quality of the interviews is of utmost importance. The qualifications of the interviewers should be carefully reviewed along with the manner in which the interviews were conducted and supervised. A review of the raw data contained in some of the original questionnaires would be valuable.

D. Is the sample representative of the market or area which should be covered? Research technicians have devised scientific means for setting up the most adequate sample—random sample, quota sample, area sample. They can explain the full details as to the best one for the survey in mind.

E. Is the sample size for each comparison large enough for that particular comparison? Closely allied with representativeness of the sample is its size. Here again a large number of respondents is not necessary as long as the base for each comparison to be made is representative and adequate. Control questions, the answers to which are known facts, help to guide in choosing the sample size, as direct comparisons can be made with the results. Ranges of probability should be obtained to ascertain whether or not differences are significant enough to justify action.

F. Does the presentation of facts follow good statistical and research standards? (Are all the facts obtained clearly stated?) When the facts are presented in the report, they must be readily understood by advertising, sales, and management executives. Tricky, misleading presentations must be avoided. The exact number and/or content of replies to each and every question should be included in the report, and these findings should be compared with similar data from other surveys if available. The study should also be considered from the standpoint of its uses within the range of accuracy that can be expected. Good statistical and research standards should be employed at all times.[18]

SOURCES

Market Research Sources, 1950. U.S. Department of Commerce, Superintendent of Documents, Washington. In this ninth edition, the first since 1940, will be found sources of prepared data useful in setting sales quotas, measuring market potentials, analyzing present and future trends, and dealing with other marketing problems.

Included are references to research conducted by Federal and state government agencies, chambers of commerce, trade and professional asso-

[18] *A Check List for Evaluating Marketing Research Studies,* Association of National Advertisers, Inc., New York. Copyright, 1950.

ciations, colleges and universities, publishers, and commercial organizations. This book emphasizes postwar activities and stresses scientific methods used in measuring consumer needs, in choosing channels of distribution, and in adapting products to current conditions. In this inventory of available market research materials, more than 1,500 sources of information are listed, citing approximately 5,000 published items.

Annual Marketing Research Conference Contributed Papers, 1953, Donald R. G. Cowan (ed.). University of Michigan, School of Business Administration, Bureau of Business Research, Michigan Business Paper 27. "Marketing is an indispensable phase of business management. . . . The largest rewards belong to those who can correctly anticipate and prepare for what is beyond the ever-receding horizon of the future," says Professor Cowan in his foreword to this group of addresses delivered at an annual marketing research conference. The subjects covered, each discussed by an expert in the field, include measurement of industrial consumers' inventories, research on the impact of advertising, study of radio and television audiences, planning sales, evaluating sales performance, a discussion of the business outlook, and a survey of business conditions.

Marketing Research Practice, Donald M. Hobart (ed.), Vice-President and Director of Research, Curtis Publishing Company. This significant book offers the results of almost 40 years of continuous development of professional research by the Curtis Publishing Company, a pioneer in the field. It provides understanding of the research methods and operations developed and used at Curtis to solve sales, distribution, advertising, and marketing problems. Mr. Hobart, past president of the American Marketing Association, devotes a separate section to an analysis of ten case studies which illustrate specific techniques, operations, and methods for obtaining scientifically dependable facts about markets in widely varying fields.

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QUESTIONS AND EXERCISES

1. What are the essential elements of a plan of research? Why should such a plan be written?

2. Are salesmen's estimates of their future sales ever used by a research director in making a sales forecast? Explain the advantages and limitations of such an estimate.

3. When did market research, as an organized activity, first start in American industry? How do you account for the fact that market research was so slow in developing in contrast to the advances which were being made in manufacturing?

4. What is an "opinion vacuum"? What implications does this have for the marketing man?

5. What is the difference between marketing research and sales research?

6. Why do many manufacturers spend far more money on product research than on marketing research?

7. "Straws in the wind" methods for measuring current trends and for forecasting future business activities have been proved useful in a few specific instances. Some of these instances were chance coincidences. Some may be reliable indicators but must be proved reliable by further research as called for in the Rum and Maple Tobacco Corporation's presidential study. Read the following example of checks made on one straw-in-the-wind indicator and suggest similar checks that might be made on the Rum and Maple type of forecast:

> The other day at lunch a friend needled us for spending so much money on the preparation of market statistics—projects such as our annual *Survey of Buying Power,* the monthly High Spot Cities, etc.—and made the point that in almost any industry there were little, inexpensive "straws in the wind" which were faster and far more accurate indicators of business conditions.

When pressed for an example he said, "Down in Miami, business interests used to spend tens of thousands of dollars to compile information about current conditions and trends in the tourist industry—and then they woke up to the fact that by merely *weighing the garbage collections* each day, and comparing them with the past, they had an indicator far more sensitive and accurate than any costly and scientific statistical service."

Was *Sales Management* going to be put out of business by a collection of garbage statistics? I wasn't alarmed, but I *was* intrigued, and I took the matter up with my friend, Lester R. Barnhill, of the *Miami Herald*. . . . There *was* some truth in the story—but the high cost of food has thrown this tourist volume indicator out of kilter in Miami Beach. Let's let Barnhill tell the story:

"For years the golden island has weighed all the garbage collected by the city and used it, along with other indices, to estimate the number of visitors. This year, the biggest ever for the gold coast of Florida, the garbage tabulator has gone wacky. When the boys who keep tabs on such figures started probing, they found a very realistic story of our times, and also learned that the fall-off in garbage collections is not an exclusive feature of Miami Beach.

"A recent report from sanitary engineers from around the country shows that less and less food is being tossed into the garbage pails. More of it, the engineers assume, is going into stews and left-over concoctions. (Editor's note: Perhaps the sale of incinerators has a bearing on it too.) In Miami Beach, as of mid-February, the visitors are not merely sampling their expensive cuts of meat and then tossing out the rest. They are eating what they order. And more and more visitors are crowding the lunch counters where there is nothing to discard from a sandwich and a drink, with potato salad on the side.

"On lowly garbage there is a fall-off of 18%—but right now it is next to impossible to get a room on Miami Beach without advance reservations; Florida race track betting is up 26% and attendance 17%, while railroads report inbound traffic during January up 12% from the year before—and may I add, the *Miami Herald's* circulation, a very sensitive barometer of the people in the South Florida area, is running 14,000 ahead of the same period last year."

Well, there was a good idea gone wrong. *Sales Management* will continue to make its estimates *without* the benefit of an index of garbage collections.[14]

[14] Philip Salisbury (ed.), *Sales Management*, Mar. 15, 1952, p. 22.

PART FOUR

THE PRODUCT THAT WE WANT TO SELL

10 Product Development to Fit a Market

THE ALERT MARKETER

1. **Recognizes the high mortality rate in the marketing of new products, and therefore participates with management in the early and all later stages in development of the new product. He is on the top-policy planning level of management.**
2. **Knows that consumers often exhibit irrational behavior toward a product, accepts their irrationality, and adapts his product to fit it.**
3. **Becomes acquainted with the work of the various standards associations, whose activities must be appreciated in the proper development of many products.**

Marketing includes all the factors involved in selling a product. All selling activity begins with a product (or service). To do marketing, something must be offered for sale.

Unfortunately, the "birth" of most products does not take place as part of a marketing process. Inventors and businessmen develop new products that interest them, and they assume or hope that the new product will sell. Their hope in too many cases stems from their own interest and not from an aroused or latent interest on the part of the customers.

The single most important factor in the marketing of any product is the item itself. If the merchandise is something that people do not want or cannot be made to want, no amount of promotion will sell it profitably. The promotional effort can tell people about the virtue of a new product, but it cannot substitute for lack of virtue.

Attempts to market a new product are more likely to fail than to succeed. One well-accepted estimate is that 90 per cent of all new products

turn out to be commercial failures during their marketing history. An investigation of the experiences of 200 leading packaged-goods manufacturers indicated that, by their own admission, slightly less than one in five, 19 per cent, of the new products they launched were successful. Moreover, seven out of ten new products placed on the market cost more and took longer to put over successfully than the companies launching them had anticipated.[1]

In a follow-up survey of 1,130 manufacturers of all major lines of consumer and industrial goods, it was found that one reason that new product introduction is so risky is the fact that most manufacturers are unable to develop a continuing reservoir of experience in the field involved, because of an "increasingly high personnel turnover" at the executive and department head levels. Persons involved in the planning, financing, manufacture, marketing, design, packaging, selling, or advertising of a new product often are promoted to positions of greater responsibility in their companies. Others transfer to other companies after picking up valuable experience in launching new items.

In addition to these factors, the study found that the infrequency with which companies bring out new products is "surprising." About 19 per cent of the companies surveyed bring out an important new product only once in 10 years. Only 7.4 per cent put a major new item on the market every year, while 23.9 per cent do so every 5 to 10 years. A little over 36 per cent bring one out every 3 to 5 years, and 14.2 per cent every 1 to 3 years.[2]

"HOT" PRODUCTS

Only a few products are "hot," that is, of immediate intrinsic interest to the mass market. Examples from recent marketing history are the chlorophylls, frozen breakfast juices, new detergents, quick mixes, polaroid cameras, clock radios, and television sets. These "caught on" quickly because certain segments of the buying public needed or wanted them. The day-to-day efforts of marketing men who promote new products result in less rapid acceptance than the few mentioned in this list.

SCREENING THE NEW PRODUCT IDEA

H. J. Barnum, Jr., Manager of New Products for the Good Luck Division, Lever Brothers Company, has developed the "blueprint," shown on pages 156 and 157, to keep new ideas coming, evaluate them, and nurse them through the first stages of marketing.

He recommends that the positive factors should be given first consider-

[1] Report by Peter Hilton, President of Hilton & Riggio, summarized in *Advertising Age*, Sept. 22, 1952, p. 50.

[2] Follow-up study of above, reported in *Advertising Age*, Sept. 14, 1953.

ation. The favorable aspect should be considered before the unfavorable in order to avoid killing a good idea.

Even the lustiest baby finds the going tough when it's smothered from every quarter with denials of its right to existence.

The curious thing about it is that the kind of product most likely to draw the most fire initially is usually a radical departure from the typical product. Products that are "just a little better" don't meet the storm of negative criticism and generally their contribution to a company's profit is either minor or short-lived. The person responsible for new product screening must, in other words, be as visionary as a bill collector is persistent. . . .

Now, take off those rose-colored glasses! Phase three on the chart is divided into four general sections: "Trade Negatives," "Consumer Negatives," "Company Technical Negatives," and "Company Marketing Negatives." At this point you unleash the dogs. If the product story runs this gauntlet unscathed, you may have in your hands a promising new addition to the company's line.

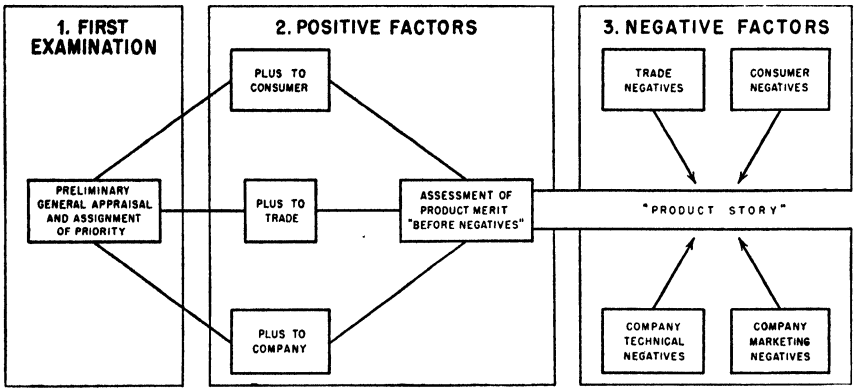
One point is particularly important. Many firms have ignored the last statement under "Consumer Negatives" and have produced a new product so different from others used for the same purpose that the consumer had no basis for comparison. One manufacturer, for example, decided to produce a superquality mayonnaise. The product was so much richer and better than all competitors' that it actually was a foreign product to the consumer who rejected it as being too different. In other words, the greatest failures as well as some of the greatest successes are numbered among the radical departures from established products. . . .[8]

Marketing research on new products made by interviews, surveys, and questionnaires is difficult to conduct in ways that produce correct predictions. For that reason, it is wise actually to *sell* a new product and see if it *repeats* satisfactorily without promotion before large-scale manufacture is undertaken.

A leading marketing consultant has described the experience of the manufacturer of a novel new household appliance which emphasizes that caution is always advisable when a new product is to be introduced. The manufacturer was extremely enthusiastic and eager to start large-scale production. Since the company's consultant advised him to be cautious, however, he constructed a number of models and undertook a consumer reaction study which extended over nearly a year and involved the opinions of hundreds of housewives. The responses were excellent. Most of the housewives thought the product was extremely salable. Even buyers in the housewares sections of some of America's largest department stores displayed enthusiasm instead of their usual coolness.

The consultant still advised caution, however; production was begun, but only on a small scale. The product was displayed in a few key stores

[8] H. J. Barnum, Jr., "How to Screen a New Product Idea," *Dun's Review and Modern Industry,* June, 1954.



How to Screen a New Product Idea. Here's a blueprint designed to keep 'em coming, evaluate them and nurse them through the stage of test marketing without fracturing your "going business."

Nothing dies faster than a red-hot idea for a new product. As a matter of fact, nothing dies faster than many new products once born. Everybody is naturally interested, if not fascinated, by the concept of fathering a new product but in many companies nobody does anything about it. . . .

The idea screening procedure described here may not meet the needs of every type of business, but it is orderly and thorough and sufficiently flexible for adaptation to your operating scheme. . . .

When a new idea is presented for consideration by the executive in charge of this area, there must be immediate general appraisal made. In the diagram this step is called "First Examination"—a preliminary general appraisal together with an assignment of priority. . . .

The chart lists the second phase of new product screening under the term "Positive Factors." In this stage management should look at everything that is good about the product, ignoring completely the difficulties or negatives that might be encountered. The listing to the right gives some suggestion of the directions the search with rose-colored glasses might take. . . .

The second phase should be examined from at least three angles: "Plus to the Consumer," "Plus to the Trade," and "Plus to the Company." Under each heading should be assembled all the good things that may be said for the product. . . .

All of the factors in phase two should be considered and given a full write-up by the new products manager, whatever his title. On the chart we call this the "Assessment of Product Merit 'Before Negatives.'" A simpler term might be "The Product Story."

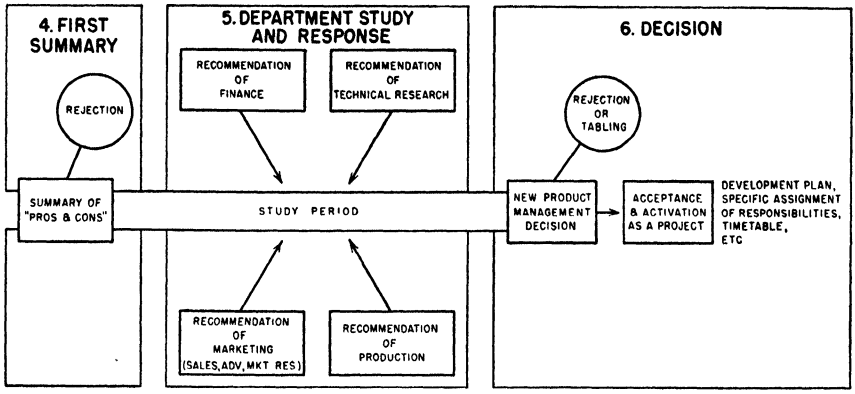
The fourth phase noted in the chart on next page is the "First Summary."

and given generous sales promotion and advertising support. But the product was a marketing failure. The housewives and buyers had been wrong and it just would not sell. Thanks to the consultant's cautious policy, the manufacturer lost only $10,000; it could easily have cost him twenty or thirty times as much.[4]

INTEGRATING PRODUCTION AND MARKETING

In most case histories of product marketing, the old one-two-three pattern of design, production, and marketing is evident. Formerly, once

[4] See James D. Woolf, "Advertising Failures Are Often Due to Shortcomings of the Product," *Advertising Age*, June 30, 1952.



At this point new products management is ready to sum up the product story. In this description great care must be taken to identify all statements of known fact as such and all matters of opinion or conjecture should be similarly identified. If it is clear that the idea offers nothing to the company, the summary should indicate clearly whether the screening should be stopped and the idea rejected. . . .

[Phase 5 is explained in the chart itself.]

Phase six of the screening operation calls for decision. Here all of the factors exposed in the preceding phases are weighed and new products management must decide to reject or table the project or else accept it and start the ball rolling. In most instances, particularly in larger companies, this decision must be supported by a final write-up and reviewed by the company's top general management.

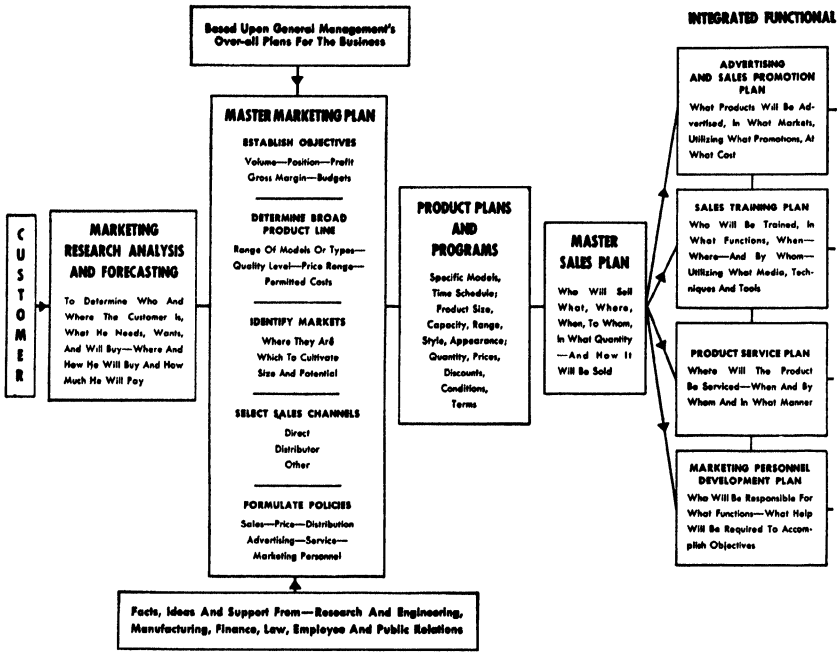
The final step is the most difficult in many companies and also the most important. In most manufacturing situations, new product development implies and usually means a diversion of energy, time, and materials from the ordinary stream of activity. . . .

New products management tends to become impractical, if not downright fanciful, unless responsibility for profit in terms of added income or added savings is involved in the operation. Consequently, it should have the responsibility for the product until the end of the test marketing period. At this point it should have the further responsibility of providing complete plans for the introductory launching and general distribution of the product. At this fateful time the responsibility of new products management ceases except for advisory duties and the product becomes the responsibility of those who operate the company's "going business."

SOURCE: From H. J. Barnum, Jr., "How to Screen a New Product Idea," *Dun's Review and Modern Industry*, June, 1954.

a product had been manufactured, the company management took for granted that somebody would buy it. If too few sales resulted, the management assumed that a more effective sales department or a bigger advertising campaign would put the product over. Under this procedure, many failures occurred that more intelligent managements have learned to avoid. Today's managements know that marketing is not something added on after the product has been manufactured; it must be integrated with business management. Modern marketing has been promoted from an operating function to the top-policy planning level.

Modern product planning includes marketing in the earliest stages of planning. Even Henry Ford recognized this when he said, "Sales begin on the drawing board." This is exemplified by manufacturers of electrical



This concept adds up to a rather simple formula for professional marketing management.

First, you *plan*. You conduct research. You set objectives. You develop the plans. And you establish programs. Second, you *organize*. You inventory functions. You develop the structure. You define positions. And you staff the structure. Third, you

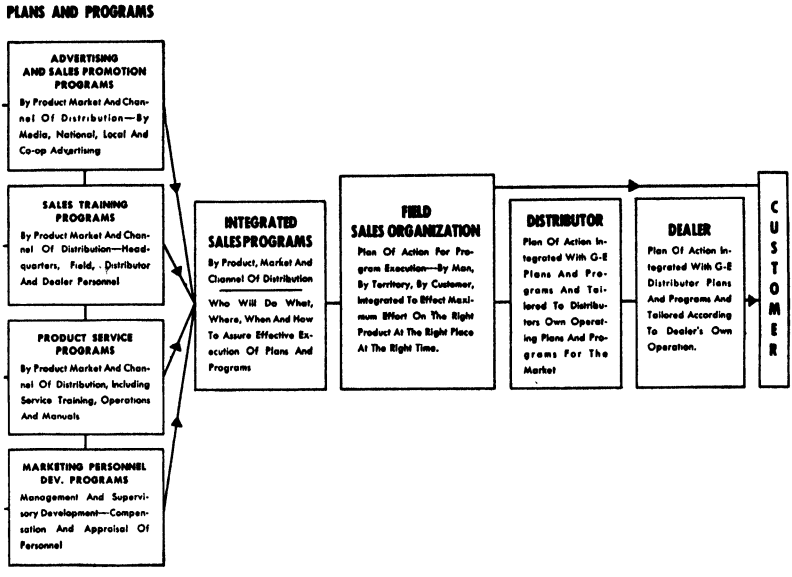
appliances. Several years ago, General Electric Co. manufactured and sold vacuum cleaners in the old traditional pattern. It got only a 6 to 8 per cent share of the market, being outsold by several competitors.

The company had no house-to-house selling organization or specialty sales group of any kind. Then a new manager decided to use product planning. A canister-type vacuum cleaner with a swivel top was developed. A TV show advertised it profitably. The sales of the G.E. cleaner rose to first place in the industry.

Roy W. Johnson, executive vice-president of GE's appliance and electronics group, puts it this way: "Product planning is expected to integrate the planning, the timing, and the pricing required to add the new, eliminate the undesired, and improve the existing products." He once told a group at the University of Michigan that a product planner, a market researcher, and their boss–the marketing manager–in effect should "find the product that doesn't need to be sold.". . .

Johnson admits that in GE there are still some instances where engineers

PROCESS—"PATHWAY TO PROFITS"



manage. You establish procedures. You integrate operations. You measure performance. And you carry out the plans. For further information, see Edward S. McKay, *How to Plan and Set Up Your Marketing Program,* Marketing Series, No. 91, American Management Association, 1954.

SOURCE: Marketing Services Division, General Electric Company. Copyright, 1952.

design a product, the general manager orders it into production, and, after there are some gizmos in the warehouse, the sales manager is told to go out and sell them. Says Johnson, "The engineer and the manager are banking on that sacred booby-trap word 'sell' to bail them out."

He cites an example from GE experience: The GE clock department was able to nail an order from a group of department stores. Store buyers and GE sales people prepared two designs, settled on one, and put through a manufacturing order by normal channels. When the order came up for marketing approval, it turned out that no market analysis had been made. Those involved decided they didn't need one since, with buyer's orders in hand, they already knew the market. A test was run anyway. The results: Only 15 per cent of potential customers liked the clock chosen for manufacturing; 85 per cent preferred the one the buyers and GE had rejected.

Obviously, the hard sell would have fallen flat if the initial choice had stuck. You might sell people something they don't want–but it costs a lot.[5]

[5] "Sales Controls G-E Design," *Sales Management,* June 1, 1953.

The integration of production and marketing has resulted in product planning that includes consideration of the ways the product is sold, particularly the abilities of retail sales personnel.

. . . In moving Product Planning into the Marketing province we knew we were, in a sense, defying tradition. As a rule, such activities are primarily in the domain of the design engineers. We all know of many instances where brilliantly engineered products did not adequately reflect the need at the market place.

Our Product Planning takes a new approach. The first step is to find out what the consumer wants in features, service, appearance, and price. Then we decide what we will be satisfied with in the way of quality, improved technology, standardization between models, and sales volume. If the planning has been good, the line will sell. With this approach, we do not set ourselves up as arbiters of public taste and preference.

In addition to its Product Planning responsibilities, Marketing is organized to keep a finger on the pulse of the market and relate production with retail sales, to provide an advertising program, to provide merchandising plans, to provide promotions, to appraise constantly distribution structure and performance, and to act as a channel of communications with distribution.[6]

In view of the fact that personal selling has declined in many retail fields, impersonal selling, as evidenced by self-selection and self-service, has forced consumer product planners to adapt the product to the selling situation.

The designer may have come into industrial work as a prettifier of the exterior of a product, but today he's as much a part of the planning function of business as the engineer and the sales director.

In his design he considers the engineering problem, production cost, price range, competition, market potential, uses of a product; he works closely with the engineer who designs the insides. He is the link between the engineer and the consumer.[7]

PRODUCT PLANNING INCLUDES RECOGNIZING CONSUMER'S IRRATIONAL BEHAVIOR

When this characteristic of the consumer is disregarded, a great deal of unnecessary expense and work may result. This finding is often reported at meetings of marketing researchers. Here are six examples:

1. The manufacturer of a popular kitchen gadget used for mixing milk shakes, batters, and so forth, decided to improve his product. He designed a more powerful and almost noiseless new model and invested thousands in retooling part of his plant. But the new model just didn't sell. Why?

[6] "How to Sell without Salesmen," *Business Week*, Apr. 18, 1953.

[7] "New Designs for 1954 Consumer Goods," *Business Week*, Dec. 19, 1953.

One consumer summed it up by saying that the product didn't seem to have any power; it didn't make any noise! The manufacturer had to withdraw the new models and redesign them, this time with a little noise added. Since that was what the consumer wanted the manufacturer had to give it to him.

2. The cola flavor in soft drinks is very popular, yet when a manufacturer offered consumers a cola-flavored gelatin dessert, it was a big flop. Consumers may like a product very much in one form, but that is no guarantee that they will like the same shape, color, flavor, or odor in another product.

3. People often distrust a new product when they cannot see how it works. When an automatic vending machine for hot dogs and hamburgers was introduced it was not successful. The machine cooked the food electronically in less than a minute in view of the customers. The customers admitted that the sandwiches seemed to be cooked and were hot, but since they couldn't see anything happening to the food while they watched it, they just didn't believe in the machine. When orange-red lights were installed to glow during the cooking process the customers were satisfied. Though the lights had nothing to do with the cooking, the machine now seemed to be working.[8]

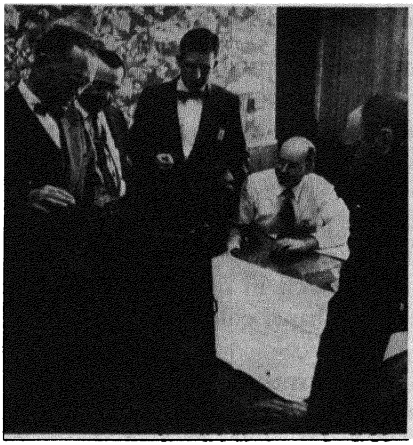
4. Even when a product does sell well, consumers may not utilize it fully. Take, for example, the clock radio. Its appeal lies in all the functions it can serve, yet once the novelty wears off few consumers use it to turn the radio on or off or to operate kitchen appliances.

5. Appearance often has a great influence on consumers. Even though home economists know that beef with yellow fat should be sold at premium prices, most consumers would rather pay more for beef with white fat. Consumers also prefer potatoes with smooth skins, though this has nothing to do with the food value of the potato. Choosing by appearance is not entirely illogical, however, because a pleasing appearance does offer the consumer certain satisfactions.

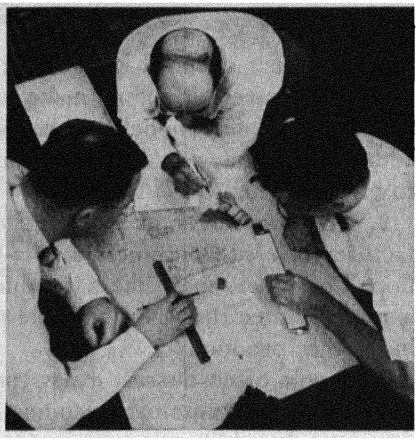
6. A manufacturer of small firearms decided to go into production of forged-steel tools. This was a new line for the company and yet it went ahead with engineering the product without full knowledge of user preferences, customs, and practices. The tools were well-designed and were given rustproofing treatment which left a dull finish rather than the popular shiny steel finish common in such tools.

The company was certain that sales would go well and undertook a full-scale development and marketing program, but the tools did not move from dealers' shelves. Building craftsmen would not buy them because they didn't like the dull finish. Because this company had failed to find out if users wanted a dull finish, thousands of dollars were wasted in

[8] Robert Froman, "You Get What You Want," *Collier's*, Apr. 7, 1951.

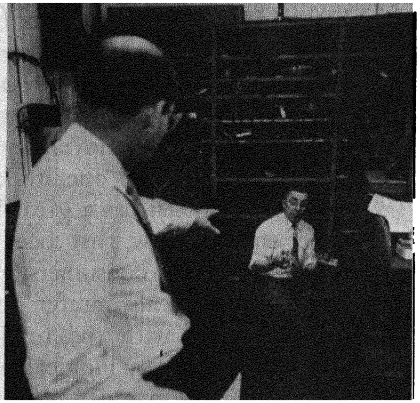


Westinghouse decided they needed a new line of line starters. Their models were becoming obsolete. Their first step is to gather marketing and technical data and discuss the data thoroughly.



When the decision as to what the new line should offer is made, the design engineer takes over. A line starter is a complex unit and revision is a challenge. The design engineer's new ideas must be tested—the first ones often fail.

A design specification is finally drawn up and detailed drawings are made by the draftsmen.



The lab model maker uses these in turning out the first complete test models. Then men in the other departments —sales, service, application, and engineering—give their reactions.

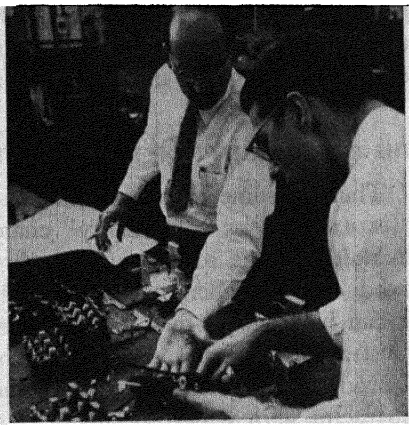
Examples of the Way Westinghouse

When a manufacturer finds that his product, in comparison with the products of competitors, becomes obsolete, he must redesign and improve it. To meet the competition, a new product really has to be new. A company can't meet competition and sell its product just by giving it a new coat of paint.

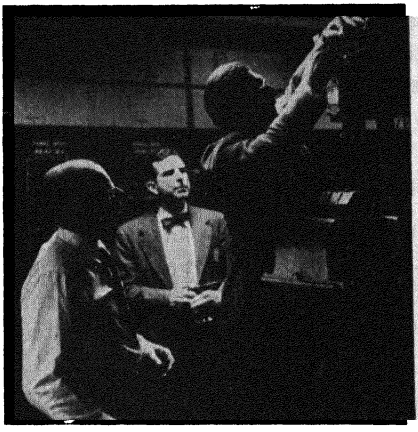
Here is an example of a typical procedure as used by Westinghouse in redesigning a line starter.

A line starter is basically very similar to a wall electric-light switch. Because it often controls key machines in a production line, it must be completely reliable. Since it is an intricate and complex mechanism, redesigning it involves many problems, including close liaison

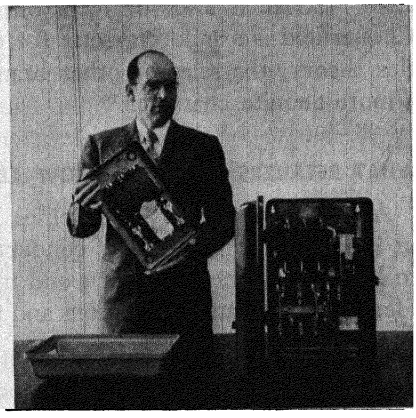
Production cost is checked by tool-engineering, time-study, and accounting men. Now production men start to work on the materials, tools, and dies needed. The engineer puts the final touches on the design.



Parts are again checked over. Design and methods engineers work out assembly patterns and plan how the line starter can be produced most efficiently.



Pilot models are tested again for possible flaws. A final cost analysis is made. The design engineer makes a complete report which must be approved by everyone who will be concerned in the production and sale of the line starter.



Westinghouse now has an improved, competitive item—thanks to the work and cooperation of a good part of their staff.

Revamped a Product.

with the marketing staff. Besides working out the technical factors, marketing must also be considered.

While the engineer tries to develop new concepts and improve parts, he must always keep in mind the limiting factor of costs to the customer. At the beginning of the project a "not-to-exceed" cost limit is set. Throughout the course of the project, engineers, accounting men, and time-study experts keep a check on the probable cost of production. Should these studies show that the proposed model is too expensive to manufacture, the engineers must work on a

(Continued at foot of next page)

development, tooling, and inventories. A more serious result was that the company had given dealers an unfavorable impression of its goods.[9]

THE "PERSONALITY" OF THE PRODUCT

There is some argument among marketers as to whether a product's "features" or its "personality" characteristics are the more important in marketing. One school of thought believes that the sales success of a product is dependent on what people think and feel about it and whether it can be made to fit into their motivational framework: their fantasies, frustrations, anxieties, and hopes. Therefore, marketing men strive to give a product character. Research studies can often help to find the correct character with which to endow it.

The subtle, subconscious character with which consumers endow a product is illustrated by the three leading cigarette brands, each of which is supposed to have a well-defined personality. Psychological studies have indicated that people are aware of these brand personalities. Camels are considered a man's cigarette and are associated with the workingman. Lucky Strike is also for men, but for others as well as workingmen. Chesterfield is a mild cigarette for either men or women. According to this theory, the sales of other brands tend to increase as they acquire a more definite character.[10]

WHAT RETAILERS WANT TO KNOW ABOUT PRODUCT FEATURES

A survey of retailers in 64 cities, half of whom do an annual business of $10 million or more, was conducted to determine what retailers want to know about new products and marketers' advertising plans for them. Here are some sample questions and the percentages of retailers interested in answers to them:

"How many prospects for the product are there in my store's market?" wanted by 61 per cent of retailers.

"What features of the product appeal most to customers?" wanted by 60 per cent.

"Will the product's price be within the customer's reach?" wanted by 44 per cent.

[9] Gustav E. Larson, *Developing and Selling New Products*, Department of Commerce bulletin, 1950.

[10] See "Martineau Stresses Product Personality," *Advertising Age*, June 22, 1953.

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new plan.

The cost operation highlights the fact that while the project is primarily in the design engineer's hands, many other staff members, especially marketing men, are also involved.

This type of revision of a product is very different from the long-range pure research project—where both aims and results are uncertain.

SOURCE: Adapted from *Business Week*, Jan. 17, 1953, pp. 156–157.

"Will the product's price compare with similar products which may be introduced?" wanted by 41 per cent.[11]

NEW MODELS OF APPLIANCES

The manufacturers of certain products such as automobiles make model changes annually. The big rush of new models for the relatively saturated fields of refrigerators, washers, ranges, and vacuum cleaners comes in January. Changes in radio and TV receivers are timed for the June house-furnishings show in Chicago, but that is not the only time when changes are made. Some companies, especially TV makers, introduce new models at other times also—whenever sales can be stimulated by a new model. Refrigerator makers often make two or three model changes in a year. Washer and vacuum cleaner manufacturers are least tied to year-by-year model changes. They tend to keep models alive for several years. When air-conditioner manufacturers are unable to keep up with demand, they make few or only minor changes.

New appliances do not just develop from thin air—they take many years to perfect. Some 8 years of field testing and designing, for example, lie behind Crosley's new dishwasher.

There are some unusual appliances on the drawing boards of many appliance manufacturers, but it may take years for them to appear in the average home. Among these are refrigerators that will store fresh vegetables for as long as 6 months, high-frequency cooking ranges, and new washer-dryer combinations. In many cases, the appliance manufacturer of the future will be most interested in the replacement market. A new type of refrigerator, for example, with unusual new features may be bought by a family whose own refrigerator is only a few years old. Since 87 per cent or more of wired homes now have refrigerators, such repeat buyers must be encouraged to buy or the market will become mainly a replacement market. The market for conventional washers is about 75 per cent saturated, but that for automatic washers is only about 12 per cent saturated. The answer to the saturation problem seems to lie in offering such desirable new features that the buyers cannot resist them. To make this policy effective, the appliance industry must use a trade-in plan similar to that employed by the auto industry.[12]

Industries today are spending record amounts of money to improve existing products or to develop new ones. All these efforts along the lines of technical research have the end purpose of pleasing and benefiting the customer. This means that technical research must be guided by what consumers want and will buy. The marketing man must, as a regular part of his responsibility, make preappraisals of markets for every new product

[11] Survey made by John Falkner Arndt & Company, reported in *Tide*, Oct. 10, 1952.

[12] See "Appliances: The Tide Turns," *Business Week*, June 28, 1952.

and product change. He must also participate in more than the study of the size of the market, pricing, or package design; he must sit in and participate with the design, production, and financial management men throughout all the planning and development of the new product.

SOURCES

American Standards Association, Inc., 70 E. 45th St., New York. This association is the American clearinghouse for national standards activity. Founded in 1918, it is a federation of more than 100 trade associations, technical societies, professional groups, and consumer organizations. Some 2,200 companies are affiliated with it as company members. The ASA is the American member of the 33-nation International Organizations for Standardization.

The main purpose of the American Standards Association is to provide the machinery for creating a comprehensive, integrated set of engineering, industrial, safety, and consumer standards. The development of standards aims at maintaining a common language among all who buy and sell, make and use. American standards are created voluntarily and are approved only after all substantially interested groups have expressed their satisfaction with them. Among those products for which standards have been established are machine tools, electrical equipment, component parts, photographic equipment, gas-burning appliances, rayon fabrics, and safety features. The ASA is concerned primarily with standards for interchangeability, performance, and safety.

Membership in the American Standards Association provides many services. It enables member companies to keep abreast of new developments in American standards. The magazine of the Association also offers up-to-date news of world-wide standards activities and articles on the practical application of standards in industry. ASA serves as a reference bureau for members on domestic and foreign standards and maintains a large library of standards and related materials. The Association is frequently able to provide information needed in filling orders, submitting bids, or in the routine of plant operation. A company-member conference is conducted regularly by ASA for the interchange of experiences among standards departments of company members and to provide a channel through which members can offer recommendations for the future policy of the American Standards Association.

Men in marketing often refer to the ASA to find out the extent to which their own products conform to the nationally recognized standards. Since the interests of customers are represented in setting up standards under the procedures of the American Standards Association, the marketing of products which meet standard specifications is made easier. A common language is provided to buyer and seller, merchandise returns

are cut down, and all concerned have a yardstick for measuring performance requirements.

Annual Handbook of Product Design, Product Engineering magazine, 330 W. 42d St., New York. This *Annual Handbook of Product Design* is published once yearly in November by *Product Engineering* magazine and is included as a part of *Product Engineering's* regular editorial service to its subscribers. The only handbook of its kind edited for product-design engineers, it contains each year a broad-ranging report on the most significant design-engineering developments that have taken place during the preceding 12 months, drawing for its content on the data which have appeared in the technical press of the world. Each succeeding issue of it in no way obsoletes the information contained in preceding issues. Each issue is designed, instead, to add new data to those already supplied in previous issues so that, in time, product-design engineers can build from these issues a complete library of essential design information.

The editorial content of this handbook is sectionalized by major subject groups such as general engineering, metals and alloys, fabrication and production processes, electric motors, engines, and others. Advertising in the handbook is located in each of the 10 major sections, immediately following the editorial pages. When a selection of motors, for example, is the reader's prime concern, he will find all advertising for motors in the motors, engines, and controls section.

Manufacturers who sell parts, materials, components, or finishes to the original equipment market find the *Annual Handbook of Product Design* a particularly rewarding advertising medium. It gives them an opportunity to reach, in a permanently useful issue of *Product Engineering*, a large group of the men who lead America's developments in new machinery, equipment, and appliances.

National Bureau of Standards, Washington. The National Bureau of Standards was set up by an Act of Congress on March 3, 1901. Section 2 of the amended act states that NBS shall provide "advisory service to Government agencies on scientific and technical problems."

The Bureau's budget was about $25 million for 1954. Only about 30 per cent of this budget was directly appropriated by Congress; the rest was transferred to the Bureau by other government agencies (for example, the Atomic Energy Commission and the Department of Defense) for specific jobs.

The Bureau tests products submitted for purchase by government agencies. The Bureau is not concerned with brand names but will tell Federal buyers whether or not a given material conforms to purchase specifications.

It calibrates instruments, distributes standard samples of chemicals and ores, studies properties of materials, helps to prepare building and safety

codes, helps to determine standard weights and measures, engages in basic research and other activities.

The Bureau does not as a rule conduct tests for private manufacturers if suitable test facilities are available elsewhere. Exceptions are tests involving comparison with the national measurement standards and referee tests on problems of national interest. However, university and industrial scientists throughout the country may ask the Bureau for advice about individual problems. Thousands do.

The Bureau mainly tests scientific instruments and materials like cement, rather than consumer products such as television sets and vacuum cleaners. Occasionally the Federal Trade Commission or the Post Office Department requests a test of a specific product to determine the validity of advertising claims.

Any manufacturer whose product has been found by the Bureau not to measure up to claims is likely to kick. Most complainers are small businessmen. They usually take their complaints to a congressman or senator and hint that "big business" has kept them from securing FTC or Post Office Department approval.[18]

Commercial Standards. Simplified Practice Recommendations and Commercial Standards are developed by manufacturers, distributors, and users in cooperation with the Commodity Standards Division of the National Bureau of Standards. The purpose of Simplified Practice Recommendations is to eliminate avoidable waste through the establishment of standards of practice for stock sizes and varieties of specific commodities that currently are in general production and demand. The purpose of Commercial Standards is to establish standard methods of testing, rating, certifying, and labeling commodities and to provide uniform bases for fair competition.

The adoption and use of a Simplified Practice Recommendation or Commercial Standard is voluntary. However, when reference to a Commercial Standard is made in contracts, labels, invoices, or advertising literature, the provisions of the standard are enforceable through the usual legal channels as a part of the sales contract.

A list of all effective Simplified Practice Recommendations may be purchased at nominal cost from the Superintendent of Documents, Washington. The Commodity Standards Division, National Bureau of Standards, will be pleased to furnish price list upon request.

Battelle Memorial Institute, 505 King Ave., Columbus, Ohio. This organization provides the physical plant, equipment, and personnel for conducting technical and economic research for industry and government. It maintains laboratories in Columbus; north Florida; Frankfurt, Germany;

[18] For further information, see "National Bureau of Standards; What It Does," *Sales Management,* May 1, 1953.

and Geneva, Switzerland. Offices are located in Washington, London, Paris, and Milan, Italy. It conducts research in all the industrially useful physical sciences, bioscience, and in many specialized technologies.

The staff of Battelle includes 2,400 people. The annual volume of research is in excess of $15 million.

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QUESTIONS AND EXERCISES

1. What is the most important factor in any marketing situation?

2. When considering the introduction of a new product, what are the major factors influencing the decision from the standpoint of (*a*) trade relations, (*b*) the consumer, (*c*) the existing marketing organization?

3. What do you understand by the integration of production and marketing?

4. Do products have a personality? Contrast the personality of two different brands of beer or automobiles.

5. What are some of the factors which influence the timing of the introduction of new products?

6. What is the difference between diversification and simplification? Would it be possible for a manufacturer to follow both of these policies at the same time? Explain.

7. What are some indications of the consumer's irrational behavior? Does the consumer ever attempt to secure conflicting qualities in a product?

8. What services does the National Bureau of Standards offer the private manufacturer?

9. Consider the designs of American automobiles over the last few decades. Have car manufacturers tried to sell more units of cars or have they tried to sell more car per unit? List some of the luxuries and accessories which they have added in order to make the car the fulfillment of a man's dreams.

11 The Package Is Part of the Marketing Plan

THE ALERT MARKETER

1. **Watches data which show how changes in package design affect sales.**
2. **Notes trends that affect consumer's needs for package changes, such as the need for small packages appropriate for the smaller American family.**
3. **Notes how unique package needs vary for different channels of distribution, as in the case of variety chain stores.**
4. **Compares the effects of a quick change in package design with those of a gradual change made over a period of years.**

The packaging of a consumer product is a part, an important part, of the marketing plan. It has become more important because of recent changes in distribution. The package has had to take over many of the functions previously performed by personal selling. As self-service and self-selection have increased in retailing, personal selling has decreased. The less the personal selling, the more selling becomes necessary on the part of the package.

According to one study, the average housewife in a recent year opened 1,696 packages of all kinds. Of these, 575 were cans.[1] This tremendous amount of package handling by consumers offers modern marketers many opportunities to influence sales. These opportunities are developed through the use of dynamic designs, new types of pressure packages, squeeze bottles, and materials that provide visibility.

[1] Howard F. Lochrie, *Packaging for the Self-service Market of Tomorrow*, American Management Association, Packaging Series 39, New York, 1952.

THE TREND TOWARD DYNAMIC RATHER THAN STATIC PACKAGING

The modern package must be adapted to men shoppers as well as to women, because two-thirds of husbands shop for household items at least once a week. The package must be designed to stop the shopper on her purchasing "tours" within stores to catch impulse purchases, since almost four out of ten supermarket and three out of ten drugstore purchases are unplanned.

For advertising, the package must be adapted to usefulness on television as well as in newspaper, magazine, and poster advertising. Packaging design must be so flexible that when the manufacturer of a consumer product decides to offer a certain premium, he can describe and feature the premium on the package during the campaign. If he decides to change the premium policy within a month, he merely changes the package accordingly.

The package designer must provide for frequent changes in the design of the package because the trend today is toward dynamic rather than static packaging. Changes take place in some lines of products more often than in others. Cereal packaging, for example, must constantly undergo revision as the result of new premium offers. In some companies the cost of making such changes is charged to point-of-purchase advertising, because that is what it is.

PACKAGING FOR SMALLER FAMILIES

Currently, about 59 per cent of American families have three or fewer members. As a result, the large "economy size" package is not appropriate for a high proportion of shoppers. In response to the present definite demand for the smaller package, manufacturers have produced more and more fractional packages for everything from bread to cement. Crackers, for example, now come in several film-wrapped packages within a mother package.

PRESSURE PACKAGES AND SQUEEZE BOTTLES

The booming business of the pressure industry can well be attributed today to the convenience of applying the old "thumb and forefinger" method of opening and using pressure packages. Today the hundreds of push-button gadgets on the market testify to increased consumer acceptance.

After the war such new containers as the "spray type" cans and the squeeze bottles became an important stimulus to the sale of liquid products. On the other hand, pressure containers caused a loss of sales in a few

products which are too heavy for pressure spraying, such as petroleum wax for automotive polishes. This problem is yet to be solved.

The polyethylene plastic squeeze bottle, however, can be utilized for almost anything from shaving soap and deodorants to window cleaners. Polyethylene is very adaptable to packaging because it is one of the lightest of all plastics, resists most chemicals, withstands low temperatures, and is tough, translucent, and lacking in odor and taste. The cosmetics industry more than any other utilizes the squeeze bottle, but its application in other fields increases daily.[2] The insecticide industry is the biggest user of pressure containers. Some of these bug "bombs" are called aerosols, spray bombs, or spray cans.

VISIBILITY OF PACKAGES

Tremendous appeal for usefulness or for gift giving can be gained from packages made of plastic sheeting, particularly for the conventional items of confections, perfumes, lingerie, and the other novelties where attractiveness in packaging is important.

The visibility of the package has been found to be especially important in self-service shopping. The Film Department of E. I. du Pont de Nemours & Company makes time studies of shoppers' activities. In one study, made in two self-service food stores in each of four cities, 5,051 shoppers in the cracker, biscuit, and cookie department were timed. They made 6,149 purchases. The average time spent in deciding to buy these items was as follows:

Biscuits and cookies	30 seconds
Crackers	26 seconds
Multiple purchases (Crackers, biscuits, cookies)	29 seconds

Since an average of 119 different cracker, biscuit and cookie items were displayed in the eight stores, the odds were 118 to 1 for selection of any one item. But . . . decision to buy a particular package from the mass display was made in 30 seconds, or less. The shopper gave only a split second to each package.

Seven per cent of the people timed stopped, looked at the display, but did *not* buy. Yet they spent an average of 54 seconds in the department, almost twice as much time as those who bought something.

SOURCE: *Decisions in Seconds*, Film Department, E. I. du Pont de Nemours & Company, 1952.

The main selling point of many an article can be the transparent box in which it is packaged. One company, for example, packaged its kitchen

[2] Bernard Tolk, "Over 800 Products Participate in Pressure Packaging Boom," *Printers' Ink*, Apr. 24, 1953.

items such as can openers and knife sharpeners in transparent boxes large enough to be used later as sturdy hatboxes. Naturally, this has a great deal of appeal to the woman buyer.

In the sale of cookies, cheeses, jams, and jellies, polystyrene containers in unusual shapes have a great novelty, especially as a gift. Dealers like to display such novelties on their counters.

PREPACKAGED MEAT

It has been found that self-service meat departments enable customers to purchase in a great deal less time than in the regular service meat departments. The E. I. du Pont de Nemours & Company movie, *Time Lost or Time Saved*, showed that 2,700 shoppers in a self-service meat department purchased 5,927 items in 116.7 hours, whereas the same number of "regular" shoppers took 198 hours to make 5,467 purchases. During week ends the rate of meat sales and the time saved by self-service shoppers was even greater.

The du Pont survey indicated that the average housewife buys 9 per cent more meat in the prepackaged department but spends 41 per cent less time there. The rate of impulse buying is greater in prepackaged meat departments. The survey showed that 14.8 per cent of the stores' total sales were in the meat service department, but a store that handled prepackaged meats obtained 19.9 per cent of its sales in the self-service meat department.[3]

Poultry sales are quickest to reflect the benefits of self-service, generally going up about 200 per cent. Delicatessen products usually double their sales. The meats that show the least rise in sales are the fresh red meats, with an increase of about 20 per cent. Market owners also like prepackaged meats because they simplify bookkeeping and make it easier to budget the butcher's time.

In the area of consumer reaction, the reasons given for buying prepackaged meat products were the convenience and the influence of the store. Furthermore, according to the du Pont survey, prepackaged meats seemed to be cleaner, they permitted a more independent selection, the cost to the shopper could be more easily determined, and the meat could be handled by the shopper and inspected more closely for quality, cleanliness, and appearance.

On the average, the shopper who prefers self-service buys meat products by price rather than by weight; this results in the shopper spending less money per item, but she buys more items. Furthermore, the habit of buying prepackaged meats is more prevalent among younger shoppers

[3] From E. I. du Pont de Nemours & Company film, *Time Lost or Time Saved.* See also *Advertising Agency,* July, 1952, p. 52, and *Tide,* May 16, 1952, p. 19.

than among the older ones who have yet to be "sold" on prepackaged items.[4]

PACKAGING FOR SALES IN VARIETY CHAINS

All types of retailers respect the selling values of the package, but the retailers who seem to have the greatest appreciation are the merchandisers such as the supermarkets and variety chains who deal with the masses of shoppers. The alert manufacturer designs his packages to fit the conditions and needs of the specific class of retailers who constitute his main retail outlets. As an example of the kind of consideration that can be given, we shall discuss packaging for selling in variety chains.

The variety stores have not had so pronounced an evolution in their history as have the grocery stores, who went from the small general store to the great supermarket. Variety store selling is still founded on the four old principles of (1) centralized buying, (2) mass distribution, (3) low prices, and (4) the sales power of the merchandise itself on open counters. Counter space is the most valuable single factor. All items on counters are supposed to be self-sufficient in their selling influences.

In all variety stores counter footage is spaced in accordance with the volume of sales. Counter space is somewhat standardized in most chain stores; long experience in making profits has caused the space for a given item to be measured sometimes within a fraction of an inch. Materials must be packaged in specific sizes.

The "package" card, peculiar to the 5 & 10 type of store, has endless uses as an aid in selling. It is particularly useful to keep track of small articles such as bobby pins, to furnish information to the shopper, and to advertise further the product on the card. It helps to prevent the otherwise easy theft of such merchandise, and it aids inventory taking and ordering.

Even though the variety chains attempt to increase the selling "know-how" of their salespeople, the emphasis is still put on the articles themselves. If the package and article do the selling, the "salesperson" has more time to straighten her counter and take care of sales. Since a store of this kind carries from 10,000 to 20,000 items, it is evident that the items themselves must do more effective selling than can the salesperson.

Also, in a store of this kind, packaging is of vital importance to every member of the personnel from the manager, who is concerned with having a continuous stream of fresh merchandise and a small inventory, to the stock boy who must carry it. The manager wants small packing units so that he is not forced to store half-filled cartons. In many stores a stock boy is not always available and the task of getting supplies from

[4] See "Prepacked Meat: New Boom in Marketing," *Tide*, May 16, 1952.

the storeroom to the counter is up to the clerk. Usually, she cannot handle large packages; the smaller and easier the package to handle, the better chance of her fulfilling her task.

Packaging affects the cleanliness and durability of an item. If an item is difficult to keep clean and is fragile, it is subject to losses. In the case of soft goods, for example, cellophane wrappings are torn open by the customer to inspect the item. This produces a messy appearance on the counter and invites loss by pilferage. As one chain executive put it, "When we first got hold of cellophane we were going to wrap everything and make it all germ-proof. In the process we almost killed the germ to buy."

But, for all the efforts expended and requirements which must be met in packaging for this two-billion-dollar retail field, there is still no set formula. One superintendent of long service recently defined modern 5 & 10 packaging as "one part good art, one part good copy and two parts the chains' requirements. But then," he added, "80% of the results depends on how you put them together." [5]

FACTORS IN DESIGNING PACKAGES THAT SELL

It takes more than merely a clever design to produce a package that sells. To have definite goals in mind when analyzing packaging problems is the first step. Packages should serve the following three functions:

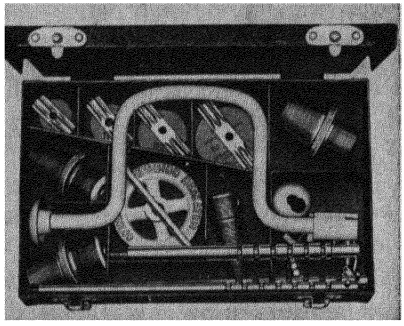
1. Increase the chances of making the sale at the point of purchase, the top objective of most consumer packaging today.
2. Protect the product, whenever and wherever it is handled.
3. Reduce costs while getting the item to the market.

In modern merchandising, packaging has importance for dealers and distributors as well as consumers. The distributor wants packaging that can be divided easily among stores and for reshipment, while the dealer wants packaging that can be used for displays. Fixture conditions should be considered before packaging an item. Above all, the standard rule for packaging is to have a good design for all those who handle the package in its travels from the factory to the rubbish can.

Packaging is important not only for protection of the product but also in production costs. This became especially evident when bottlers of soft drinks aped the brewers and tried out the use of tin cans for soda pop. At the time, soda pop was still selling for a nickel a bottle in some areas. The price of a throwaway can, however, was 3½ to 4 cents each.

Along with a realization of the marketing possibilities that the new packages offer, there is a growing awareness among packagers of the cost. Packaging

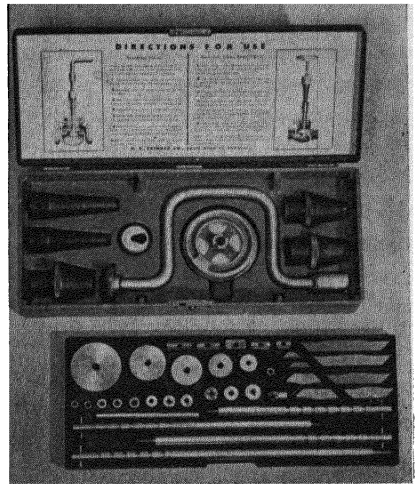
[5] John H. Lyman, "Some Cues on Packaging Goods for the Variety Chains," *Sales Management*, Sept. 15, 1949.



This Plastic Box Jumped Sales 42%. The old package was a rather non-descript metal box holding the various parts of the Skinner Valve and Bibb Reseater. Adequate as a container, it didn't have any of the class of the new plastic containers that are being used widely now for industrial tool sets. . . .

Full-page advertisements in trade journals and direct mail announced introduction at the new price of $47.75, formerly $35.75.

And what happened to sales?



Increase: 42 per cent in units sold. And this, for a tool which has been on the market since 1907!

SOURCE: From article by K. G. Merrill, *Printers' Ink,* Apr. 16, 1954, p. 68.

is no longer an incidental service. The package is part of the product; and for many consumer items, it's the most expensive part. Dr. Laurence V. Burton, executive director of Packaging Institute, estimates that 87% of the direct labor of the average consumer goods industry is packaging labor. He ranks food as an industry with one of the lowest packaging labor costs—just under 60%.

Besides the labor cost, there is the manufacturing cost. In a spot check, *Modern Packaging* magazine found that the package represented 70% of the total cost of a tooth paste, 50% of a soap, 8% of a bread. These percentages add up to really big business. One packager estimates that industry spent $14 billion on packaging during the past year.

By and large, the new packages are more expensive than their predecessors. They have to perform additional services, each of which adds to the cost. The place where packaging costs can be cut most efficiently is in the plant of the basic producer. That's why, running all through the packaging revolution, is a shift of the packaging operation away from the retail store to the factory. This shift also brings the package closer to the engineers—which is perhaps another reason why technology is playing a more important role these days.[6]

Packaging can easily be an expensive factor in the cost of the product. Because of increased freight rates, the well-designed package must have the least possible weight and take up a minimum of space. Today's trend

[6] "Dose of Technology for Packaging," *Business Week,* Apr. 17, 1954.

is toward the employment of light but strong fibers for packaging even for export.[7]

The new medium of television has arrived on the advertising scene, and with it has come the need for designing packages that "show" well on the screen. Some packages reflect too much light. Most have a type size much too fine for the viewer to read. Yellow colors appear to be white. The advertiser must "screen test" his product to see if it televises well. This can be done by arranging with a local TV studio for a closed-circuit showing. Then the advertiser can observe it on the monitor in the studio and closely approximate the appearance of the product on home sets. Often this service will be given free of charge if the studio considers the applicant a potential advertiser.[8]

Products that are sold door-to-door also offer special problems to designers. One case of this kind was the designing done for the Grand Union Home Service Division for their door-to-door selling of grocery staples. The designer developed special criteria for what a package should accomplish under their conditions. He realized that the design that might appeal to the store buyer might not appeal to the home buyer. Therefore, the door-to-door package design was changed so that the product appeared well on the shelves in the homes. On the home package the advertising was purposely repetitious. Strong visibility was not sought as in the case of store packages. No bright colors, block letters, or other interrupting devices were used.[9]

Reuse packages have come into focus too. One company which has capitalized on this feature is the Kraft Cheese Company, who package many of their cheeses in attractive reusable glasses. Even housewives who have not written "cheese" on their shopping lists find it easy to buy the product simply to get its glass container.

PREFERENCES OF HOUSEWIVES IN REGARD TO PACKAGES

In one survey conducted by National Family Opinion, Toledo, Ohio, 875 housewives reported their dislikes and likes in the grocery store packages they purchased. Their most typical requirement of the package was to have it serve as part of the housekeeping operation. The housewife wanted a package that was economical, sanitary, time- and stepsaving, and generally, a "convenient" package. It was noted that few housewives specified that the package be aesthetic. However, this is probably not

[7] *Modern Industry*, July 15, 1949.

[8] Bob Foreman, "What Does Your Package Look Like on TV?" *Printers' Ink*, May 18, 1951.

[9] Carroll J. Swan, "Package Is Sole Advertising of Door-to-door Service," *Printers' Ink*, Mar. 18, 1949.

because today's woman is oblivious to beauty but because she takes for granted the aesthetic qualities of good design.

In general, on the outside of the package, nine out of ten women wanted exact directions for cooking and cooking time. Two-thirds wanted a statement of the number of servings. For the package characteristics, the women wanted a sanitary package with protection from deterioration and one that could be closed securely after usage. Reusable containers were in high favor.

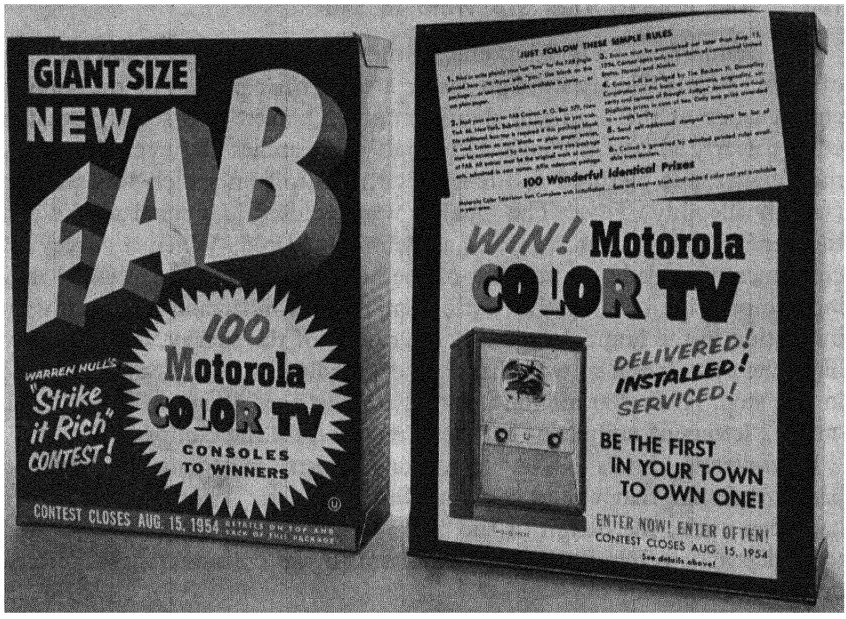
In reference to plastic containers and cellophane in particular, the housewife liked the fact that the contents were visible but disliked the possibility that cellophane containers might be too easily broken. In the area of tin containers, the women liked the efficiency that tin provides for keeping products fresh and preventing spoilage but found the difficulty in opening such containers a drawback. The quality best liked about glass containers was their reusability, with the dislikes centering upon the difficulty in opening pry-up types of closures.[10] *Sales Management* makes such surveys from time to time and publishes the results. Marketers who are responsible for the packaging of consumer products use the reports in setting up consumer goals for their package improvements.

PACKAGE INSERTS

In addition to convenience, closure, instruction, and color schemes when he designs a package, the manufacturer must also consider the importance of the package insert. Today, it has become part of the package, and the designing of the insert must be considered as carefully as that of the package itself. This same principle holds true for tags and any other messages that are included on the product or the package.

The insert may contain a message that will help sell the product again. For example, the Rowntree Chocolate Co. of York, England, inserted messages to help alleviate the ill will that might arise from American purchasers who knew that the British rationed the product in England, explaining how the sale of chocolates helped to stabilize the British economy and expressing thanks to the consumer. This proved to be so successful that the company further inserted a personal note from one of the factory girls who participated in the manufacture. In effect, she said, "Have you just opened this box of chocolates? Well, I do hope you're going to enjoy them because, since I helped to make them, I'm sort of proud of them." She further described personal details about her experiences with the Rowntree Company and ended by saying, "I get no

[10] A. R. Hahn, "What Women Like and Dislike about Packages Today," *Sales Management*, July 15, 1951.



Note how the Fab package, front and back, is used to advertise contest and premium offers.

end of a thrill out of knowing that the chocolates I pack are helping old England with her export drive." Included with this note was an autographed snapshot of the young lady! [11]

SPEED OF CHANGE IN PACKAGE DESIGN

Package design has been adapted to the modern tempo in selling. Formerly, boards of directors cogitated for a year about the suitability of making a proposed change in design. Now they have become accustomed to frequent changes. They merely note the new designs as they pass by, ascertaining whether the new package fits into the company's established marketing policies.

The advantages of changing a package design in one decisive step far outnumber the gradual change made in several stages. A new package design may add "pep" to the sales force as well as provide something new and interesting for the salesman to promote. The new package inspires him to use fresh tactics in selling. Furthermore, the new package helps to arouse enthusiasm in the dealer. A sharp change promotes an upsurge of enthusiasm for all who deal with it, an interest that cannot be found in a gradual change.

[11] *Sales Management*, June 15, 1953, p. 22.

One example, and a striking one, of the change in design is the package of Quaker Oats. Today's design shows a large clear picture of the smiling countenance of the head and shoulders of a Quaker. It is so large that it covers nearly all the package. On display, it catches the eye. Formerly, the Quaker was pictured full length with a scroll on which was written (usually illegibly) PURE. The Quaker was enclosed in a small square and the general design was regarded as definitely dated. When a survey of consumers was made, 89 per cent of the homemakers voted against changing the package because the "little man" was familiar and practically an institution in the home. In spite of the results of the survey, the company liked the new design so well that they decided to make the radical change in one step. After 400 million packages of the new design had been sold, only 12 letters of complaint had been received by the company.

In contrast, Hind's Honey & Almond Cream management planned a package change that would cover a span of 5 years. After all the changes had been made, the design of the package was better but no one seemed to notice it. It offered no new enthusiasm to the consumers, the dealers, or the sales force.[12]

PRETESTING A NEW DESIGN

When pretesting a new design, it is more useful to see what people actually buy as a result of sales tests than to get their general opinions. Only sales can tell the story. In surveys, for example, women will say they like a low squat jar for olives, but the sales records show that tall jars sell better because they look as though they contain more.

Another area of design that is difficult to evaluate by means of an opinion survey is color. Opinions are likely to follow tradition. Certain things should be in a traditional color, according to respondents. Sales results, however, show that tradition is very unstable as a judge of how well a product will sell when it is packaged in a new design. For years all manufacturers in the chocolate field wrapped their products in chocolate-colored wrappers. The Rockwood Company, however, decided they wanted their products to stand out from the others when on display on candy counters. In spite of objections, the company decided to use red wrappers. These outsold the dull traditional brown ones by far, and as a result the company changed all its chocolate-product packaging to the red wrappings.

From the standpoint of preparing new package designs for pretesting, color is one of the cheapest factors to pretest. The same plates can be used to run off a series of packages in different colors. The different-colored packages can be shipped to comparable outlets for sales tests.

[12] See Jim Nash, "Shift Directly to the New," *Printers' Ink,* July 13, 1951.

An important factor to be considered in package tests is the psychological impact of color. For example, the Golden State Company, Ltd., learned the significance of this the hard way. For years they had developed for their dairy products a "family" of designs in their packages. Only one product, their butter, had an old design of its own. The company decided to redesign their butter package with the eye appeal of bright colors. The company, however, had forgotten the psychological impacts of red and yellow and their connotations. Primarily, these combined colors did not suggest butter to the customer. Instead, they suggested margarine. Their customers considered blue and yellow as suggestive of butter.[13]

SOURCES

Society of Industrial Packaging and Materials Handling Engineers (SIPMHE), 111 W. Jackson Blvd., Chicago. Founded in 1945, this national professional and technical society is dedicated to the advancement of scientific product protection and materials handling. The Society has local chapters in the principal industrial areas of the nation; they meet regularly each month throughout the year.

The organization conducts an annual Exposition of modern packaging and materials-handling production equipment and services. As a part of this Exposition the Society also conducts the National Protective Packaging and Materials Handling Competition, which is open to members and nonmembers alike.

Additionally, the Society conducts an annual short course program as an educational feature of the Exposition. This is an intensive review of current packaging and materials-handling trends, which is sponsored each year by some major engineering school. Other services include a personnel placement service, Info-Idea Exchange, and cooperation with other groups in the development of packaging and materials handling training.

Institute of Contemporary Art, Boston. The Institute has no designers and it does no designing. It does, however, offer corporate memberships through which it advises companies, recommends changes in design procedures, and suggests available designers from a Designers' Register and Job Opportunity Bulletin which it maintains. Furthermore, the Institute conducts design conferences for management and designers, and distributes information about design in industry. The Institute has counseled companies in the fields of glass, china, furniture, floor coverings, wallpaper, greeting cards, appliances, raw materials, watches, hotel operation, and packaging.

[13] See William Forrest, Jr., "We Learned the Hard Way to Pre-test Packages," *Sales Management*, May 20, 1949.

American Management Association, 330 W. 42d St., New York, maintains eight divisions whose activities cover eight major areas of management thought and practice. Two of these—the Marketing and Packaging Divisions—conduct a variety of functions on marketing problems or related activities.

Packaging Division: Principal activity is AMA's National Packaging Exposition, the annual mart of the packing, packaging, and shipping industries, which attracts several hundred exhibitors and upward of 20,000 visitors. Held concurrently with this trade show is the National Packaging Conference, offering discussion on the latest trends in the field.

Marketing Division: Principal activities are large national conferences held on current problems and new developments in the field. Also conducts an extensive program of workshop and orientation seminars and small group discussions on individual management problems of concern to marketing, sales, and advertising executives. Issues research reports, conference proceedings, and special studies in the field.

Owens-Illinois, Toledo, Ohio, conducts many research projects in the packaging field, as well as product tests and surveys to determine buying and use habits related to products packaged for consumer use.

The company makes its surveys through Home Makers Guild of America, a consumer panel representing a cross section of American home life, having the characteristics of the typical American home and, therefore, the characteristics of the nation's thinking.

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QUESTIONS AND EXERCISES

1. Why has packaging become more important today than at any time in the past few decades?
2. What are the benefits of effective packaging to the marketer? To the consumer?
3. What are the basic functions which should be served by an effective package?
4. What are the advantages of new package design from the standpoint of the company's marketing plans and sales efforts?
5. What are some of the problems in connection with color which must be considered when designing a new package? How does color TV affect package design?
6. In what way does advertising influence the package design?
7. What advantages to the retailer and the consumer have been realized by the use of prepackaged meat?
8. What are some of the dangers which might be encountered in developing reuse packages?
9. Should a package design be changed in one decisive step or in several steps over a period of time?
10. What is an effective way of pretesting a new package design? Explain.

12 Pricing the Product

THE ALERT MARKETER

1. **Observes the effects on sales of price changes, such as the lowering of prices to dealers.**
2. **Learns the price categories which are appropriate for his product.**
3. **Watches the passage of numerous fair-trade laws and the interpretations by courts concerning the fixing of prices.**
4. **Studies the rises and falls in the popularity and legal status of discount houses, their effects on marketing, and the extent to which they help answer the problem of surplus goods.**

Any man who goes into marketing is almost certain to find that the profitable pricing of a product is a frequent and difficult question. He himself either experiences or observes others who have experienced the sad plight of the manufacturer who produced a hydraulic bumper jack to retail at $22. When asked who would buy it, he answered, "Owners of Cadillacs and other fine cars—people who appreciate the better things." Of course he discovered that people who appreciate better things do not spend extra dollars for a luxury jack which the neighbors do not see, especially when it is used only on rare occasions. The eventual result was that most of the stock had to be unloaded at a decided loss.

ESTABLISHING PRICES OF NEW PRODUCTS

The pricing of a new product is often a puzzle that top management solves by hunch rather than science. True, economists have studied the price-making process in markets for many generations, but they offer the businessman little light on what to do when confronted with a practical pricing problem.

Some economists take refuge in the idea that their job is not to contribute to the improvement of business practice but to achieve a better understanding of what happens in the aggregate. The focus of their interest is not the policies and practices of the individual enterprise but national economic policy as it may be formulated and effectuated through government agencies.

As opposed to the general economist, the market analyst and the industrial economist have no such refuge. They are obliged to begin with the admission that their work has no significance except as it helps to change the conduct of individual enterprise through direct impact on decision making. The refuge of the general economists is probably an illusion in any case. Among their number are some who hold that it is impossible to understand what happens in the aggregate without having a sure grasp of the motivations and the methods of individual business units.[1]

A few very large corporations employ economists who study pricing and make recommendations to management concerning price policies. General Electric Co. is an example.

GE always takes a long-range price view. In 1923, it got together reports on refrigerator prospects, decided the thing to do was plan on year-by-year price cuts until 1933, when the price should be 37% less than it was in the beginning. GE finally entered the field in 1927 and, 10 years later, the price reduction was 43%. Profits went from a $5-million loss in 1927 to a $5-million net in 1930. This long-range pricing policy is tied closely into the rest of the product planning concept—with a full set of budgets for a variety of price levels.[2]

Management men who decide upon the price for a new product that is patented take into consideration the security of the patent rights. If management believes that its patent position is secure, the price is set at the highest level the company expects to maintain with ease for a long time. If, on the other hand, the company's patent position is shaky and competitors are likely to offer items that are almost duplicates, the management probably adopts a "skim-the-cream" price policy in the early history of the product. As competition enters the market and dictates the necessity for price revision, the price is lowered.

For products such as machines that require the continued purchase of supplies for use in the machine, the manufacturer may adopt the "razor-blade" policy. The machine itself may be priced low but the supply materials are priced high. If the machine has a high initial price and considerable special servicing must be given it by the manufacturer, he may use some kind of rental method of pricing.

In many cases, marketers know from experience how high a price may

[1] "Progress in Pricing Practice," *Cost and Profit Outlook*, Alderson & Sessions, July, 1952.

[2] *Business Week*, Apr. 18, 1953, p. 143.

be set without incurring harmful competition or customer resistance. When, in a recent year, retail coffee prices advanced beyond $1 a pound, the critical point in buyer resistance was $1.30. When that price was reached, sales fell sharply and stayed down.[3] In retailing, tradition mainly determines markups (see Table 12–1).

Table 12–1. *Markups in a Baker's Dozen of Retail Trades Applied to Stockings*

The price that wholesalers charge to retailers is 50 cents a pair. Here's the price that various retailers would put on the stockings, under their traditional markups:

Type of establishment	Markup	Type of establishment	Markup
Florist's shop	$1.23	Department store	$0.79
Bakery shop	1.12	Variety store	0.74
Jeweler's	1.01	Drugstore	0.73
Fur shop	1.00	Filling station	0.67
Radio store	0.92	Grocery store	0.62
Furniture store	0.89	Grocery and filling	
Gift shop	0.88	station combined	0.61

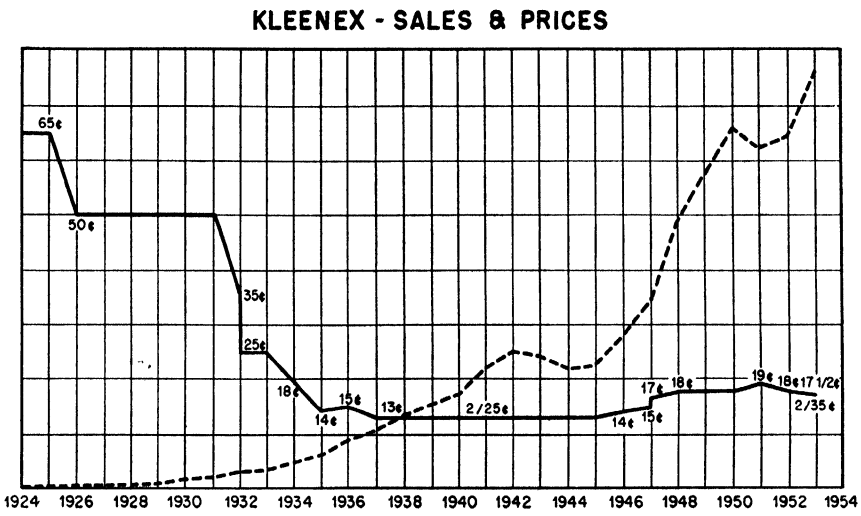
SOURCE: From a Marketing Pictograph by *Sales Management*, July 15, 1947. Data from Victor Lebow, General Sales Manager, Chester H. Roth Co., Inc.

Pricing principles of proved scientific validity are exceedingly few. Statisticians, accountants, and economists may eventually be able to supply businessmen with such principles; in the meantime, most executives will continue to use their best judgment rather than be guided by charts.

The businessman is under constant pressures that force him to price new products and make changes in the prices of old products. Rising costs and declining sales often necessitate the making of such decisions. Sometimes his knowledge, or general impression, of the cycle of demand for his product is a guide. He knows that if his product is a new specialty it enjoys a short period of freedom from competition. In this early development of his specialty, his costs of production and selling are high. He must iron out the "bugs" in his new product and spend money to advertise and demonstrate it.

As time goes on, competitive items appear on the market and the originator revises his prices. Eventually, prices are likely to be so competitive that he must either redesign his product or leave the market entirely. Ideally, of course, he has anticipated the imminence of this gradual decline and demise of his once-original product and conducted

[3] *Business Week*, Oct. 9, 1954, p. 186.



Sales promotion and advertising can be justified economically and socially as exemplified in the history of Kleenex:

It was offered to the public for the first time in 1924 as a cold-cream remover under the brand name Kleenex. Six years later these disposable tissues were featured as having a second major purpose—as handkerchiefs. Sales doubled, and the next year they redoubled. The public went for Kleenex tissues for handkerchiefs because they were cheap, sanitary, and saved laundry.

As sales went up costs were reduced—and price to the consumer went down. It dropped from 65¢ in 1924 to 50¢ to 35¢ in 1932. Six months later it was down to 25¢ for a box of 200 larger, softer sheets. And here's something particularly worthy of notice—the Kleenex of 1932 was a softer, stronger tissue than the original product and it came in a handy serv-a-tissue package.

Ten years from the date Kleenex was launched nationally, the consumer could buy the large carton of 500 tissues for 41¢ or the regular 200-sheet package for 18¢. Again the sales doubled, and once more the price was cut to 13¢—two for 25¢.

The price shown for 1953 is 17½¢ per box which was a suggested price. Actually in a good many outlets such as supermarkets, the package was sold at a considerably lower price.

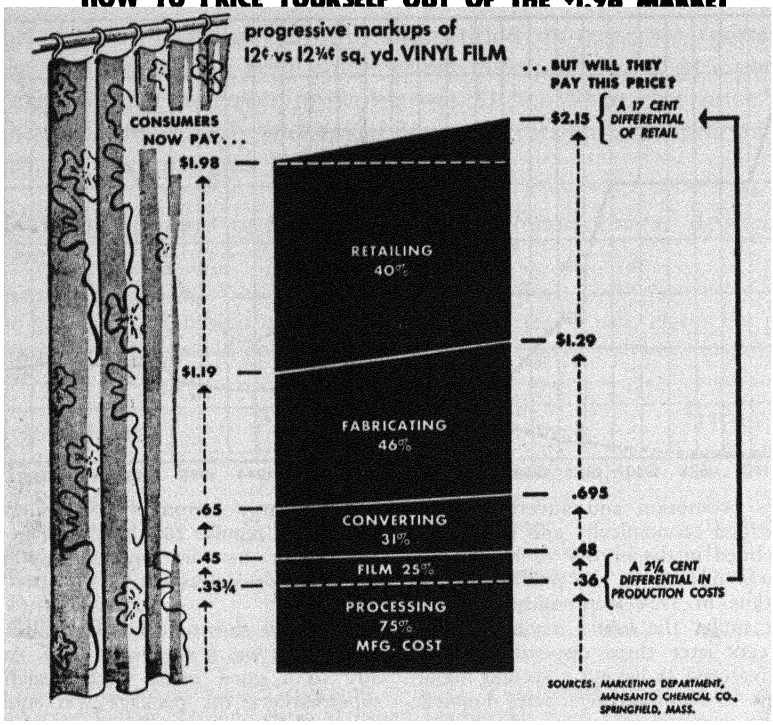
It is also interesting to note that in spite of increased costs and the substantially lower buying power of the dollar in 1953 prices were still lower than they were in 1947.

Through the advertised brand name *Kleenex* the public was educated to the advantages of these sanitary, convenient tissues. Consumer response made possible mass production, which, in turn, made for lower price to the consumer.

SOURCE: "Notes on the Progress of Brand Names Research Foundation," *Sales Management*, Mar. 1, 1945, p. 74, for history previous to 1945.

researches for the development of profitable new products which, in time, tend to repeat the same cycle. Most of America's biggest industrial corporations have appreciated the significance of this cycle and have kept streams of new and redesigned products coming from their laboratories and pilot plants. This principle of alertness to cycles of demand helps to explain why companies such as General Motors, du Pont, and General Electric became big companies. They always had newborn products ready to take the places of the dying ones.

HOW TO PRICE YOURSELF OUT OF THE $1.98 MARKET



Who's Responsible? The consumer (right-hand column above) is asked to pay 17¢ more, and a successful retail price level has been exceeded, although the raw material cost is up only 2¼¢.

A 2¼-cent increase in the factory price of plastic curtains material becomes a 17-cent increase in the retail price.

Because business uses the per cent markup system from raw materials to finished products, a 2¼-cent increase in production costs can readily become a 17-cent increase in the retail price.

This is the actual progressive markup of a pair of plastic draperies consisting of 3½ square yards of vinyl film.

If the manufacturing cost of gray goods for one pair of plastic draperies went up 2¼¢ the material would have to sell for 49¢ vs. 45¢ because of the 25% gross margin involved at the factory, before sales and administrative costs are added.

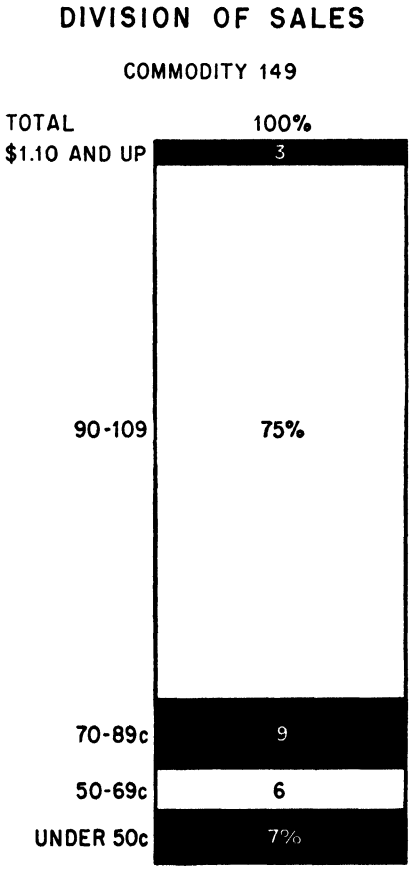
A fabricating margin of 46% is necessary in this case to cover cutting and stitching, including the distribution costs and profit. This increases the drapery cost up to $1.29 vs. $1.19. It can be readily ascertained in the last two steps that the markup includes both distribution and production costs.

By applying a 40% markup to the $1.29 wholesale price in the right-hand column, a retail price of $2.15 results. This is 17¢ higher than the $1.98 price (a 40% markup from $1.19)—all because of a 2¼¢ difference in production costs at the base level. Although the difference in money is only 8%, the consumer's sales resistance to the price of $2.15 may be much greater. According to a study of relative frequency of price ranges in newspaper advertising, by Charles W. Hoyt Co., Inc., prices from $1.95 to $2 are 30 times more frequent than $2.15 to $2.20.

SOURCE: Ralph F. Hansen, "Before You Claim Distribution Costs Are Too High," *Sales Management*, Apr. 1, 1953.

THE SELLER MUST KNOW THE MARKET BY PRICE CATEGORIES

Some uninformed manufacturers who wish to break into an established market, such as a cosmetic, assume that they can do so successfully by simply underselling competition. Several studies have proved that this is not always true. One of the A. C. Nielsen researches has shown that the manufacturer should know how the current market is divided by price categories as shown by the example charted below:



. . When introducing a product under today's conditions, a manufacturer must consider two important price factors in addition to all of the normal problems—i.e.:

a. The market potential in the price range at which the manufacturer wishes to sell his product.

b. The actual dollar-and-cent profit to the retailer per unit sale as compared to competitive products.

Let us consider the case of a toiletries manufacturer who entered a product of good quality at a less than 50¢ unit price in a field where sales divided as shown in this chart.

It might appear from such a division of total market sales that the road was reasonably wide open for an acceptable product in the less-than-50¢ field. But after a full year of selling and advertising effort on such an item, the manufacturer was able to secure distribution in only 11% of the stores despite the fact that the gross profit percentage allowed on this product compared very favorably with the average of the higher priced competition. Throughout the entire year, consumer purchases on a unit basis per store handling were very light compared with competitive items. Out-of-stock percentages were consistently high. And lack of consumer insistence was indicated by the fact that stores running out-of-stock failed to order again. The lack of success on this product appeared to trace to (a) consumers' habit of paying in the neighborhood of a dollar per unit; (b) retailers' reluctance to accept a gross profit of 16¢ per unit on the under 50¢ merchandise as compared with approximately 30¢ on the higher priced items.

Considering the price structure of the market, a carefully conducted marketing test undoubtedly would have revealed these weaknesses and thus have saved most of the money and effort and good will which were lost by the operation.

SOURCE: "Know Your Market by Price Categories," *The Nielsen Researcher*, May–June, 1951.

Price preferences of consumers. Women, perhaps even more than men, have rather fixed ideas on the prices they will pay for many products. The direct-mail sellers have learned many lessons about consumers' price preferences. When a publisher, for example, conducted a split-run test on a book for women, with one advertisement offering the book for $2 and the other for $2.50, the lower price sold 62 per cent more books.

In rising-price eras, women stop buying a staple when the rise reaches what is to them an unacceptable level. The processors of citrus-fruit concentrates learned that fact in the early 1950's. In the early days when orange-juice concentrates were relatively new and housewives were anxious to get them, the processors jacked up prices to 29 cents a can. At that price, housewives balked in spite of the fact that the use of the concentrate is more convenient than fresh oranges. Usually, it is also cheaper than oranges. When the customer pays 23 cents for a 6-ounce can of concentrate, she is getting the equivalent of oranges at 27 to 30 cents a dozen, but this fact had little significance when the housewives decided that the price had become exorbitant.[4]

When the Sunkist Growers had their Sunkist brand of orange concentrate on the market in 1951, their share of the orange-juice-concentrate market was less than 1 per cent. They reduced the price from the general industry level of 21 cents a can to 17 cents. Sales shot up and Sunkist obtained 15.5 per cent of the market within a few months. Competitors lowered their prices also. Eventually the price settled around the 19-cent level and remained there for a considerable period.

Men, too, have their price preferences. Retailers of men's suits, for example, can estimate the approximate percentages of the customers who will buy in the various price categories. The estimates of sales by the retailers of men's winter suits for 1954 were that the $65 to $75 category would account for 26 per cent of the sales; the $55 to $65, for 20 per cent; with the balance in other classes.[5]

In retail circles, almost two-thirds of all advertised prices for items under $5 are odd prices, that is, they avoid digits that end in 0 or 5. For merchandise selling under $5, prices ending with 9 are the most popular. On merchandise selling above $5, the most popular price ends with 95, as $7.95. On items selling above $25, prices that are a dollar or two below the even price are popular. Prices that end with the digits 1, 2, 4, and 6 are seldom used.[6]

Several candymakers have experimented with various prices for the 5-cent candy bar. The 6- or 7-cent prices brought certain difficulties such as the inconvenience of making change, departure from tradition, and

[4] See *Business Week*, Mar. 13, 1954, p. 186.

[5] See "14th Annual Fall & Winter Clothing Survey," *Men's Wear*, Apr. 16, 1954.

[6] Harold J. Rudolph, "Pricing for Today's Market," *Printers' Ink*, May 28, 1954.

the elimination of vending machine sales. Some manufacturers tried to market both a small 5-cent and a large 10-cent size. Most candymakers, however, dropped the two-price procedure. Those who adopted the 10-cent bar only and concentrated on it found that their former unit volume was achieved within approximately 4 months after the price raise had been made.

Sometimes a higher price for staples can be made acceptable to customers by emphasizing that the consumer should buy three or a dozen rather than one unit at a time. When competitors are reducing prices of staples, a commonly used method by some manufacturers for maintaining the regular price is to offer a premium with each purchase of the product. If the customer gets a premium with each purchase, he is less concerned about the regular price that is out of line with competition.

In a 1953 Pittsburgh study by Duquesne University, 2,500 selected people were asked: "Check one of the following blocks at a point where an advertised saving would inspire your confidence in its accuracy and at the same time interest you sufficiently that you might attend the sale."

Of those replying, 2,456 made a definite choice. The distribution of their answers was as follows:

$10.00 claimed value for	Number checking	Percentage
$9.50	138	5.6
9.00	258	10.5
8.00	733	29.9
7.00	811	33.0
6.00	238	9.7
5.00	212	8.6
4.00	20	0.8
3.00	8	0.3
2.00	2	0.1
1.00	36	1.5

In this study, less than 3% were interested in advertised reductions over 50%. This indicated that advertisers who direct their claimed saving appeals to this gullible segment of the public may be doing so because of the peculiar quality of the merchandise which they offer.

SOURCE: From *What People Believe about Advertised Price Cuts*, a study directed by Thomas J. Hogan, Duquesne University, for the Better Business Bureau of Pittsburgh, Inc., 1954.

One fascinating conclusion of this Pittsburgh study, based on a 6-month summary of comparative price practices, is that the greater the savings claimed for an item by a retailer, the more public acceptance falls

off. There apparently is a point at which the consumer seriously questions an advertised price cut. Apparently, most consumers know instinctively there is something wrong about an advertisement that offers too much for too little. The better marketers know it pays to advertise only an honest bargain.

It is a common belief by manufacturers that a small price cut will immediately stimulate volume. It is true, of course, that *eventually* lower prices do tend to stimulate sales—after customers believe that the falling prices have reached the stability level. However, the manufacturer who expects that a small price reduction will *promptly* stimulate increased sales may be disappointed. The members of the trade note that small reductions usually mean that greater reductions will, or at least may, come later on, and they plan accordingly. Instead of keeping a normal inventory on hand, they reduce their stocks.

Even a sizable price slash does not always encourage the dealer to buy in great quantities. He tends to buy in large quantities only when he is facing rising prices or strong demand. Even though the manufacturer pleads that the dealer should order ahead, the dealer is not likely to do so unless customer demands on him require it. His hesitancy is most pronounced when prices have been falling.

MANUFACTURER'S CONTRACTUAL GUARANTEE OF PRICES TO DEALERS

When prices are expected to fluctuate for commodities in the class of products made by a manufacturer, he may guarantee his prices to his dealers. A dealer naturally resents price cuts that are announced shortly after he has received a shipment of merchandise. As a result, many companies encourage dealers to fill up their stocks by offering price guarantees.

The terms of the price guarantee vary from company to company. Some contracts offer rebates that cover inventory losses from a manufacturer's price cut before a specific date. Most contracts cover all the dealer's stocks for a specified period. Sometimes an agreement is made where a percentage of the inventory is guaranteed on a sliding scale, the percentage decreasing with the length of time that the inventory is held. Some companies offer price protection only to wholesalers; in other cases, only the retailers are given protection; and a few companies protect both.

There are many variations in the practice of price guarantees. Sometimes a manufacturer who guarantees his prices will retain the specified price even though his competitors have reduced theirs quite drastically. The reason for his apparent generosity is the fact that the manufacturer does not want to handle rebate money; he simply waits for the guarantee period to expire and then he cuts his prices. When this occurs, many

dealers are forced to take an inventory loss. Those who do suffer a loss usually resent the manufacturer's earlier generosity in guaranteeing the price against competition.[7]

FAIR-TRADE, OR RESALE-PRICE-MAINTENANCE, LAWS

Arguments over retail price maintenance have a long history in this country. Take, for example, the story of James Lackington.[8] The year was 1774, and Mr. Lackington was a shoemaker who decided to go into the bookselling business. Booksellers of that era used to destroy books which they could not sell rapidly. They felt that by thus maintaining an even supply of books they could keep prices up. Mr. Lackington thought this was a very wasteful procedure and decided to sell *all* his books, even if he had to reduce his prices to do it. The publishers fought him, but he won and made a fortune. His slogan was "Small profits do great things."

Actual fair-trade legislation started in 1931 when a few states passed fair-trade laws. The laws established fair-trade pricing, or to be more accurate, resale price maintenance. Briefly, such laws involve "an agreement between a manufacturer and a retailer (or a wholesaler) which stipulates that the manufacturer's product will not be resold at less than a specified price." [9] By 1937 all states except Missouri, Texas, Vermont, and the District of Columbia had similar laws on their books.

In 1936 a test case [10] was brought before the Supreme Court in order to decide whether or not fair-trade laws were legal in intrastate commerce. The court came to the conclusion that state fair-trade laws were permissible as a means of protecting the good will which the manufacturer has established and which he symbolizes by use of his trade-mark. Thus the laws were applicable only to trade-marked products.

In 1937, President Roosevelt signed the Miller-Tydings rider to a District of Columbia appropriations act, an amendment to the Sherman Act. This legalized price maintenance in interstate commerce between states which had fair-trade statutes. This action actually provided for a Federal fair-trade law.

Most of the state laws included nonsigner clauses which stipulated that once a manufacturer had made a fair-trade agreement with one retailer or wholesaler in a particular state all other retailers or wholesalers in the

[7] "Price Guarantees," *Business Week*, Aug. 6, 1949.

[8] From Nathan Kelne, "How to Maintain Prices–Fair Trade or No," *Printers' Ink*, July 18, 1952.

[9] See E. Raymond Corey, "Fair Trade Pricing: A Reappraisal," *Harvard Business Review*, September-October, 1952.

[10] *Old Dearborn Distributing Company v. Seagram-Distillers Corp.*, 299 U.S. 183.

state were also required to maintain his resale prices even though they had not signed an agreement. Until 1951 it was assumed that the Miller-Tydings Act sanctioned this part of the state laws as well as all other parts.

In 1951, however, the United States Supreme Court ruled that in interstate commerce, unless manufacturers have individual contracts with dealers, they cannot bind them to maintain resale prices through the nonsigner clause. This decision started a rash of price wars, including the famous Macy's versus Gimbel's battle of 34th Street. Manufacturers let many of their fair-trade agreements lapse and the machinery for maintaining fair trade more or less dissolved.

Then in July of 1952 the McGuire bill was signed which reestablished the legal principle of the nonsigner clause of fair trade. Some manufacturers started to rebuild their resale-price-maintenance structure. Others did not know what to do because they felt sure that the fair-trade controversy would continue in spite of new laws and court interpretations.

Effects on retailers. Fair trade has two major effects on retailers. First of all, it restrains competition among retailers. Many small retailers favor such a state of affairs because it protects them from large organizations which can buy in large quantities and sell at low prices. It also enables inefficient dealers to survive longer. Many large chains and some small retailers believe that such restriction of competition is unfair. They believe that fair-trade prices do not take into account the overhead of the stores involved. For example, a store which is efficiently run and has a low overhead can sell its products at lower prices than a store with a higher overhead.

The other way in which retailers are affected results from the inequities involved in the policing of retail price schedules. Price cutting under fair trade is difficult or at least expensive for the manufacturer to detect or prevent. Many dealers cut prices occasionally.

Discount houses operate on a low-price basis. Consumer buying clubs charge regular list prices but give members coupons which they can use for purchases at lower prices. When court suits are instituted, they usually result in nominal damages which the violators must pay, but these are not high enough to discourage price cutters. Fair trade is especially difficult to enforce when the manufacturer sells through wholesalers and has little direct contact with retailers. Furthermore, manufacturers often lack the incentive to bear down on price cutters as the practice really does not harm them if it is not too widespread. So, the few violators who are brought to court are usually in the nature of examples to discourage others from price-cutting practices.

Fair trade has been favored by some manufacturers in order to prevent

dealers from using their products as "loss leaders." Loss leaders are items which the dealer sells at a very low price, sometimes less than cost, in order to increase his store traffic. He hopes that the people who come into his store to take advantage of the bargain will buy enough other goods at profitable prices to make up for the loss he suffers on the leader. Dealers like to use well-known products as their leaders, because people know the usual prices of such items and recognize that the offer is a bargain. Manufacturers who like fair trade feel that the use of their products as loss leaders lowers their prestige in the market. Of course some states have passed "unfair practices acts" which get at the loss-leader problem directly without the limitation of brand and voluntary agreements.

Effects on manufacturers. A typical manufacturer goes to a great deal of expense to establish a preference for his product in the minds of consumers. He believes that his newspaper, magazine, radio, and television advertising should be supplemented by displays of his product in many stores in order to make his promotional campaign effective. To encourage retailers to carry his product, he offers them an attractive markup allowance. Under resale price maintenance, this markup is assured for the dealer. The dealer need not lower his price in order to meet competition. Hope of wide dealer acceptance of his product is one of the main reasons why a manufacturer approves the idea of resale price maintenance.

Manufacturers who believe that their products can best be marketed by combining widespread promotion and intensive distribution are those who consider fair-trade pricing most advantageous to them. Price maintenance tends to control the natural tendency for a widespread distribution program to break down because of competitive pricing. After all, when a great many dealers handle the same product it would be natural for one dealer to try to obtain more than his share of the market by reducing his price. This is what is outlawed by fair trade. In addition, with fair trade the manufacturer can advertise his price as well as his product.

Many of those who like fair-trade laws believe that much of the national advertising by the manufacturer is vitiated if he sells to discount houses. The national advertising that is supposed to educate the consumer concerning the qualities of the product gets lost in the midst of bargain-price appeals at the local level.

Effects on consumers. Do fair-trade laws make the consumer pay more? This is a question which has been and still is being debated. One recent argument for it was a study which purported to show that though the cost of living climbed sharply during a certain period, fair-traded drugs and toiletries only climbed about 1 per cent. Opponents of fair trade answered this by saying that the fair-traded items were too highly priced

to begin with and so their prices remained stable while other living costs rose to meet them. Opponents of fair trade point out that when New York State legalized fair trade, one large department store had to raise prices substantially to meet the new minimums.

Furthermore, the costs of maintaining a staff to see that fair-trade agreements are not broken tend to increase the manufacturers' total costs. This is, of course, reflected in the prices the consumer pays.

One of the arguments against fixed prices is that they tend to prevent improvement in business operations and the lowering of distribution costs. Uniform prices do not take into account the varying operating costs of different concerns. An example of this occurred in *Schwegmann Bros. v. Eli Lilly and Co.* Schwegmann claimed that he could sell many articles considerably below their fair-traded price and still make a profit. He cited as an example a penicillin pharmaceutical which fair-traded at the time for $4. Schwegmann said he could sell it for 54 cents and still make money.

One survey would seem to indicate that many manufacturers are apathetic about fair trade. Nearly 2,000 questionnaires were sent to manufacturers of household appliances and equipment, sportswear, and products sold in hardware stores. Fewer than 800 answered; of the respondents 131, or 17 per cent, said they fair-traded some or all of their products. Of these, about 95 per cent said their results with fair-trade prices had been good or excellent. On the other hand, the remaining 83 per cent of the respondents were either apathetic or opposed to fair trade. What about the 1,200 who did not even bother to answer? Most of them would probably fall into the apathetic category also.

Most marketers in the retailing field, including manufacturers, will agree that constructive price action which allows wholesalers and retailers to earn fair profits is beneficial to all concerned. The consumer should be assured of getting a product of uniformly good quality at a fair price. He should also be assured that business is conducted in ways that tend to reduce prices. Whether fair-trade laws are necessary in order to achieve these ends is open to question.

There will probably never be one answer to the problem of fair trade. Even the strictly legal aspects have not as yet been settled by the legislature and courts, to say nothing of the ethical and economic questions which must be settled by the consumer in the market place. Even though new legislation and court decisions will appear from time to time to decide the status of resale-price-maintenance laws, the problem is likely to reappear in new forms for many years to come. Alert marketers will keep themselves informed about them and adapt their marketing practices accordingly.

DISCOUNT HOUSES

Retailers who have profited most from fair trade are the discount houses. These are houses which quite openly ignore fixed prices and sell goods at 15 to 20 per cent below the fair-traded figure. They can do this and still run a profitable business by cutting down on their overhead. Discount houses offer few services. Some are strictly cash and carry; most do not maintain repair services. They keep their inventories low and typically operate their stores in low-rent areas. They use a minimum of salespeople. Such stores sell to customers who want low prices rather than special services or conveniences.

Some firms give discounts to clubs, family groups, schools, or almost any classification of customers as long as they are part of a "group." Yet these firms often resent being called discount houses. One such firm that calls itself a "wholesale distributor" published the following:

As far as discounts go, we invite you to *compare our wholesale prices* with any other wholesaler in America today. We list below some *average* prices.

Product	Retail	Wholesale
Rogers silverware, 50 pieces	$49.95	$16.70
Parker Flaminaire lighter	14.50	7.65
Argus C3 camera, flash and case	69.50	55.80
Royal Companion typewriter	79.05	58.55
Parker pen "21"	5.00	3.70
Schick "20" electric shaver	26.50	17.70
Benrus Citation Corsair	92.50	39.75
Eskimo electric hair dryer	9.95	5.10
Elgin American Beauty compact	7.50	2.80

As indicated above, the items often featured by the discount house are the products whose manufacturers have created consumer knowledge and acceptance for them, usually by means of advertising. As a result, the consumer can easily recognize the "bargain" offered by the discount house. Many manufacturers seem to ignore these practices of the discount house and go right on selling to the distributors who furnish such houses with their products.

For many years, the problem child of marketers has been the discount house. Discount houses have so many forms that it is difficult to define them because many retailers offer price cuts, swollen trade-ins, or give-aways. The obvious signs, however, are the advertising of discounts and the use of courtesy cards or membership in clubs, all for the purpose of offering at discount merchandise that has well-established prices.

Some of the retailers who do not want to compete with the price cutters cater to the customers who will have nothing to do with discount houses. The retailers know that certain customers wish to avoid the inconvenience and lack of service involved in dealing with discount houses.[11] Generally, department stores are inclined either to meet the discount selling head-on or to shrug their shoulders and hope for better days. The prestige stores usually reduce their lines of cutthroat items or eliminate them altogether. One executive recommended that the consumer should be allowed to make the final decision.

I believe it's a predetermined fact that department stores will never be able to meet dollar for dollar the price competition of the discount houses that have always been existent. This being the case, I believe that the time is about ripe for two opposing philosophies of salesmanship to get started to prove which one is the better salesman. Let the discount house roll up its sleeves and ballyhoo price; let the department store roll up its sleeves and do a constructive and aggressive job of selling service. Then, long-term, let the consumer decide which type of person she wants to do business with.[12]

Discount selling as a problem in marketing is as old as selling itself. It flourishes during depressions when people have little money and goods are hard to sell. It also flourishes in prosperous times whenever there is overproduction. As long as manufacturers suggest list prices that offer

"Are you the clever boy who gave this lady a double-her-money-back guarantee on her $1,000 TV combo?"

SOURCE: By Glueckh. Courtesy of *Electrical Merchandising.*

[11] Allen Hyde Center, "Problem Child for All Marketers: The Discount House," *Printers' Ink,* Dec. 12, 1952, pp. 58–66.

[12] "I Can Get It Wholesale," *Sales Management,* May 1, 1954, p. 82.

the retailer a markup large enough to provide a profit umbrella for services such as credit and delivery, discount selling in some form will exist.[13] Whether the problem will ever be solved to the satisfaction of everyone is quite doubtful. New laws and new court interpretations will be made from time to time but the essential problem will remain.

Obviously, retailers must have a gross margin sufficiently large to cover their normal expenses. If department stores, leading antagonists of discount selling, emphasize bargain prices in their own advertising, however, they cannot blame the consumer for doing bargain hunting that leads him to discount houses. When some department stores follow the policy of regularly featuring 15 per cent of the items in their advertising at low markups and 85 per cent at the regular gross profit markups, many consumers will be more interested in buying at lower prices than in developing confidence in what is offered at regular prices.

Dealers, like consumers, want discounts. Anyone who has dealt with dealers who have been active in seeking fair-trade legislation or other forms of price maintenance to protect their own margins has also learned that these same men are very demanding in getting discounts for themselves!

"BARGAIN CARNIVALS"

The medieval market place where customers came to attend a carnival as well as to do some buying has its counterpart in some states of the East, South, and Middle West. Stalls or open spaces are rented by merchants, peddlers, and pitchmen. Thousands of bargain hunters attend.

Most of the merchandise on display comes from the retailers of the area. They unload stocks at 30 to 50 per cent markdowns. By getting rid of their overstock in this way, they can keep price lines stable at their regular stores. The merchandise usually includes soft goods such as dresses and men's clothing; hard goods such as lamps, furniture, and small appliances; and farm produce. The merchants stock their tables with goods, put up price signs, and sell what they can.

The pitchmen are auctioneers who give a spiel to entertain the passers-by while they auction off a pen and pencil set at a price of 75 cents (usually to a "shill" or colleague in the crowd). When the first one has been sold, they offer a dozen more at the same price to the other members of the crowd. The general atmosphere of the place is that of a carnival. People come to be entertained as well as to buy.[14]

[13] "Are List Prices Too High?" *Sales Management*, July 1, 1953.

[14] "Medieval Methods Move Present-day Surplus Stocks," *Business Week*, Aug. 6, 1949.

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American Fair Trade Council, 11 E. 44th St., New York. The American Fair Trade Council is an association of manufacturers who fair-trade one or more of their products. About 59 consumer industries are represented. The Council furnishes material favoring fair trade to the press, universities, trade associations, and business groups.

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QUESTIONS AND EXERCISES

1. What is a basic difference in viewpoint of the general or theoretical economist as contrasted with the industrial economist and market analyst?

2. Consider the percentage of markup, based on selling price, typically used by florists as contrasted with grocery stores, based on the figures given in Table 12-1. How do you explain the wide differences between various types of retail stores?

3. What are the various pricing stages through which a new individualized product may be expected to go? What determines how long the product will stay at each stage?

4. How effective are small price reductions in stimulating sales? What are some of the factors which may delay immediate sales increases when a manufacturer makes a small price reduction?

5. What are the advantages of a manufacturer guaranteeing his price to dealers? Why will a manufacturer adopt such a policy?

6. What benefits have small retailers received from the legalization of price maintenance? What benefits have manufacturers received? Consumers?

7. Has the legalization of price maintenance had any influence on the growth of discount houses? Explain.

8. What industries have been the most active in taking advantage of price maintenance? How do you explain the fact that other industries have not been more active in signing price-maintenance contracts?

9. What is the significance of the nonsigner clause in connection with price maintenance? What is the present status in regard to nonsigners?

10. The most aggressive managements of discount houses have developed certain selling techniques which are designed to make a sale to the most reluctant of prospective customers. The bargaining procedure follows these steps: (1) Full list price is quoted first. (2) If the customer quotes a lower price offered by another store, the salesman is authorized to go down to an established figure. (3) If this is insufficient, the customer is shifted to a "T.O." or turnover man who is authorized to go even lower. (4) If the customer still wants to shop around before buying, he is given the "burn up" price, a price so low that few competitors will meet it. Sometimes the dealer salesman will try to save some profit for the house by "outboard pricing," an extra charge for delivery, installment, etc.

If you enjoy haggling and would like to buy an expensive appliance, call on some small independent dealers and TV specialty chains and find out whether the above system of selling is or is not used.

PART FIVE

CHANNELS OF DISTRIBUTION THAT MIGHT BE USED TO SELL OUR PRODUCT

13 Channels Available to a Manufacturer

THE ALERT MARKETER

1. **Becomes acquainted with the various channels of distribution available to the manufacturer.**
2. **Notes the channels used by manufacturers of typical consumer products.**
3. **Notes the channels used by manufacturers of industrial products.**
4. **Analyzes the advantages and disadvantages in the use of manufacturers' branches.**

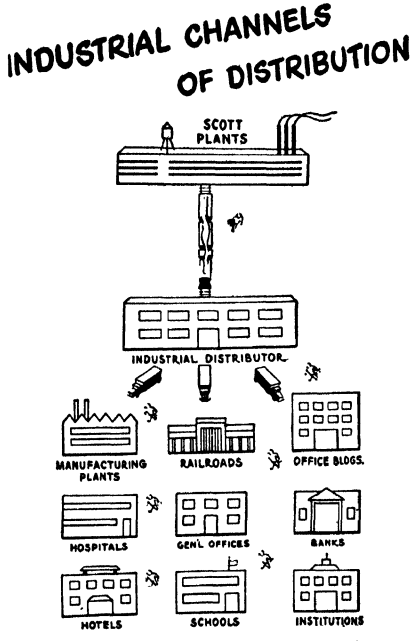
When you want to become acquainted with a manufacturer's marketing practices, the first question you are likely to ask is, "Through what channels (of distribution) do you market your product?" In many cases the answer is, "We use the conventional channels of manufacturer-wholesaler-dealer-consumer."

Sometimes, however, the manufacturer says, "We have two classes of products which we call the 'industrial' and the 'retail.' We use the channels that are most appropriate for each class." See the two charts of the Scott Paper Company, on the next page, as examples.

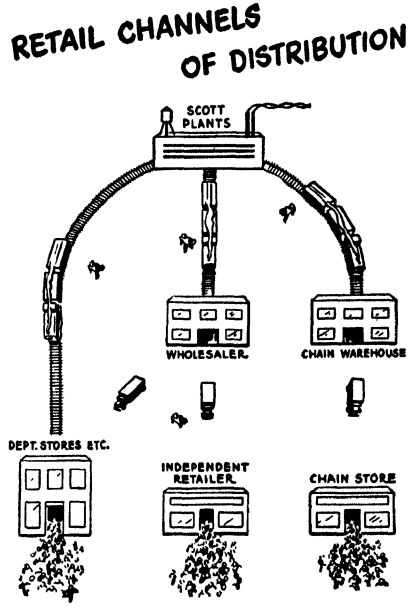
In some industries, such as the manufacturing of full-line farm equipment, the channel is from the manufacturer to the manufacturer's sales branch to the dealer to the consumer. The independent wholesaler is by-passed. Certain farm-machine manufacturers, especially those who do not have a full line of farm equipment ranging from combines to tractors, do distribute through independent wholesalers because the wholesaler for them is essential from the economic standpoint or by tradition.

Every class of product, whether agricultural, industrial, mining, forestry, or fishery, has a unique distribution pattern. Some companies in each class have their own distinctive channels which they have found appropriate for their specific products. Obviously, the numbers and types of patterns are too numerous and varied to describe here. Each marketer who is unacquainted with the pattern of distribution of any class of goods or company can easily learn it. The executives of the industry, trade association secretaries, and articles in trade journals will give him the information.

In this book, several patterns of distribution of consumer products, widely used and universally recognized, will be presented briefly. Each unit in the distributive chain, such as the wholesaler, has its own distinctive place in the pattern.



SOURCE: Reprinted by courtesy of Scott Paper Company.



SOURCE: Reprinted by courtesy of Scott Paper Company.

PATTERN OF CIGARETTE DISTRIBUTION

Approximately 75 per cent of all cigarettes manufactured for consumption in the United States are channeled through wholesalers. In a typical year, wholesaling groups accounted for the following percentage distribution of cigarettes through wholesale channels.

Wholesaler group	Percentage
Wholesale tobacco distributors	81.5
Wholesale grocery distributors	16.2
Wholesale confectionery distributors	0.8
Wholesale drug distributors	0.5
Miscellaneous wholesalers	1.0
	100.0

SOURCE: "Cigarette Distribution in the United States–1952," compiled by the Market Research Division, National Association of Tobacco Distributors, New York.

At the retail level, the distributive mechanism that acts as a transmission belt for the annual movement of several hundred billion cigarettes includes more than 1 million retailers. Cigarettes enjoy nationwide pin-point distribution. The percentage share of retail cigarette volume for this wide assortment of outlets is shown in Table 13–1. The wholesale tobacco

Table 13–1. *Percentage Share of Retail Cigarette and Candy Volume*

Cigarette		Candy	
Establishment	Percentage	Establishment	Percentage
Independent food stores	19.4	Independent food stores	20.7
Vending machines	16.2	Drugstores, including chains	16.2
Chain supermarkets	12.5	Chain supermarket food stores	14.3
Cigar stores and stands, including cigar chain stores	11.6	Cigar stores and stands, stationery stores	9.7
Independent drugstores	9.8	Theaters and amusements	9.2
Restaurants, bars, liquor stores	7.2	Vending machines	4.8
Military installations	5.6	Military installations	3.4
Chain drugstores	4.4	Department and variety stores	3.3
Department and variety stores	2.2	Restaurants and eating places	2.7
Mail order	1.7	Gasoline stations, including road stands	1.2
Hotel, tourist courts, amusements	1.2	All other outlets, including manufacturer-owned	14.5
Service stations, including road stands	0.7		
All other outlets	7.5		

SOURCE: Data for cigarettes are for the year 1952; for candy, for the year 1951. Data apply only to cigarettes and candy channeled through wholesalers–approximately 75 per cent of all United States cigarette and 58 per cent of all United States candy production. From Market Research Division, National Association of Tobacco Distributors, New York.

distributors have a sales force of 20,000 men, delivery fleets of more than 20,000 trucks, and make credit extensions to thousands of merchants, many of whom do not have mercantile credit ratings. The volume percentages handled by each class of outlet vary only slightly from year to year; the pattern tends to remain essentially the same except as modified by new influences such as better vending machines, more aggressive chain supermarkets, food stores putting emphasis on carton sales, or fluctuations in the number of military establishments.

PATTERN OF CANDY DISTRIBUTION

In the case of candy, about 58 per cent of production is channeled to retail outlets through wholesalers. The percentage of dollar volume for each wholesaler group in a recent year is indicated in the accompanying table.

Wholesaler group	Percentage
Tobacco	46.2
Confectionery	35.6
Grocery	9.8
Other foods	6.4
Drug	0.7
Miscellaneous	1.3
	100.0

SOURCE: From Market Research Division, National Association of Tobacco Distributors, New York.

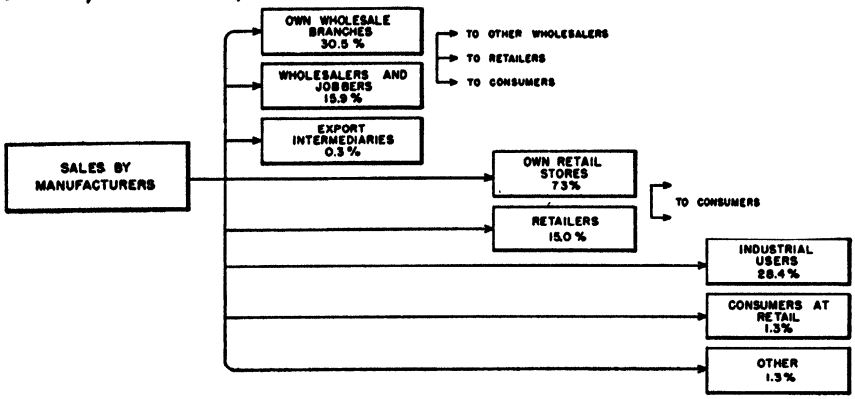
The pattern of distribution for candy through wholesaler-retailer outlets is also shown in Table 13–1. Note that food stores, both independent and chain supermarkets, combined sell more than one-third of the candy sold through wholesaler-retailer outlets. Slightly more than one-half of candy purchases are for bar goods and specialties. Packaged goods account for about one-quarter, bulk goods slightly less than one-fifth, and penny goods about one-twentieth of total candy sales.

CHANNELS OF DISTRIBUTION AVAILABLE TO MANUFACTURERS

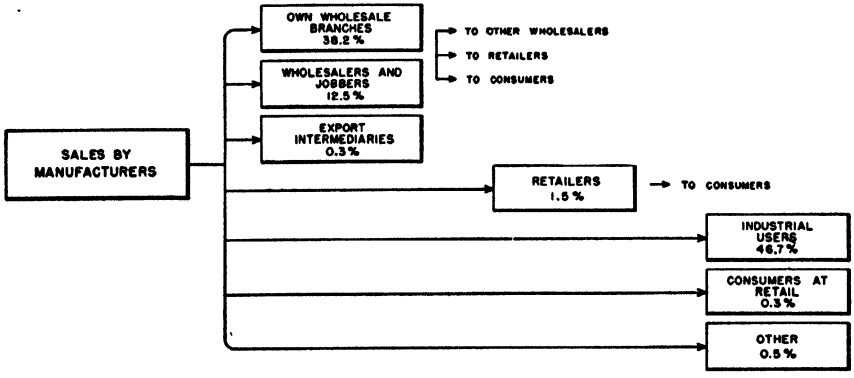
The manufacturer who wishes to market a new product has a large number of possible channels from which to choose. He may use only one or several of the channels. The channels usually available to him are the following: [1]

[1] *Selling the United States Market*, U.S. Department of Commerce, Domestic Commerce Series, No. 29, n.s., 1951. Data for 1948 were taken from the *1948 Census of Business*, Bureau of the Census.

PAINTS, VARNISHES, AND LACQUERS



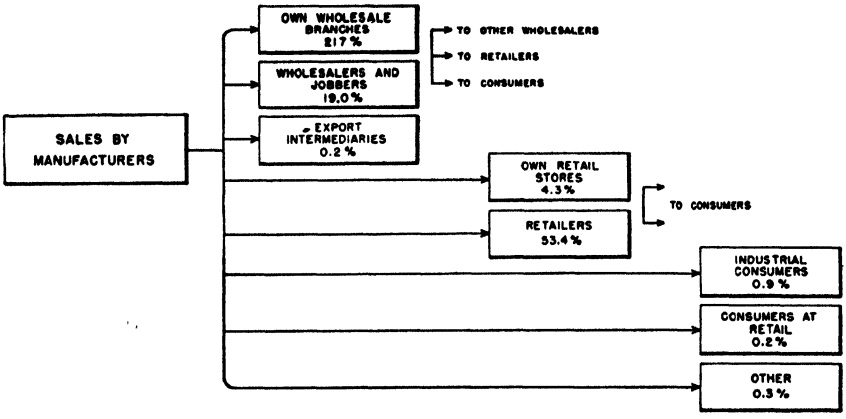
GLASS CONTAINERS

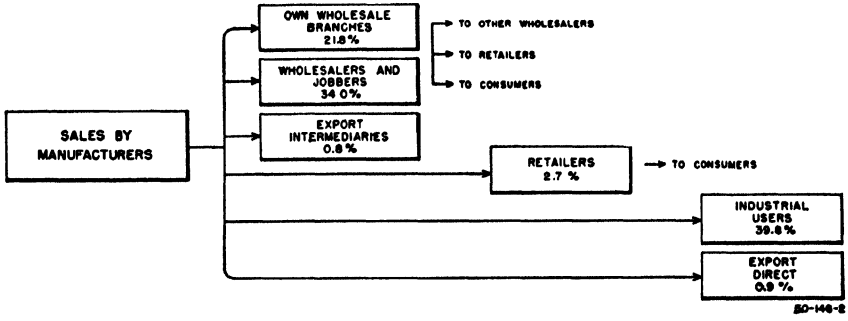


Channels of Distribution. These channels apply to broad industry groups rather than to particular products of individual companies. The charts indicate that varieties of channels are in operation in each industry. Each manufacturer is, of course, interested in knowing how effective his channels are in distributing his products. From time to time, he tends to put extra emphasis on selling through some of his customary channels while neglecting others. Dynamic forces are always at work but they do not result in erratic changes in the use of the channels of distribution.

1. *Manufacturer direct to consumer.* This method of selling is confined largely to those small producers to whom consumers go to buy and to a few small firms which sell their output by mail direct to consumers. It is used chiefly by handicraft trades which make curios, novelties, household objects, and specialty food products in small shops and homes. The amount of trade passing through this channel is negligible.

2. *Manufacturer through salesmen to consumer (door-to-door selling).* While individual firms, some quite large, in several trades have chosen this method of distributing their products, no one industry uses this channel to an appreciable extent. Firms using this method include a maker of men's and





SOURCE: From *Selling the United States Market*, U.S. Department of Commerce, Domestic Commerce Series, No. 29, n.s., 1951.

women's furnishings; several stove companies; some electrical appliance manufacturers; and some producers of cosmetics, magazines, greeting cards, ice cream, tea, and bakery products. The volume of goods distributed by this method represents a very small part of total consumer goods sold.

3. *Manufacturer through own stores to consumer.* In some instances manufacturers have established their own stores. In other instances, retail firms (principally chains, large mail-order houses, and department stores) have entered the manufacturing field in order to get their merchandise more cheaply. Products which are distributed to some extent in this manner include food, shoes, clothing, paint, varnish, furniture, and petroleum products.

4. *Manufacturer through wagon retailer to consumer.* Through this channel passes an extremely small part of the national volume of consumer goods. One producer of household brushes sells his products to people who then sell them from door-to-door. In a few markets dairies sell their products to wagon route men who supply homes.

5. *Manufacturer to retailer.* This method of selling is employed largely by the automobile industry and by other producers who sell large quantities on

contract to chain stores, mail-order houses, and other large retailers. Contracts usually are made direct between the purchaser and the home office of the producer without the intervention of a salesman who calls regularly. Many department and clothing stores buy numerous items such as furniture, electrical appliances, apparel, and style goods direct from manufacturers without the intervention of the manufacturer's salesmen. They usually do this either by sending their buyers to the production center or through their buying offices at the buying center.

6. *Manufacturer through salesman to retailer.* This is styled "direct selling" and is used to some extent in practically all consumer-goods lines. It usually represents an effort on the part of the manufacturer to perform the middleman operations on the theory that the manufacturer can perform the selling function for his own line better than can a regular wholesaler. Through this channel flows a substantial portion of the total volume of consumer goods sold by manufacturers.

7, 8, and 9. *Manufacturer to wholesaler through salesman, sales agent or broker, or manufacturer's branch.* From the standpoint of national volume, the manufacturer-wholesaler channel is the most important of all distribution channels, although in a few industries the wholesaler is not an important channel. In 1948 merchant wholesaler's dollar sales equaled about 61 percent of total retail dollar volume, and the tonnage handled by such wholesalers in that year was estimated to equal about 80 percent of that handled by retailers.

10. *Manufacturer through his own branch to retailer.* The use of this channel usually involves an intent on the part of the manufacturer to bypass the wholesaler. It is sometimes employed by producers who manufacture a large number of items. No industry uses this method predominantly, but some manufacturers in several industries, chiefly groceries and drugs, market in this manner.

11. *Manufacturer to salesman to industrial user.* This method is used primarily by those producing for industrial users. However, some manufacturers who produce for both household consumers and industrial users employ this channel to reach their industrial customers.

An individual manufacturer may use one or more of the channels shown in the chart. Some companies use more than one channel for the same product to reach the same objective. For example, a large soap manufacturer may place his product with retailers by selling it direct through salesmen as well as by selling to wholesalers who in turn sell to retailers.

Several channels may also be used by manufacturers who cater to several types of trade. For example, a manufacturer who sells to retailers, wholesalers, and industrial users may use three different sales forces and three different channels to reach these customers.

If any of the following conditions are present, the manufacturer generally sells direct to the retailer:

1. The product is perishable.
2. A product in which style or fashion is a factor (women's clothing).
3. The retailer purchases in large amounts.
4. The margin between producer's costs and retail price is low.
5. Close control of the producer's distribution is essential.

The channel or channels a manufacturer may select will depend on such factors as the volume of sales he desires to attain, the extent of the market he wishes to cover, the intensity with which he wishes to cover the market, the types of users he wishes to reach, and the extent to which he desires to pass the marketing function on to intermediaries.

In the United States in 1948 there were more than 2,000,000 establishments engaged in distributing the products of manufacturers. Included in this figure were 243,000 wholesale establishments distributing goods to retailers and industrial users. There were nearly 1,800,000 retail stores selling mainly to ultimate consumers.

Of the total goods manufactured in the United States, approximately one-fourth is sold to wholesalers and jobbers. More than one-fifth is sold to or through wholesale selling organizations owned and operated by manufacturers. In addition, approximately one-fifth is sold direct from plants to retailers for resale. Only about 2 per cent of all goods produced is distributed through manufacturers' own retail outlets, while less than 2 per cent of the total is sold direct from plants to consumers at retail.

Sales direct from point of production to industrial users (concerns which buy for business use only rather than for resale) amount to about 26 per cent of all products manufactured for sale. In the distribution of all goods manufactured in the United States, 2.3 per cent go to export sales made direct to buyers in other countries and 0.9 per cent are sales to export intermediaries, the total of all United States manufactures exported being only slightly above 3.0 per cent in most nonwar years.

The percentage of total sales made through distribution channels for manufactured products, all industries, are typically the following:

Class of customer	Percentage of total sales
Sales to or through own wholesale branches or offices	22.4
Sales to or through own retail stores	2.1
Sales to wholesalers and jobbers	25.1
Sales to retailers for resale	19.6
Export sales made direct to buyers in other countries	2.3
Sales to industrial and other large users	26.0
Sales to consumers at retail	1.6
Sales to export intermediaries	0.9

SOURCE: *Selling the United States Market*, U.S. Department of Commerce, Domestic Commerce Series, No. 29, n.s., 1951. See also *Sixteenth Census of the United States: Census of Business*, Vol. V, *Distribution of Manufacturers' Sales*, p. 7.

Analysis of the above table indicates that nearly 94 per cent of all products manufactured in the United States are sold through four channels: (1) manufacturers' own wholesale branches, (2) wholesalers and jobbers, (3) direct to retailers for resale, and (4) direct to industrial or other large users.

MANUFACTURERS' BRANCHES

When you study the various types of establishments that perform wholesale functions, as shown in the table on page 209, it is evident that the manufacturers' branch houses are second in importance. The branch may have a warehouse in which stocks are carried and from which deliveries are made or it may have only an office and sales force, deliveries being made from the factory.

The manufacturer who sells to and through merchant wholesalers often experiences much difficulty in getting his goods marketed aggressively (see Chapter 14). Wholesalers are not as enthusiastic about the product as he. When he analyzes the efforts of wholesalers in their selling of his product he is likely to conclude that he could bring about marked increases in his sales if he had his own group of salesmen who would sell his product exclusively and be trained to sell it intelligently and aggressively. In addition to the normal desire on the part of the manufacturer to increase selling pressures for his product, he may also believe that his product is of a nature which ought to be demonstrated and explained to retailers and consumers in order to have them appreciate and buy it.

Perhaps the manufacturer has also found that the merchant wholesalers and their retailers have not maintained the pricings that he has recommended. Perhaps they have cut the price so low that other retailers stopped selling his product because they made too low a profit to justify their effort. The manufacturer may have many sound reasons, from his standpoint, for wanting to control the prices of his product. In recent years, of course, fair-trade laws have facilitated his control over pricing.

Certain products are of a nature that requires a direct-to-retailer type of distribution. For fashion products, for example, speed in getting the product to the consumer market is essential. For products such as meat, careful handling is required. Branch-house forms of distribution are likely to be most effective in giving a product speedy and careful handling.

If the product is a mechanical one that requires special installation and repair services, the manufacturer often finds that he can perform such services most effectively and economically when he has his own branch offices which he can equip and staff as he thinks the product and the customers deserve, particularly industrial customers. One-fourth to one-

third of the sales of all companies having branch offices are to industrial buyers of such items as equipment, machinery, paper, metals, electrical appliances, leather, and textiles.

The setting up and operating of a branch office is expensive. Only companies that have a volume sufficiently large to pay for the overhead involved in maintaining a staff and offices away from the home office can afford it. Expenses of this kind tend to remain constant regardless of the amount of sales made. During a period of business depression, the budget is likely to be especially burdensome. Some manufacturers who formerly distributed through merchant wholesalers and assumed that the operation of branch offices would increase their sales and profits have discovered that they can make more money by discontinuing their branches and utilizing the wholesalers. Certainly, any manufacturer who contemplates operating branch offices should investigate carefully the costs of operation of his own branches as compared with the use of wholesalers.

The management of a manufacturing firm must also consider the personnel problems involved in a branch plan, especially the branch manager's authority over personnel. The company's home-office management must decide questions such as, "Are salesmen and other employees to be hired, promoted, and discharged by the local branch manager or by members of the home office?" "Who has authority over prices?" If the authority is to remain in the home office, the branch manager may be handicapped in making bids and in disposing of perishable goods.

"Who controls the granting of credit to customers?" If controlled by the central management, the rules for credit may be too rigid. If by the local manager, he may be so anxious to make sales that he is too liberal toward poor credit risks. Some companies solve this problem by allowing the local branch to grant a specified maximum value of purchases to any one customer. Amounts beyond this maximum must be approved by the home office.

"Who controls the inventory?" Branch men are sales-minded and like to keep enough stock on hand to fill any order, however unusual it may be; thus they are likely to keep too much money invested in inventory.

In spite of the money problems involved in branch operation, such selling offices have been found most practicable in industries such as machinery, petroleum products, clothing, building material, woolen piece goods, metals, and paper.

PIPELINE FILLING

The manufacturer who uses channels of distribution which he does not control, such as his own wholesale branches or his own retail stores, may utilize hundreds or thousands of distributive firms. If many of these

firms stock even a small supply of his product, he sells a large volume. When wholesalers and retailers stock up on the product, their first purchases are known as *pipeline filling*. Large initial sales result for the manufacturer. A sales boom appears. The important sales in the long run, however, are the repeats at the retail level. When consumer demand drops, as it often does after an initial boom, the retailer stops reordering and starts selling out his stock. This is when the manufacturer is most in need of sufficient capital. He must be able to maintain his promotional efforts even though no orders or profits are coming in to him. If he cannot afford this, his business may fold.

While this slump in sales and increase in marketing efforts are on, the manufacturer may also find that he has suddenly developed a great deal of unexpected competition. Some of the new products may be very similar to his, both in name and in content. Even well-established corporations may fail because of price competition and the high costs of advertising and merchandising during the slump stage.

A distribution pattern that illustrates the situation is found in the marketing of household cleaners, polishes, menders, and dirt removers. Some of these chemicals that clean everything from flatware to windows have made fantastic sales successes, which have stimulated other manufacturers of chemicals. Hosts of manufacturers are constantly offering new houseware chemicals in the hope of beating competition. In many cases, these chemicals are simply industrial cleaners that have been adapted to fit the household market. New names are introduced frequently in order to appeal to the housewife who is always looking for something new and better.

Successful chemical houseware manufacturers have discovered that the only good answer to too much competition for one product is the development of another product. High levels on a sales chart can only be maintained through constant research and development of new products and continual promotion. For, as these manufacturers know, when the bottom drops out from under one of their products, it really drops.[2]

The methods of selling used by houseware chemical makers, plus the experience of the old manufacturer who has introduced new products, cause the alert marketer to watch his distribution channels in order to differentiate between pipeline fillings and stable sales that are likely to repeat in the future.

THE MOST PROFITABLE DISTRIBUTION PATTERN

The typical manufacturer or marketer is constantly searching for more effective and profitable distribution channels. The manufacturer, such as

[2] For a more detailed discussion, see "Chemicals Clean Up on a Multimillion-dollar Market," *Business Week*, Mar. 7, 1953.

a chemical maker, who has diversified lines of products is likely to sell his various products by means of separate sales forces through different channels. He, of course, notes the costs and profits that result from each channel. He studies reports that show profits by marketing divisions, by product lines, by warehouse locations, etc. As time goes on, he becomes discouraged with the results from some and pleased with other channels. Naturally, he decreases or drops some channels and modifies or adopts others, but such changes are usually made only after considerable experience and investigation.

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QUESTIONS AND EXERCISES

1. Define the term *channel of distribution.* Does this term relate to the flow of goods, of authority, or both? Explain.

2. What is meant by "pipeline filling"? Why do manufacturers of new products sold through wholesaler-retailer channels pay special attention to it?

3. What functions does the typical wholesaler perform for the manufacturer?

4. Why might a manufacturer consider circumventing the wholesale distributor and selling direct to the retailer?

5. What are some of the factors which would influence a manufacturer to sell direct to the consumer?

6. How does the number of items which the manufacturer has in his line influence his choice of distribution channels? Explain.

7. What would you expect to happen to the gross margin which a manufacturer obtains for his product if he changed from wholesale distribution to direct-to-retail distribution? What would happen to his selling expenses?

8. How would each of the following factors influence the choice of a distribution channel: perishability of product, style element, size of purchase, gross margin, number of customers?

14 The Merchant Wholesaler

THE ALERT MARKETER

1. **Appreciates the contributions made by wholesalers to economical marketing.**
2. **Recognizes the reasons why wholesalers have maintained their place in distribution in spite of numerous criticisms of "middlemen."**
3. **Notes the concentration of wholesalers in the major metropolitan areas.**
4. **Evaluates the advantages and disadvantages of the franchise granted by a manufacturer to a wholesaler.**

Is the wholesaler losing out? This question is asked so frequently that many people have been imagining for years that this kind of middleman in marketing is obsolete. Actually, the wholesaler has survived because he performs certain marketing functions more economically than his competitors.

Competition between the various divisions of the wholesaling structure is very keen. Firms and methods of operation that are inefficient or uneconomic are soon eliminated. The struggle for a place, even survival, in the wholesaling world is exceedingly severe. And yet the relative proportions of wholesale trade performed over the last three decades have remained surprisingly stable (see Table 14–1). Only minor upward and downward trends can be found. Perhaps this means that the competitive struggle is at all times so sharp that wholesale establishments are constantly forced to adapt themselves to changing conditions in the areas of their activities.

The wholesaler is the kingpin in the distribution of manufactured goods from the producer to the retailer. Occasionally the manufacturer will ignore the wholesaler entirely and sell directly to the retailer or even to the customer. In order to do this, however, the manufacturer must estab-

Table 14–1. *Wholesalers Holding Their Own*

Despite the many predictions over the past 20 years that merchant wholesalers were on the way out, they have held their own fairly well since the first wholesale census of 1929, when they accounted for 43.8 per cent of the wholesale total. They dropped back to 41.0 per cent in 1939 but rebounded to 42.3 per cent in 1948, the time of the last periodic census of business.

Wholesale volume in 1948 reached $188.7 billion, up 183 per cent from 1929 and 244 per cent from 1939, and this is how the business was split:

	Percentage of total	
	1929	1948
Merchant wholesalers	43.8	42.3
Manufacturer sales branches	24.2	27.9
Agents and brokers	21.8	18.4
Assemblers	6.6	5.8
Petroleum bulk plants, terminals	3.6	5.6

SOURCE: Bureau of the Census, release BC-2-W-O. From a Marketing Pictograph in *Sales Management*, Feb. 15, 1951, p. 67.

lish some kind of distribution department that functions very much like that of the middleman. This type of direct selling is advantageous for certain types of products, but it does not necessarily lessen handling costs.

It is interesting to note that the trend in recent decades toward huge size among retailers is not matched by similar concentrations of volume in the hands of a few wholesalers. This is a striking difference in view of the fact that about 100 giant retailers control one-third of the total retail volume in the major merchandise categories they stock. The development of huge wholesaling combines has not as yet taken place but might come if wholesalers were to develop further their own brands and their own retail outlets to a dominating position. This, however, does not appear likely to happen.

Another characteristic of wholesaling is that it is centralized. The single city of New York accounts for more than one-fifth of the total national merchant wholesale sales; the top 20 cities account for more than half; and the top 100 cities account for three-quarters of the total.

The New York, Chicago and Los Angeles areas—in the order named—are the leading United States wholesale markets in each of the following commodity groups: groceries, confectionery, meats; drugs, chemicals and allied products; equipment and accessories; furniture, home furnishings and appliances; electrical equipment; hardware, plumbing and heating; machinery; and metals and metal work. The combined sales of all commodities in these three

areas are a third of the total volume in the country. New York and its environs alone account for 69 per cent of all sales of dry goods and apparel; 35 per cent of furniture and home furnishings; and 29 per cent of drugs, chemicals and allied products as well as of paper and its products.[1]

TYPES OF WHOLESALE OPERATIONS

Service or merchant wholesalers do less than half of their volume with retailers. Many wholesalers sell some of their items to other smaller wholesalers rather than to retailers (see Table 14–2). Note also that the bulk

Table 14–2. *Wholesale Trade Sales*

(As percentage of total sales analyzed)

Type of operation	To retailers	To industrial users	To wholesale organizations	To household consumers	For export
Merchant wholesalers	46.9	31.8	13.7	1.6	6.0
Manufacturers' sales branches, offices, total	31.3	42.7	23.0	0.4	2.6
Sales branches (with stocks)	40.7	35.4	20.5	0.7	2.7
Sales offices (without stocks)	19.6	51.6	26.2	0.1	2.5
Petroleum bulk stations, terminals	64.1 *	35.9 †	— *	— †	— *
Agents, brokers	16.1	41.8	36.5	0.4	5.2
Assemblers (mainly farm products)	9.4	32.6	51.8	5.3	0.9

* Entry under "To retailers" represents sales to all types of resellers.
† Entry under "To industrial users" represents all sales to users or consumers.

SOURCE: *U.S. Census of Business*, 1948, Vol. IV, *Wholesale Trade General Statistics*, p. 4.02.

of the volume of manufacturers' sales branches (with or without stocks) goes to industrial or business users and to other wholesale establishments, not to retailers for resale. Even though some manufacturers circumvent the wholesaler by having their own branches with stocks in order to sell directly to retailers, they obtain an even greater volume through other outlets. These data show that our wholesaling structure is quite varied

[1] Wroe Alderson and Leonard Kent, "The Concentration of the American Wholesale and Retail Markets in Metropolitan Areas," *Printers' Ink*, Apr. 13, 1952.

and that much of the flow of business is more complex than the assumed manufacturer-wholesaler-retailer channel.

As the table indicates, the main divisions of the wholesaling structure, in regard to types of establishment, are the following:

1. *Merchant or service wholesalers:* firms that, in the main, buy, take title to, store goods, handle it physically, and resell it to retailers, industrial or business users, or other wholesale firms for resale. Included in the grouping are wholesale merchants or jobbers, industrial distributors, voluntary group wholesalers, exporters, cash-and-carry wholesalers, drop shippers, wagon distributors, retailer cooperative warehouses, terminal elevators, and cooperative buying associations.

2. *Manufacturers' sales branches:* establishments operated by manufacturers, apart from their manufacturing plants, chiefly for the purpose of marketing their own products to retailers, industrial or business users, or wholesalers. The establishments included in the group may perform operations on the goods incidental to the wholesale trading and delivering such as installing machinery, equipment, and fixtures and may engage in leasing and renting machinery or equipment. Some of these manufacturers maintain stocks at their branches, others do not.

3. *Petroleum bulk stations and terminals:* establishments that engage in storing and distributing gasoline, oil, or other bulk petroleum products in wholesale operations. These firms may be owned and operated by petroleum refining companies, by chains of gasoline filling stations, or by independent individuals. The unique nature of their physical facilities and methods of operation are the reasons for their special category among wholesale establishments.

4. *Manufacturers' agents and brokers:* functional middlemen who do not as a rule take title to the products with which they deal. Rather, they negotiate sales and purchases for their clients and are compensated for their services in the form of commissions. The manufacturers' agent is an independent representative maintaining his own headquarters and bearing his own operating expenses, generally without any contribution on the part of his principals. Manufacturers' agents—in some trades called brokers—are active in many fields of selling such as food, chemicals and paints, clothing, bottles, office machinery, paper products, hardware, novelties, and housefurnishings.

5. *Assemblers* (mainly farm products): firms that purchase and assemble farm produce and sea foods in the markets of local growing areas and in the cities of the producing regions. They collect and assemble small lots, preparing them for shipment to wholesale buyers. In addition to the actual buying and wholesale distribution of farm products, they frequently grade, pack, store, and in some cases, finance the commodities they handle.

6. *Chain store warehouses:* establishments usually owned and operated

by large retail firms almost entirely for the purpose of performing wholesale functions for the retail stores of their own organizations.

MERCHANT WHOLESALERS

Merchant wholesalers differ from agents and brokers chiefly in the fact that merchant wholesalers take ownership of the goods they handle. They also perform many important distributive functions: they carry stocks from which they deliver the amounts wanted by retailers, they send out salesmen to retailers to get orders and help retailers sell their goods, and they grant credit to their customers. These firms are known as full-function or service wholesalers.

DEFINITIONS OF WHOLESALER, JOBBER AND DISTRIBUTOR

Wholesaler. A merchant middleman who sells to retailers and other merchants and/or to industrial, institutional, and commercial users but who does not sell in significant amounts to ultimate consumers.

In the basic materials, semi-finished goods, and tool and machinery trades merchants of this type are commonly known as "dealers," "distributors," or "supply houses." ["Distributor" is a term especially common in the appliance and automotive industries]

Comment. Generally these merchants render a wide variety of services to their customers. Those who render all the services normally expected in the wholesale trade are known as *Service Wholesalers;* those which render only a few of the wholesale services are known as *Limited Function Wholesalers.* The latter group is composed mainly of *Cash and Carry Wholesalers* who do not render credit or delivery service, *Drop Shipment Wholesalers* who sell for delivery by the producer direct to the buyer, *Truck Wholesalers* who combine selling, delivery, and collection in one operation, and *Mail Order Wholesalers* who perform the selling service entirely by mail.

This definition ignores or minimizes two bases upon which the term is often defined; first, the size of the lots in which wholesalers deal, and second, the fact that they habitually sell for resale. The figures show that many wholesalers operate on a very small scale and in small lots. Most of them make a significant portion of their sales to industrial users.[2]

Jobber. This term is now widely used as a synonym of *wholesaler.*

Comment. Formerly the jobber was a dealer in odd lots but this usage has practically disappeared. The term is sometimes used in certain trades and localities to designate special types of wholesalers. This usage is especially common in the distribution of agricultural products. The characteristics of the wholesalers so designated vary from trade to trade and from locality to locality.

Most of the schedules submitted to the Bureau of the Census by the members

[2] From "Report of the Definitions Committee," *The Journal of Marketing,* October, 1948, p. 217.

of the wholesale trades show no clear line of demarcation between those who call themselves jobbers and those who prefer to be known as wholesalers. Therefore, it does not seem wise to attempt to set up any general basis of distinction between the terms in those few trades or markets in which one exists. There are scattered examples of special distinctive usage of the term *jobber*. The precise nature of such usage must be sought in each trade or area in which it is employed.[3]

Of course, a field of business that has many thousands of firms, as does merchant wholesaling, is bound to have several variant types of establishments that differ somewhat from the main group. Some of these variant types are the limited-function wholesalers such as truck jobbers, desk jobbers, and cash-and-carry wholesalers. These limited-function wholesalers omit some of the services provided by the regular merchant wholesalers such as credit or delivery.

Precise definitions and inclusive classifications of all the wholesale establishments can be studied in standard texts and advanced marketing courses. In this treatment of wholesaling, the objectives are the following:

1. How to appreciate the nature of the economic functions performed by the wholesaler.
2. As a manufacturer, how to work with an individual wholesaler to whom we wish to sell.
3. As a retailer, how to select helpful wholesalers and develop relationships that are mutually beneficial.

FUNCTIONS PERFORMED BY MERCHANT WHOLESALERS

A few wholesalers operate on a national basis but most disperse goods to retailers within a 150-mile radius. Wholesalers, therefore, become thoroughly acquainted with the marketing needs and opportunities of the areas they serve.

The services performed for retailers are usually of four kinds:

1. The wholesaler knows his community's needs so well that he buys stocks for future delivery. This enables the retailers and their consumers to obtain goods more promptly than would be possible if no wholesale supplies were at hand.

2. The wholesaler consolidates retailers' purchases for them. A given wholesaler buys and keeps on hand stocks from many manufacturers. The retailer can, therefore, order small quantities of any one of many manufacturers' products. By so doing, shipping costs to retailers are greatly reduced.

3. The wholesaler, in effect, shops and buys for the retailer through his contacts with the thousands of drug, textile, hardware, or other

[3] *Ibid.*, p. 208.

manufacturers. Imagine the great costs that would result if each retailer himself were to attempt to visit or keep in touch with all the manufacturers and other producers whose products he sells. Conversely, too, consider the great expenses that would fall to the manufacturer of a product sold through drugstores, for example, if he were to sell directly to all the drugstores of this country. To deal with some 50,000 druggists would mean that the costs involved in soliciting their business, granting credit, making shipments, and maintaining records would be much higher than through the wholesalers. The number of wholesalers with whom the drug manufacturer would have to deal in order to obtain market coverage might be as low as 500; at the most, only 1,600. Furthermore, his bad debt losses from wholesalers are less than they would be from dealing with thousands of small retailers, many of whom have poor or low credit ratings.

4. The wholesaler, in a sense, finances the retailer by granting him credit. In many retail stores, the retailer orders goods from the wholesaler and sells them before the wholesaler is paid. This usually happens, for example, when you call at a drugstore to buy an item which the druggist does not have in stock. The druggist tells you that he will have it for you within a few hours. Usually, he telephones the wholesaler and orders one-twelfth of a dozen of the item. You pay cash for the item but the druggist may not pay the wholesaler until weeks later. The usual terms of sale by wholesalers are 2 per cent 10 days, E.O.M.,[4] and 2 per cent 10 days, net 30 days.

The wholesaler also plays an important indirect part in the financing of manufacturers, particularly those who produce seasonal goods. The manufacturer of a seasonal product may send his salesmen to call on wholesalers throughout the year, although the actual selling season to consumers may last only three months of the year. To induce the wholesaler to place his order early and to help the manufacturer even out his production schedule, the practice is often followed of shipping to the wholesaler after a specified date such as December 1, but allowing him until the tenth of the following May to pay and take his cash discount. This practice makes it easier for the manufacturer to borrow money from a bank. Naturally, a banker would rather make a loan to a manufacturer on accounts receivable than on stocks in the manufacturer's warehouse. In actual practice, too, wholesalers do at times finance manufacturers directly by making loans to them, but the extent of this is unknown.

[4] E.O.M. is an abbreviation for "end of month." The buyer is allowed 2 per cent off the face of the bill if he pays on or before the tenth day of the month following the date on the statement. The account becomes in arrears if it remains unpaid after the eleventh of the month.

It is probable that manufacturers give far more financial assistance to wholesalers than is given to manufacturers by wholesalers.

THE MANUFACTURER'S RELATIONS WITH WHOLESALERS

Sometimes a manufacturer can avoid dealing with wholesalers by selling his consumer product direct to dealers through his own salesmen. Later, he may find that as he wishes to expand his line, he must turn to the aid of wholesalers. One well-known manufacturer of fountain pens sold only the higher-priced pens, mainly to the gift market. He used his own salesmen to reach some 12,500 dealers.

When he decided, however, to market a $2.75 ball-point pen, he found that he had to turn to wholesalers in the drug, tobacco, and other fields in order to obtain the mass distribution he needed. Many other manufacturers have discovered their dependence on the wholesaler and have learned how to work with him to promote sales.

From the selling standpoint, the focal point in the whole marketing process between the manufacture of a product and its use by a consumer happens when the retailer is facing a customer. That is the moment when success or failure in selling really occurs. Manufacturers realize this. Marketing-minded managements make the dealer's task easier.

Years ago, the retailer did practically all the selling—the manufacturer only produced. Today, many manufacturers believe that the most economical and effective way to achieve the sale is by means of advertising, which stimulates the customer to ask the retailer for the manufacturer's brand. Many manufacturers of consumer goods invest large sums of money in advertising that presells the brand to the consumer. In addition, the manufacturer often grants extra allowances to the trade in order to get wholesalers and retailers to push his product. In short, many manufacturers spend a total of 5 to 8 per cent of their gross volume for advertising and promotional allowances. Typically, these expenditures are made because the retailer needs these prods and props to do his selling job. The basic cause of his need for assistance in selling does not lie in any modern retailer's stupidity but in the fact that mass production requires mass rather than personal selling.

Some manufacturers who have tried to help the wholesaler do a selling job with retailers have found many difficulties in their way, some of them insurmountable. Usually, the wholesaler's salesmen do not like to have pressure applied to them in regard to their sales contacts with retailers. Many retailers also resent such efforts unless they are carried on with a great deal of tact. Very few salesmen employed by wholesalers can or want to show the retailer how to sell an item unless the proposition

includes a "special deal" or extra merchandising service that puts the retailer in a receptive frame of mind.

Also, when the wholesaler does do a good selling job with retailers, he often discovers that he is training his customers to sell his competitor's goods as well as his own. Of course, when a manufacturer has a price policy that gives the wholesaler an extremely good profit in comparison with the gross profit offered by competing manufacturers, the wholesaler is more likely to induce his salesmen to push that manufacturer's line with the retailers. The effect of such a policy, however, is that the manufacturer who gives "long" profits is likely to find that his price cutting is merely temporary; his competitors soon manage to meet or top his offers to wholesalers.

In some cases, the manufacturer stimulates the sale of his product through the wholesaler by granting him a franchise or exclusive selling privilege in the territory. The manufacturer thus agrees to sell to no other wholesaler in an agreed-upon area; the wholesaler, in turn, accepts a contract whereby he promises to sell no competing products and to put forth extra selling efforts to promote the manufacturer's product with retailers.

This kind of arrangement means that the manufacturer limits the sale of his product to the customers of one wholesaler in an area. If the wholesaler is able and aggressive, the manufacturer benefits. Manufacturers realize this and the ones who adopt this kind of relationship are likely to do so because their products are of a nature that necessitates the giving of special training to the wholesaler's salesmen or require skilled maintenance or some kind of special handling, as in the case of perishable goods.

A satisfactory franchise arrangement between manufacturer and wholesaler also requires, on the part of the wholesaler, a good deal of confidence in the integrity of the manufacturer. Contracts are usually written in a form which enables the manufacturer to terminate the contract for any one of several possible failures on the part of the wholesaler. If, therefore, the wholesaler has put forth several years of selling effort on the product and the manufacturer later decides to end the contract, the wholesaler may find that the benefit of his effort goes to some competing wholesaler to whom the franchise is given next.

When they function at their best, franchise arrangements work out satisfactorily for both the manufacturer and the wholesaler. Frequently, however, the wholesaler finds the relationship an unhappy one for him, because many manufacturers like to put their own salesmen into the field. They sell directly to retailers, especially to chain stores who sell the branded product at prices so low that the wholesaler's customers cannot duplicate the offer. To overcome this inability of the wholesaler's price

to meet the chain store price, a manufacturer may maintain the letter of his contract with the wholesaler by making and selling to chain stores a duplicate product which he gives another brand name. The wholesaler soon discovers that the product which he sells is essentially the same as the one sold under a different brand name to the chain stores. The public finds it out too. The result is that the wholesaler seeks a solution that rewards him exclusively for his efforts in marketing.

One solution for the wholesaler, especially in the drug and the grocery field, is to purchase from a manufacturer unbranded merchandise, affix to it his own brand or label, and promote its sale to his customers. If his efforts are successful, his dealers can advertise a brand that is not sold through chain stores. Many independent retailers prefer to sell and feature products not handled by the chains.

As time goes on, the manufacturer may find that the wholesalers of a territory are promoting most vigorously their own brands. He then seeks to overcome their competition by putting more of his own salesmen in the area. These men sell directly to the retailers, especially the larger ones. Naturally, conflicts arise.

In spite of the conflicts and difficulties that arise between manufacturers and wholesalers, some manufacturers do develop and maintain happy relations with their wholesalers. Some of the methods they have found effective are

1. The manufacturer states in writing what his distribution policies are. If he grants a franchise to the wholesaler, the franchise sets forth clearly how the manufacturer and the wholesaler are protected.

2. Overlapping among wholesalers of nearby territories is avoided or adjusted.

3. If the manufacturer's salesmen sell to the larger retailers in the wholesaler's territory, the wholesaler is told how he benefits. When price offers are made by salesmen of the manufacturer and of the wholesaler, the contract states definitely the reasons for any difference in prices.

4. The manufacturer acknowledges the wholesaler's orders promptly and gives him the deliveries expected, especially in time of undersupply in the market.

5. The manufacturer helps the wholesaler interpret government directives that involve the manufacturer's product. Generally, the manufacturer has a staff of competent government and legal experts who can give the wholesaler accurate interpretations concerning laws and directives that apply to the wholesaler.

6. The manufacturer hires salesmen who can be trained to work with the wholesaler's salesmen. One of the perennial complaints by wholesalers about manufacturers is that the manufacturer needs better-trained men

who know the company's product and can tactfully impart their knowledge and skills to the wholesaler's staff.

When a study was made in a nationwide survey of almost 1,000 jobber salesmen of automotive parts as to what they want at sales conventions and the reasons why they "like least" to sell a product, the numbers of mentions were as shown in the accompanying table.

What salesmen want at conventions (number of mentions weighted)		Why salesmen "like least" to sell a product	
Description of product and uses	4,937	Inadequate product information	511
Comparisons with competition	3,549	Product is price football	417
Charts, models, films	3,083	Defective merchandise	277
Arguments against competition	2,543	Profit too short	237
Question and answer period	2,120	Product inferior to competition	224
Prices compared with competition	2,078	Line incomplete or out of date	217
A demonstrated "gimmick"	1,880	Manufacturer's distribution policy	115
Tips on how to sell	1,866	Poor catalogs	101
Explanation of market size and potential	1,318		
Outline of advertising	1,247		
Printed summary following convention	1,187		

SOURCE: From a Marketing Pictograph by *Sales Management*, Sept. 15, 1952, taken from the Philadelphia Automotive Booster Club and Geare-Marston Advertising Agency.

WHAT DISTRIBUTORS WANT FROM THE MANUFACTURER

Since distributors handle many lines, their problems in relation to promotion have certain unique aspects. A manufacturer cannot expect distributors to concentrate on his product all the time. Rather, he should schedule definite plans with the distributors and see to it that when the distributors allot extra time to the campaign, he makes the most of it. The average number of sales meetings held by a distributor is only 20 a year. The manufacturer is lucky if he can get on the schedule once in 12 months. The manufacturer should offer the distributor a coordinated program which pushes one or two items nationally and locally rather than try to include his entire line in one promotional campaign.[5] His

[5] Louis H. Brendel, "What Distributors Expect from Your Promotion," *Sales Management*, Jan. 15, 1952, p. 76.

efforts should have continuity and stimulate the distributor's salesmen through contests, examples of effective demonstrations, tie-ins at the local level, and contacts that develop friendships. The closer the manufacturer works with his distributors, in terms of their needs, the greater the likelihood of effective marketing procedures.

THE RETAILER'S RELATIONS WITH THE WHOLESALER

A high percentage of the men who go into independent retailing have had little or no training for their work. As a result, the mortality rates are high, especially for the first years in business. This indicates that the retailer should get all the advice and financial help that he can possibly obtain. If he is smart, he chooses wholesalers who are interested in building him up as a merchant. He also keeps wholesalers fully informed of his financial status, any commitments that involve or may involve him financially, and his plans for increasing his business. Furthermore, when the retailer finds a wholesaler who treats him fairly and helps him develop his business, he should remain loyal to him. The retailer should realize that he and his wholesaler have mutually beneficial interests and that the two of them are likely to rise or fall as a business team.

DRUG WHOLESALERS AS AN EXAMPLE OF THE IMPORTANCE OF THE WHOLESALER

Each type of wholesaler adapts himself to the needs of his dealer customers. This is exemplified by the relations between drug wholesalers and druggists. The average drugstore must carry an inventory of about $6,000 in pharmaceutical items alone; some have an investment in inventory as high as $50,000. New developments in the pharmaceutical field in recent years have tended to increase the druggist's inventory, sometimes to the point where the investment becomes prohibitive. This is especially hard on the small and medium-sized store that is competing with chain stores and at the same time wishes to maintain the respect and favor of customer and doctor.

The work of a pharmacist today requires keeping on hand certain basic drugs and being familiar with hundreds of manufactured formulas. Some 200 firms are manufacturing many hundreds of pharmaceutical items which he must have in stock or available on short notice. Each manufacturer tries to sell doctors on his new drug; if a doctor is convinced, he will write his prescriptions calling for the new trade name. This complicates the inventory for the druggist. He must have on hand the items of all manufacturers of the same drug.

At the same time, the great advances in medical science are multiplying

the number of pharmaceutical items on the market. Druggists are likely to overstock these costly drugs. Hence, the druggists' big problem is to maintain an adequate stock while maintaining a reasonable inventory.

Pharmacists prefer to patronize wholesale houses that provide quick delivery, which enable them to give service without carrying a heavy inventory. In many cases, however, pickup service is not made easy. Wholesale houses sometimes make little effort to acquaint pharmacists with new products. Many jobbers do not have pharmacists on their staffs. Billing practices may be inadequate; a pharmacist may not know how much to charge a customer when he is filling a prescription. Sometimes orders are not completely filled but the druggist is not told when he may expect missing items. Perishable and costly drugs may be mishandled in the warehouse.

A new kind of wholesale house has come into being, such firms calling themselves "pharmaceutical specialists," or "exclusive pharmaceutical wholesalers," carrying only prescription items. They sell only to drugstores, hospitals, and hospital pharmacies. Swift delivery is their objective. An order is often filled within a few hours of placement, the longest waiting time being 24 hours. If a pharmacist can be served by a "pharmaceutical specialist" in that short time, he no longer needs to carry unprofitable inventories.[6] Not all pharmaceutical manufacturers, however, have come to realize the benefits of selling through this new type of jobber. They still prefer to sell direct, and most drug wholesaling is still done by the standard jobber.

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QUESTIONS AND EXERCISES

1. Is it true that the institutions which perform the wholesaling functions can be changed, but the need for performance of the function cannot be eliminated? What is the significance of this from the standpoint of distribution costs?

2. What is the difference between a full-service wholesaler and a limited-function wholesaler? Can you name a firm of your community that exemplifies each type?

3. In what ways does the wholesaler perform a financing service?

4. What actions can the manufacturer take to stimulate the sale of his product when it is distributed through wholesale channels?

5. It has been indicated that sales promotion is much more effective when the program has continuity. How do you obtain continuity in a sales promotion program?

6. When would you expect a manufacturer to distribute his product through exclusive selling arrangements with various wholesalers throughout the United States market?

7. Would a wholesaler be wise to attempt to secure as many exclusive selling arrangements as he could?

8. How do you explain the fact that the wholesaler has continued to play an important role in marketing despite the attempts by manufacturers to circumvent him?

15 Manufacturers' Agents and Food Brokers

THE ALERT MARKETER

1. **Becomes aware of the factors that should be considered by the small manufacturer who must select a channel of distribution for his product.**
2. **Looks for ways in which the small manufacturer can get effective distribution without excessive expense for himself.**
3. **Notes the ways in which the food processor can get effective distribution without excessive expense for himself.**

MANUFACTURERS' AGENTS

A manufacturers' representative (more commonly, manufacturers' rep) acts on behalf of manufacturers who do not want to hire, train, and maintain their own distribution or sales forces. He hires himself out on a commission basis as a unit of sales know-how and performance. He is an independent operator who knows a territory well. He is a salesman and is willing to sell a product even though he knows that eventually he will lose the account. As soon as a representative has built up a manufacturer's line, the manufacturer is likely to drop him because his own salesmen would cost less, once the line attains profitable volume. Thus the representative, if effective, is usually working himself out of a job.

The latest United States census showed that some 9,000 agents (excluding food brokers) totaled $4.2 billion in annual sales. The manufacturers' agent, therefore, can be seen to serve an important function in the distribution process. Both large and small manufacturers may use an agent. Some large manufacturers have certain products that can be sold profitably through them. Generally, however, manufacturers' agents are channels for small manufacturers. When a small manufacturer uses his own

selling force, his cost of soliciting and selling to customers may be so high that he has difficulty in meeting competition. When, however, he uses a manufacturers' agent his margin for profit may be greater. Also, selling costs remain stable because the agent receives a fixed percentage of sales as his fee. The manufacturer's selling expenses are, therefore, predetermined regardless of volume of sales. Such predetermination is basic in establishing and controlling marketing plans. For small manufacturers or those whose business is seasonal this control of costs is especially desirable. The use of agents eliminates the need to increase and decrease the sales staff as seasonal conditions fluctuate.

Another advantage to the small manufacturer is that by using an agent he need make no financial investment until actual sales are made, for agents are paid on a commission basis *after* shipment to the purchaser of the products.

Agents cover their territories intensively. They concentrate on a relatively small territory and make frequent visits to each buyer. Some manufacturers' agents are welcomed by prospects because they can buy many products from one salesman and thus save their own time and trouble. Agents are willing to perform extra services for their customers, such as aiding them in promoting a product. Naturally, an agent does not want to lose a buyer to whom he sells eight or ten lines on a commission basis.

Of course, there are also limitations in using a manufacturers' agent. For the larger, well-established manufacturer who produces a wide line of goods and has a large volume of trade, it is more economical to employ his own sales force than to pay commissions on each sale to an agent. The agent is his own master and as such makes his own decisions about his sales routes, sales demonstrations, the frequency of his calls on customers, and so forth. If the manufacturer wishes to make the decisions on these matters, he should use his own salesmen.

Another disadvantage is that each manufacturer receives only a portion of the agent's time. An agent who sells many lines may not put enough effort into the sale of an individual product to please the manufacturer of that product. If the manufacturer wants to increase the sales effort put forth for his product, his own salesmen will serve his purpose better. Also, consideration should be given to what might happen if the relationship between the manufacturer and the agent were dissolved. The manufacturer might find that the agent would make a contract with a competing producer and be able to shift a number of regular buyers to the product of the competitor.

From the agent's point of view, it is only natural that he will favor the product which gives him the best returns. If a manufacturer's line is not profitable to the agent, he may either give it little of his time or ask

for a higher commission on sales. Neither alternative is desirable from the manufacturer's viewpoint.

Still another limitation lies in the fact that many producers like to keep in close touch with their buyers so that they can better observe market conditions and customer needs and preferences. Using an agent removes much of this close contact with the customer.

Perhaps the best way to point out the place in marketing of the manufacturers' agent is to give an example. A manufacturer of aluminum and magnesium ladders did not know how to handle his distribution. He first tried using his own salesmen to sell to jobbers. The jobbers, however, would stock his product and then wait for customers to ask for it. Since the product was a new and fairly expensive one, there was not as high a demand as the manufacturer desired. He found that it was necessary really to *sell* the ladders, take them to the potential users, and show their advantages. The jobbers would not do this effectively for the manufacturer.

The manufacturer decided to try using agents. He believed that the agents would spend more hours selling than the jobbers' salesmen. After choosing his agents, the manufacturer advertised his product in the classified columns of telephone directories, thus making available to prospects the local representative's name and address. Direct-mail advertising was also employed and letters were sent out monthly to potential customers whose names were furnished by the local agent. This manufacturer has found that the use of agents has many advantages for him. The company gets more direct contact with customers than was possible by selling to jobbers. The more economical distribution method has led to lower prices for customers and more sales.[1]

The manufacturer who wishes to market his product successfully through agents must select his representatives with the same care used in hiring salesmen. He must visit them periodically, work with them, and keep them stimulated. He must have a planned sales promotion program and allocate funds intelligently to each man's territory. Certainly, the mere use of representatives does not ensure success. They must, like all other salesmen and distributors, be used wisely.

FOOD BROKERS

In the food industry, the term *food broker* has become a generic term for a manufacturers' agent. The National Food Brokers Association, which is the spokesman for this segment of the food industry, defines a food broker as ". . . an independent sales agent who performs the services

[1] F. A. Von Baum, "Why Our Sales Policies Are Built around Manufacturers' 'Reps,'" *Sales Management*, Oct. 1, 1950, p. 117.

of negotiating the sale of food and/or grocery products for and on account of the seller as principal, and who is not employed or established by, nor an affiliate or subsidiary of, any trade buyer, and whose compensation is a commission or brokerage paid by the seller." [2]

A food broker is a resident sales agent who sells food and grocery products to wholesale buyers within a well-defined area on behalf of his established principals—the manufacturers, processors, packers, refiners, and other producers. Food brokers work on a basis of regular, exclusive sales representation for their principals, rarely working on a one-time or occasional deal arrangement. Though these relationships are firmly established, the food broker, nonetheless, is an independent contractor, free to choose the principals for whom he will work. The broker may also represent several manufacturers in the same territory. However, he does not usually represent competing manufacturers unless such an arrangement is to the advantage of all concerned and is completely understood and agreed to by the competing manufacturers.

In general, the food broker sells such products as canned, processed, frozen, and dried foods, sugar, flour, and other household necessities stocked by grocery stores. Some brokers also handle drug and hardware items.

A food-brokerage business may range from a one- or two-man establishment to an organization that includes salesmen, clerks, retail promotion men, and demonstrators. As many as 20 or more people may work in such a firm. Individual food brokers work within comparatively limited geographical areas, but within his area the broker regularly offers the products of all his principals to all the wholesale grocery and food buyers, functioning in much the same manner as a district sales manager.

The food broker serves an indispensable function for the majority of manufacturers and processors in the food industry. By using brokers, the manufacturer need not organize a sales division of his own, which saves him considerable expense and reduces his distribution costs. A manufacturer who has his own sales staff may, however, also employ brokers to cover certain markets. As an indication of the extent to which brokers are used, in a recent year the value of transactions of food brokers totaled $5.5 billion, and such volume is expected to increase greatly.

Though food brokers use various terms, such as sales agent or manufacturers' representative, to describe their functions, they may always be distinguished from established distributors by the fact that the distributor buys and sells on his own account for profits. The food broker, on the other hand, serves as an agent of the manufacturer and receives payment in terms of a commission on actual sales, based either on dollar volume

[2] From the constitution of the National Food Brokers Association. See *Students View the Food Broker*. National Food Brokers Association, Washington.

or on a unit arrangement. In the latter case, the broker receives a fixed sum per barrel, case, bag, and so forth. The broker at no time takes title to the goods, neither does he receive any compensation from the buyer of the goods.

The claim is made that the food broker is not a middleman and that he does not add anything to the cost of distribution, because he expedites the distribution process by bringing together the buyer and the seller at a lower cost to the manufacturer than if the manufacturer were to sell directly to the wholesalers. A true food broker's service is purely a negotiatory one. He assumes no risks and extends no credit. He merely obtains orders for the producer. The producer ships the goods and collects for them. The shipment goes directly to the buyer and the broker neither sees nor handles it. When the sale has been made and the shipment sent out, the broker receives his commission.

Some of the advantages obtained from using a food broker and the services which he performs are the following:

A food broker is thoroughly familiar with the trade within his area and develops to a high degree the sales potential therein.

He assists in evaluating marketing ideas, proposed new products, and sales and advertising plans. He furnishes information on the credit of prospective buyers. He may also assist in the distribution of advertising and point-of-sale materials by providing men who visit retailers and attempt to induce them to push the product. He may even arrange a cooperative advertising agreement between the wholesaler and the manufacturer.

The manufacturer should choose his brokers with great care. Personal interviews can reveal the standards of the broker's company and the products that he already handles. These are indications of his experience and abilities. As an aid to manufacturers, the National Food Brokers Association publishes a list of more than 1,700 food brokers located throughout the United States and shows the types of products each broker handles.

EXAMPLES OF THE FUNCTIONS OF FOOD BROKERS

The following case illustrates the usefulness of a food broker in a practical situation. When Mead Johnson & Co., manufacturers of Pablum and Pabena, first put the products on the market, they distributed them to drugstores through drug wholesalers. As the years passed, more and more of these cereals were sold in food stores, though still distributed by drug wholesalers. Grocers began to resent the fact that they had to seek out drug wholesalers in order to replenish their supplies of Pablum

and Pabena. Furthermore, the manufacturer had no check on whether retail grocery stocks were fresh or properly displayed. Competing cereals were increasing their advertising and gaining wider consumer acceptance. Mead Johnson thought that their sales might decrease because of lack of attention given their product by grocers. Their problem was that even though their product was carried by the great majority of food stores, their distribution methods and follow-up procedures were poor. Mead Johnson decided that they must work directly with the grocery trade rather than through drug wholesalers. How could they get immediate sales coverage for their narrow line at a reasonable cost? To set up their own sales organization would be very costly because their individual orders, though numerous, were generally small. Food brokers were the obvious solution to their problem. As representatives of other products, brokers were already calling on all the grocery product wholesalers and many individual grocers. The use of food brokers involved no advance financial outlay on the company's part.[3]

Another example of the place of the food broker in distribution is that of a typical processor of a small but high-quality food product. The processor did not have the capital to hire salesmen or buy market information. Therefore, he turned to the brokers, who furnished him with market information and helped him plan his sales campaign. As a result, his area of sales effort was much greater than he could have established with his limited capital. Furthermore, all this cost the processor nothing until actual sales were made. When the processor wanted extra promotion work done on his product, the broker's missionary workers were trained to go into retail stores and arrange for the sale of the product. The processor's product gained in sales and his costs were held to a minimum.

USE OF FOOD BROKERS BY COOPERATIVES

In a study recently conducted by the Department of Agriculture, it was found that brokers were the main outlet for the canned fruits and vegetables processed by the 27 cooperatives included in the study (see Table 15–1). Brokers were responsible for the sale of about three-quarters of their output of canned noncitrus juices and segments. Brokers sold about two-thirds of all commodities sold by these cooperatives, but the percentages of sales of individual cooperative associations made through brokers varied widely—from 95 per cent or more of total volume to less than 10 per cent.

[3] See D. Mead Johnson and Robert E. Sessions, "We Built a Food Brokerage Distribution System in 5 Weeks," *Sales Management*, Mar. 15, 1951.

Table 15–1. *Percentages of Canned Fruits and Vegetables Sold through Brokers and Other Distribution Channels*

Types of buyer	Percentage of sales by 27 cooperative associations through			
	Brokers	Direct	Other *	Total
Wholesale grocers	93.9	5.3	0.8	100.0
Chains and supermarkets	62.2	37.6	0.2	100.0
Independent retailers	95.4	4.0	0.6	100.0
Others †	22.0	77.3	0.7	100.0
Unspecified types of buyers	69.8	26.6	3.6	100.0
Total	66.7	32.6	0.7	100.0

This table gives a breakdown of the total sales of canned fruits and vegetables made to each type of buyer. For example, this shows that brokers made approximately 95 per cent of all sales made by these 27 cooperatives to wholesale grocers and independent retailers.

* Sales made through special sales outlets, through other wholesalers, etc.

† Includes sales to government, processors, institutions, consumers, and all other purchasers not separately classified.

SOURCE: *Food Brokers Appraise Cooperative Marketing Practices,* Department of Agriculture, Farm Credit Administration, Circular C-142, October, 1951.

FOOD BROKERS AND THE MARKETING OF NONFOOD PRODUCTS

Food stores in general, and supermarkets in particular, have in recent years been broadening their sales of nonfood items. Brokers naturally want their share of this expanding market. Hence, 77 per cent of all food brokers now handle nonfood items, according to a National Food Brokers Association study. The nonfood items provide 15 per cent of the gross brokerage business of all food brokers.[4]

In a recent year, 90 per cent of the largest supermarkets sold certain health and beauty products, 10 per cent handled hardware and electrical appliances, and about 50 per cent carried various housewares. These percentages are, however, continuing to increase. Manufacturers know this and many producers of nonfood items think that their product has possibilities in retail food stores. Enlarging the manufacturer's own sales force to cover food stores is too expensive, for sales volume would not be high enough to cover cost. The manufacturer can, however, afford to pay brokerage fees for sales actually made. So food brokers are receiv-

[4] Survey by Watson Rogers, reported by Marshall Beuick, in "Are Food Brokers a Profitable Outlet for You?" *Printers' Ink,* Feb. 20, 1952.

ing more and more of this kind of business. They can offer to the manufacturer an already established selling organization as well as a thorough knowledge of the areas in which they operate.

WHEN SHOULD A COMPANY USE ITS OWN SALESMEN OR REPRESENTATIVES?

One executive who had had considerable experience in the use of both methods stated his recommendations as follows:

After years of study, plus much trial and error, we have found that a direct selling force is preferable under the following circumstances:

1. When technical knowledge is required in the sale of a product.
2. When installation of the product calls for special techniques or training.
3. When the sale of the product must be followed by periodic servicing.
4. When the number of customers is comparatively small and each of considerable size, in contrast to thousands of small individual outlets for the product.

Among the circumstances which favor the use of manufacturer's representatives are the following:

1. Where the number of customers (not consumers, of course) is large and their places of business are spread over wide areas.
2. Where each sale is comparatively small and would not allow for adequate earnings for the salesman.
3. Where the product can logically be sold along with a number of other allied products during one call on a customer.
4. Where the direct salesman does not have a complete line of related products to sell, and the individual sale of one product would not provide an adequate commission.
5. Where the dollar volume of the orders written by the direct salesman does not justify the cost of his travel through the territory.

Comparing the representatives and the direct salesmen on the basis of their relative cost, selling abilities, or responsiveness to company control is likely to be misleading. When all is said and done, the best method of distribution must still be determined by the type of product, the territorial coverage needed, the number of customers and prospects, and the type of selling, installation, and servicing required.[5]

SOURCES

The Commerce and Industry Association of New York, Inc., 99 Church St., New York. This organization is prepared to furnish without charge to its members and to any out-of-town manufacturers seeking representation in New York City the names of established agents covering the New York territory, together with information as to the types of products

[5] Paul A. Smith, Jr., *Management Methods*, September, 1953.

handled, bank reference, and year established. It also furnishes the names of export distributors.

Other sources [6] for manufacturers' representatives are the following:

Manufacturers' Agents National Assn., Executive Secretary, 1724 W. Main St., Alhambra, Calif.

Implement & Tractor, Kansas City, Mo. List of 1,800 agents and jobbers serving farm-equipment fields.

Power, 330 W. 42d St., New York. Directory of agents serving the power field. Price $10.

Electrical Merchandising, 330 W. 42d St., New York. A monthly magazine that goes primarily to retailers and distributors.

National Food Brokers Association, 527 Munsey Bldg., Washington. This association includes the leading food-brokerage firms in every market area in this country and has members in Canada, Hawaii, Alaska, Cuba, and Mexico.

The Association has always directed its efforts toward the improvement of conditions in the food-brokerage business, not alone as they affect food brokers but for the betterment of the condition of sellers and buyers as well.

Although the Association's membership is restricted to food brokers, it makes available all its publications and services to manufacturers, advertising agencies, and others seeking food-broker information. One of the most valuable of its publications is the *NFBA Directory*, which lists its membership of more than 1,700 food-broker firms. The directory shows the key personnel of these firms and lists the types of products each sells. It has proved invaluable to companies seeking food brokers to represent them in different local areas. The Association also publishes booklets and pamphlets on the functions of food brokers.

Albee-Campbell, Inc., New Canaan, Conn. This company functions as a national clearinghouse for manufacturers' agents. It maintains business and sales records on more than 16,000 agents—both individuals and organizations—from which manufacturers may select their territory commission representatives. Albee-Campbell is retained and paid by the manufacturer, and in no case is the agent under any financial obligation.

COLLATERAL READINGS

Converse, Paul D., Harvey W. Huegy, and Robert V. Mitchell, *The Elements of Marketing*, New York: Prentice-Hall, Inc., 1952, Chap. 13.

[6] "Where to Find Manufacturers' 'Reps,'" *Sales Management*, July 15, 1950.

Duddy, Edward A., and David A. Revzan, *Marketing: An Institutional Approach*, New York: McGraw-Hill Book Company, Inc., 1953, Chap. 17.
Editors of *Fortune*, *Why Do People Buy?* New York: McGraw-Hill Book Company, Inc., 1953, Chap. 10.
Leffler, Marvin, *How to Become a Successful Manufacturers' Representative*, New York: Prentice-Hall, Inc., 1952.
The Manufacturers' Agent as a Marketing Institution, a U.S. Census Monograph, Department of Commerce, Bureau of the Census, 1952.
Westing, J. H., *Readings in Marketing*, New York: Prentice-Hall, Inc., 1953, Part 5.

QUESTIONS AND EXERCISES

1. What are the usual circumstances that lead to a manufacturer distributing his product through a manufacturers' agent?

2. What are the advantages of using a manufacturers' agent as contrasted to a wholesaler? What are the disadvantages?

3. What are some characteristics of the market for a product which would favor the use of a manufacturers' agent?

4. It has been said that operating as a manufacturers' agent is the last stronghold of individual freedom and small business in the wholesale trade. Is this statement a proper description of the manufacturers' agent? Explain.

5. What are the circumstances that would lead a manufacturer to establish his own sales force rather than use the services of a manufacturers' agent?

6. "Milker" is looked upon as a dirty word by manufacturers' agents. It is an epithet applied to the agent who does little or no work but keeps on getting his commissions on reorders because he holds the exclusive right to all sales in his territory. What is the likely effect of a milker situation on the manufacturer? On the agent himself?

7. How do you explain the fact that food brokers are so widely employed by manufacturers of food products such as canned vegetables?

8. What functions would an efficient food broker perform for a manufacturer using his services?

9. A well-qualified food broker knows a great deal about retail and wholesale businesses, especially those of his area. He is constantly observing and learning about all kinds of foods in their movements from processors to wholesalers, to retailers, and to consumers. He knows nutritional values, grades of foods, kinds of packages used, and industry terms. He probably has worked in a grocery store and in a canning factory. Outline a program of work for two summer vacations and the first two years after graduation, planned to give you the experience necessary to become a food broker.

10. Even though you do not have the experience or training of a competent broker, assume that you are in charge of marketing for a food manufacturer, canner, or processor. Outline for the board of directors of your company a plan for the use of food brokers by your company. Tell why you recommend this method of sales representation. Present the advantages and disadvantages.

16 Modern Retailing

THE ALERT MARKETER

1. **Notes the trends in retailing and practices in consumer behavior that affect retailing practices.**
2. **Watches the practices of successful retailers in order to learn methods of increasing sales.**
3. **Studies the retail sales personnel training aids prepared by manufacturers in order to learn ways in which salesmanship in retail stores can be improved.**

Retailing is a big industry. From the standpoint of the number employed, retailing is our second largest industry. It employs approximately one out of every six workers. American consumers consistently turn over about 70 per cent of their disposable income to retailers.

In a recent year, there were 1,668,000 retail establishments in the United States (see Table 16–1). The great majority of retail stores are small establishments, with a total annual volume of less than $100,000. The annual sales of retail stores by kinds of business are shown in Table 16–2. The total in dollars was $164 billion. Of this total, food store sales accounted for about $40 billion; the automotive group, $28 billion; the general merchandise group, including department stores, $18 billion; the building materials and hardware group, $10 billion; and the apparel group, more than $10.5 billion. These five categories of retail establishments account for about 70 per cent of the total volume of retail sales, depending, of course, upon the kinds of classifications and establishments that are included in the estimate. Retail sales have also been computed in terms of "cents" share of the retail dollar (see Table 16–3).

Each retail firm serves the public in some way that seems best to its owner. If the service is sufficiently competent to merit the continued patronage of its customers, the retail establishment flourishes. The retailer

Table 16–1. *Number of Retail Firms in Operation (Thousands)*

	Number		Number
Total	1,668		
General merchandise	50	Eating and drinking places	313
General stores with food	29	Filling stations	229
Grocery, with and without meats	303	Home furnishings	47
Meat and sea food	21	Appliances and radios	30
Other food	104	Drugs	48
Liquor	20	Hardware and farm implements	48
Motor vehicles	59	Lumber and building materials	41
Automotive parts and accessories	23	Jewelry	20
Apparel	83	Miscellaneous retail	186
Shoes	15		

SOURCE: *Retail Trade,* National Industrial Conference Board, Inc., New York, copyright, 1952. Data from Department of Commerce. All data as of Sept. 30, 1951.

must know the changing needs and wishes of his customers. To compete successfully, he must devise means that will bring better merchandise to his customers at ever-lower prices. In this sense, he becomes a leader in our expanding economy and our social evolution. The essence of retailing is selling.

The total number of retail trade firms has declined in recent years, chiefly in the firms dealing in food. Today, some 400 retail organizations —food chains, variety chains, drug chains, department stores, and mail-order chains—operating approximately 100,000 store units, do a large portion of our total retail business. This means that giant retailing compels many a manufacturer to play one of two roles: either he becomes a satellite producer who caters to the dictates of a few large distributors or he "manufactures" customers through national advertising in such volume that the mass retailer is forced to stock his line.[1]

A few generations ago, the buying and selling of merchandise was a fairly simple and small procedure. Retailing was traditionally a small business. Manufacturing, in contrast, was big business. Today, some retailing too has become big business. Several retail firms do a bigger business than 99 per cent of our manufacturers, and most of the biggest retail firms manage to remain big for many years (see Table 16–4). They adapt themselves to the trends that affect retailing.

[1] E. B. Weiss, "How to Sell More–More Profitably–through the 400 Giant Retailers," from a reprint of a series of articles published in *Printers' Ink,* 1948.

Table 16–2. *Sales of Retail Stores by Kinds of Business,* 1952

Type of store	Millions of dollars
All retail stores *	$164,085
Durable goods stores: *	55,270
Automotive group:	28,337
Motor vehicle, other automotive dealers	26,393
Tire, battery, accessory dealers	1,944
Furniture and appliance group:	8,926
Furniture, home-furnishings stores	5,255
Household appliance, radio stores	3,671
Jewelry stores	1,452
Lumber, building, hardware group:	10,200
Lumber, building-materials dealers	7,572
Hardware stores	2,628
Nondurable goods stores: *	108,815
Apparel group:	10,633
Men's and boys' wear stores	2,497
Women's apparel, accessory stores	4,233
Family and other apparel stores	2,210
Shoe stores	1,693
Drug and proprietary stores	4,717
Eating and drinking places	12,688
Food group: *	39,771
Grocery stores	32,238
Gasoline service station	9,976
General merchandise group:	18,694
Department stores, excluding mail order	10,277
Mail order (catalog sales)	1,339
Variety stores	2,996
Other general-merchandise stores	4,082
Liquor stores	3,165

When anyone studies data such as these, it is obvious that different compilers will use different classification methods. Example: Census Bureau publications include farm-implement dealers in the lumber, building, hardware series, while in the series published in the *Survey of Current Business* farm-implement dealer sales are found in the "other durable goods stores."

* Sales of other durable goods stores, other food stores, and other nondurable goods stores are not shown separately but are included in the totals.

SOURCE: Office of Business Economics and Bureau of the Census, April, 1953.

Table 16–3. *Where the Retail Dollar Is Spent*

In a recent year, when total retail sales were $170.7 billion, the biggest slice of the retail dollar went to food stores—23.9 cents. Next biggest was channeled to motor vehicle dealers—18.5 cents. Following is a breakdown of where the retail dollar was spent in 1953:

Store type	Cents share of retail dollar
Durable goods stores:	
Motor vehicle, other automotive dealers	18.5
Tires, batteries, accessories	1.1
Furniture, home furnishings	3.0
Household appliance, radio stores	2.3
Lumber, building-materials dealers	4.5
Hardware stores	1.6
Nondurable goods stores:	
Men's and boys' wear	1.3
Women's apparel, accessory stores	2.4
Family and other apparel stores	1.3
Shoe stores	1.0
Drug and proprietary stores	2.8
Eating and drinking places	7.6
Food group	23.9
Gasoline service stations	6.2
General merchandise group:	
Department stores, mail-order catalog sales, variety stores, others	11.1
Liquor stores	1.9
All others	9.5

SOURCE: Data compiled jointly by the Bureau of the Census and the Office of Business Economics. For current data, see latest report in *Survey of Current Business*, Domestic Trade. Above data based on March, 1954, issue.

TRENDS IN RETAILING

Efficient retailing brings more goods to more people at lower prices. In the process of doing so, new methods are continually tried out and discarded in favor of still better practices. In the discussion that is to follow, therefore, it is well to keep in mind that retailing is a dynamic industry. Innovations in selling that seem important today may be forgotten tomorrow. New methods of retailing branch out and develop until their original source has become obscured. Certain trends, however, are likely to continue in the years to come.

Table 16–4. *The 20 Biggest Retailers*

	Rank	
	1953	1939
Great Atlantic & Pacific Tea	1	1
Sears, Roebuck	2	2
Safeway Stores	3	4
J. C. Penney	4	6
Kroger	5	7
Montgomery Ward	6	3
F. W. Woolworth	7	5
American Stores	8	10
Allied Stores	9	14
Federated Dept. Stores	10	11
National Tea	11	19
May Dept. Stores	12	12
First National Stores	13	9
Food Fair Stores	14	
S. S. Kresge	15	8
R. H. Macy	16 *	16
W. T. Grant	17	13
Gimbel Bros.	18	15
Jewel Tea	19	
Colonial Stores	20	

The stores in the list of the country's 20 biggest retailers have remained fairly constant for the past 15 years. Some changes in the rank order of sales do take place, of course, from year to year. Marshall Field & Co. has been in the list of the top 20 in some years. Food Fair Stores is a relatively recent newcomer to the list.

* 12 months ended Jan. 30, 1954.

SOURCE: *Business Week*, May 24, 1952, p. 40, and May 22, 1954, p. 58.

One of the major trends in retailing has been the increase in self-service and self-selection. Buying is becoming a physical act involving less and less exertion on the part of the purchaser. He has only to put out his hand and pick up a product. Salespeople in self-service stores assume the role of helpers rather than sellers. They give assistance when needed but don't intrude. As one executive expressed it, "Sales clerks now being recruited are wrap-up artists instead of sellers."

Many nonfood outlets are trying to adapt self-service to their own needs. This is often done in an effort to lower operating costs and increase volume. They are also adapting to their own uses the visual and open types of display used so successfully in supermarkets.

There are changes in *where* the American public is doing its shopping also. Many large retail firms are opening suburban branches, which are becoming increasingly popular. A recent survey showed that in some instances suburban shops were doing a larger percentage of the business than were their downtown counterparts.

Shifts in store hours are taking place. More and more stores are staying open three or more nights a week. In line with this, many retailers feel that stores will open later, say at 11 o'clock or noon. Also predicted is a 5-day 32-hour week with a 3-day week end. Monday will then replace Saturday as the big shopping day in many areas.

Trends are also becoming evident in *who* does the shopping. More and more men are taking over this job. Some supermarkets report that up to 25 per cent of all purchases are made by men shopping alone. Couple shopping is increasing largely because the evening shopping hour makes such practices possible for the employed wife and the chief wage earner.

Stores of all types are handling a wider variety of goods. For example, some cigar stores now sell haberdashery and nylons and operate snack bars in an effort to increase business.

There are a number of what might be called miscellaneous trends in retailing, of which we will mention only a few. The food-freezer plans are a good example. Through these plans housewives may have frozen foods delivered to their homes. This, of course, means that personal shopping for those products is being done less frequently.

It is important to remember that all these and other trends may, and probably will, change through the years. The point that needs reiteration is that retailing is a dynamic business. It is constantly changing and anyone entering the field must be prepared to accept and capitalize on these developments if he expects to be successful.

METHODS OF INCREASING SALES

Years ago, retail stores were unpretentious establishments which made little attempt to promote or increase sales. They merely offered goods for sale and counted on the needs of the consumer to bring him to the store. Nowadays, both manufacturers and retailers attempt to develop consciousness of needs among consumers and bring them into the stores through all sorts of promotional campaigns.

Studies of sales situations at retail levels often reveal much valuable information about buying motives and other factors that influence purchases. Such knowledge can help the manufacturer as well as the retailer increase his volume of sales. Some stores even try to anticipate consumers' wishes and operate consumer panels which meet to discuss store stocks, policies, and problems. The management holds regular meetings to which

it invites women who have made suggestions for improving store operations. The panel members are shown samples of new lines, told about new merchandising plans, and invited to make suggestions and comments.

Modern stores also develop managerial practices that enable them to know the trends that affect their volume of trade. They keep sales records which show past performance and thus indicate future trends. They attempt to keep their stock moving so that they can present new stock to their customers. They try to keep their prices in line with customer demand. Store traffic and departmentalizing of goods are statistically regulated. More and more stores are attractively decorated, lighted, and air-conditioned.

Alert store managements use all sorts of promotions to increase their sales. For example, a department store in the Southwest began a Safety Club for children of grade school age which not only promoted their boys' wear department but also helped cut the child accident rate in half within the year. The store once gave free square-dancing lessons to high school students and incidentally sold a lot of square-dance clothes.

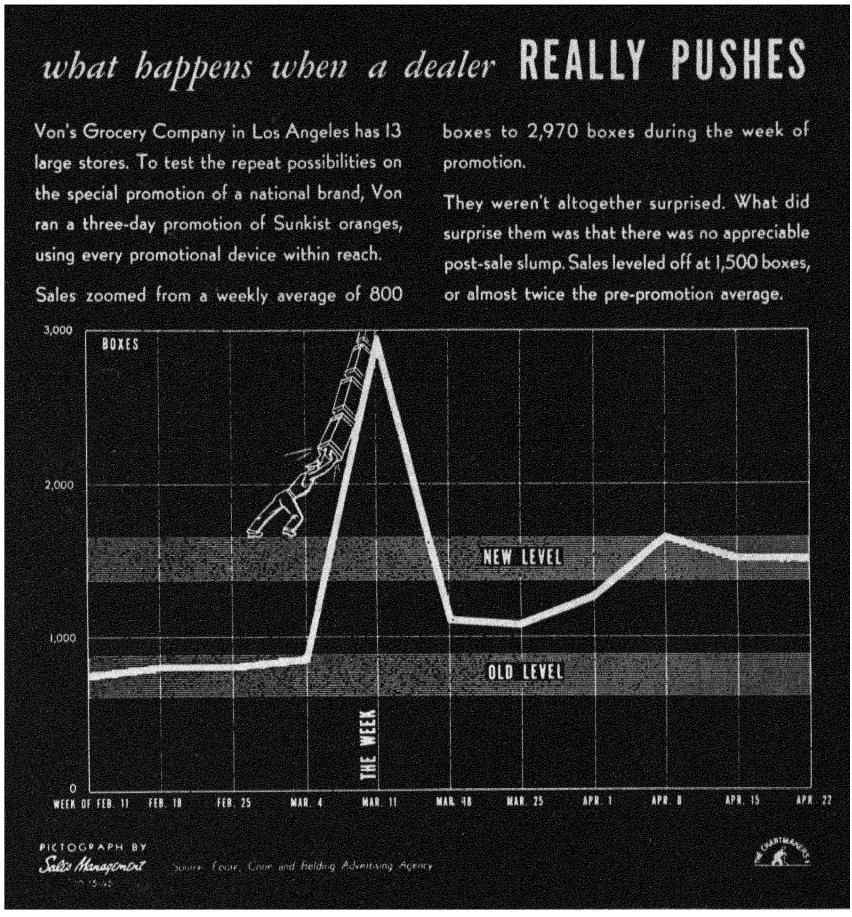
Some promotional campaigns benefit an entire industry rather than a single store only. A manufacturer of sunglasses, for example, gave a fashion show which emphasized sunglasses as an important fashion accessory and as a definite aid in protecting vision. The fashion show was just one part of their campaign which also included extensive advertising, the promotion of National Sunglass Week, and the publication of articles in newspapers and magazines featuring eye safety through sunglasses. What was the result of all this? Sales began climbing not only for the initiating manufacturer but for related manufacturers and retailers as well.

Promotions and displays have become big business in their own right. There are many companies which do nothing but manufacture display materials. They offer decorations for every possible occasion and supply plans and layouts for organizing a full-scale promotion.

The importance of display has been recognized. Care is taken to place articles where the customer can see them and in such a way that they will attract his attention. Mass displays and related-item displays increase sales. Department, as well as food, stores group related items together and plan joint promotions for them.

That effective promotions pay off can be illustrated by an example. A grocery company in Los Angeles ran a three-day all-out promotion on Sunkist oranges using every promotional device it could think of. Sales were tripled during the week of the promotion. This was to be expected; the surprise was that no appreciable postsale slump occurred. In fact, sales continued at a rate almost double that of prepromotion days (see the next page).

Admittedly, sales slumps do occur after some promotions but progres-



Men who plan and conduct retail sales promotions often wonder why certain promotions bring about postsale slumps and others do not. Quite often, the correct answer is difficult to discover, but the search for the answer is intriguing. This study, for example, was made in 1945. Would the same results occur today?

sive retailers are well aware of the value of good promotions. Manufacturers, too, realize their value and cooperate in supplying them to their retail outlets. They no longer dump their catalogs into the dealer's lap and wait until he requests the privilege of handling the manufacturer's line. Manufacturers realize that it is their job to offer sales training and merchandising aids for their products even though the dealers have not asked for them. Successful manufacturers are the ones who find out what their dealers need in the way of aids, supply them, and then prod the dealers into using them.

TRAINING RETAIL SALES EMPLOYEES

There is general agreement about the need for more effective training of sales personnel. Since selling salaries today account for more than 20 per cent of the total operating expense of many stores, it is natural that retailers should want adequate returns for their money. Furthermore, retailers know that poor salesmanship is lowering their total sales volume. A recent Agriculture Department study of the purchase of men's suits seems to bear out this conclusion. The Department's survey showed that most customers thought that salesmen played a "helpful but passive role" in the transaction. Displays in the store had some effect on the desire to buy, but the behavior of the salesmen might have contributed a stronger influence on the buyer. Undoubtedly, more suits would have been sold if the salesmen had functioned effectively.

Such conclusions are further substantiated by Willmark Service System, Inc. surveys, which are reported in trade journals from time to time. The Willmark organization conducts a continuing nationwide check on selling. Their reports have shown that most clerks merely wrap packages and make change. Clerks of many stores do little creative selling. Similar results have been found in other studies conducted to see how well manufacturers' advertising and promotions were being utilized by the retail outlets. The findings from planned surveys of retail selling effectiveness have been definitely of a negative nature.

Salespeople typically display little enthusiasm in their selling (see Table 16–5). Since most of them have little knowledge of the product, they find it difficult to explain its advantages over similar products.

Probably nothing wastes so many distribution dollars as retail clerks' ignorance of the products they sell. I haven't used a pretty word because it doesn't present a pretty picture. Too many sales are lost, not to competitors, but just plain lost, because the sales clerk didn't have sufficient information to do his job right.

Let me give you an example. Recently, in a discussion with several friends, I heard the following: One of the men was sufficiently impressed by the national advertising of various electric shaver manufacturers to decide to buy one. However, he was undecided on the make to choose. He visited a jewelry store, a department store and a drug store. In each case he presented his problem to the clerk. None of the clerks was able to suggest a real reason for buying the make he sold. Two of them figuratively shrugged their shoulders. The third, a drug store clerk, volunteered the fact that more people buy Schicks than any other brand. This was a fact my friend had deduced from national advertising. The clerk probably had used the same source material, resulting in a dead heat with my friend on sales points. It wasn't the informa-

Table 16–5. *Qualities in Salespeople Disliked Most by Customers*

Qualities	Percentage of customers	Qualities	Percentage of customers
Indifferent attitude	24.8	Lack of knowledge of stock	9.3
Discourteous	15.9	Superior attitude	8.3
Sassy, snippy	12.7	Sloppy appearance	3.5
Inconsiderate	10.6	Chewing gum	3.0
Lack of merchandise knowledge	10.4	Dearie	1.5

Indifferent attitude is the first consideration by customers as to what constitutes a poor salesperson. Lack of knowledge of merchandise and a lack of knowledge of stock represented 19.7 per cent of the responses.

SOURCE: Students in the Department of Retailing, Washington University, St. Louis, Mo., and Wenzil K. Dova, Professor of Retailing, have conducted an annual survey since 1947 on consumers' ideas about St. Louis retailers. Above table applies to fall, 1953, survey, reported in "Continuing Studies on Salesmanship," April, 1954.

tion he wanted. He remained undecided, and still shaves with his Gillette Superspeed.[2]

Few salesclerks emphasize the benefits the customers would derive from the product. On the whole, the salespeople studied have played a negative or passive role in retail selling situations. They seem to prefer to let the customer make his own decisions and then wrap the package or make change. There is one bright note, however, in the results of most surveys—salespeople can be taught to sell. The situation is not entirely hopeless for the manufacturer or merchant who really wants to train salespeople.

There are many, however, who believe that it is useless to try to train retail salespeople. Many advertising agency men are in this group. They point out that salaries of retail salespeople are low—about two-thirds those of industrial workers of the same areas. Retailing sales jobs therefore attract indifferent people. This type of personnel also has a rapid turnover, so that by the time some are trained, they are ready to move on to another job. Furthermore, the new trends in retailing, such as the emphasis on advertising, self-service, and display, have reduced the need for personal salesmanship on the retail level. Some store managements believe that it is more profitable to spend money on display fixtures than on training.

When the typical advertising agency sets up a promotional plan, it is

[2] W. D. Molitor, "Could Advertisements Shoulder the Retail Clerk's Job?" *Advertising Agency*, June, 1952.

As a part of its sales training program, Southern States Cooperative, Richmond, Va., sent 60 of its District Sales Managers on a Suggestion Selling Shopping Tour. Each man was given $5 with instructions about where to go, what to say, and what to buy.

These 60 men shopped at 31 retail stores in Richmond. Each man was instructed to buy a specific item and all additional items suggested by the clerk, with the amount not to exceed $5. The 60 men spent $103.25 of the $300 given them and returned $196.90. One man exceeded his limit by 15 cents. The value of the items which the men were sent to buy was $49.47. Thus, they spent twice as much as they went out to spend; but they would have spent six times as much had they received the proper encouragement from salespeople. The record revealed:

29 of the men spent less than $1. (Of this number 8 bought nothing.)
9 spent $1 or more, but less than $2.
7 spent $2 or more, but less than $3.
5 spent $3 or more, but less than $4.
7 spent $4 or more, but less than $5.
2 spent $5.
1 spent $5.15.

Of the eight men who bought nothing, three reported that the stores did not have items in stock, and that no attempt was made to sell substitute or related items. The other five could not get waited on, usually because clerks were not inclined to make the effort.

SOURCE: "Adventures in Shopping," *Sales Management*, Oct. 15, 1953.

likely to stress that what is needed is the *pre*selling of customers, accomplished through national and local advertising. This may be true in the area of convenience goods, but people do not usually buy television sets or other "big ticket" items solely because they have seen them advertised. Personal effort is needed to have the consumers appreciate fully the advantages of possessing a certain brand of the more expensive items. Surveys have shown that most individuals are willing to accept any one of a

This is typical of the statements shoppers were instructed to use: "I just came in on the plane and my handbag was carried to Raleigh, North Carolina. I would like to buy a toothbrush." Of the six men sent to buy toothbrushes, each to a different store, two bought nothing else, as the salespeople made no suggestions. The other four bought suggested items ranging in amount from $1.20 to $4.56, in addition to the toothbrushes.

The six men had $30 to spend but spent only half of it ($14.80), simply because the clerks did not go strong enough on suggestion selling—did not ask for the money.

Eight men were instructed to buy vegetable seed and to use this statement: "I am planting a fall garden and would like to buy one ounce of Blue Siberian Kale." Each man went to a different store. Here is the story: Two of the men were unable to buy the kale seed as the stores did not have it in stock. No attempt was made to sell anything else although salespeople were given this lead: "I am planting a fall garden." The other six bought the kale seed and nothing else, at a total cost of $1.25.

These eight men had $40 to spend, but spent only $1.25; salespeople did not attempt to sell them anything. They just filled orders.

The suggestion selling performances differed greatly. The group of shoppers who went to the vegetable seed stores spent only 3% of the money they had. One group who went to feed stores spent 2%, and another 17%. The paint stores took 32% of the available money; the stationery stores, 61%; the hardware stores, 64%. At the department stores, the salespeople at the sock counters took 41%; at the handkerchief counters, 42%; at the toothbrush counters, 49%; and at the tie counters, 57%.

number of well-known brands. Often the personal selling at the point-of-purchase decides *which* brand will be purchased.

Several leading manufacturers (Firestone, Sherwin-Williams, Singer Sewing Machine) recognize this fundamental fact and operate their own retail chains, but only a relatively few manufacturers want to get into the retail business. Most just furnish a few prepared aids such as posters and booklets. Some do try to jazz up the salesclerks occasionally by means of contests and bonus arrangements, called p.m.'s (push money or

"spiffs"). When a manufacturer does decide to venture his money on training salespeople, he is likely to find it so expensive and unrewarding that he is willing to accept the argument that he ought to spend his money on preselling customers—sell the customers before they come to the store and let the retail clerk continue to be a wrapper-up. A few of the more hardy believers in training, however, keep on experimenting until they find methods to train salespeople effectively. Some of these methods are simple, others extensive.

EXAMPLES OF TRAINING PROGRAMS IN PROGRESS

A rather simple method of sales training is being used by an oil company to train service-station operators. Instead of putting out a sales-training manual as many companies do, the company decided to give the operators the information in small, easy stages. Each day a postcard is mailed out to the operators with a "suggestion for better service." Thus, the operators receive constant reminders of ways to improve service. The company believes that the program is effective and that this simple method could be adapted for use by many industrial suppliers.

All training material should be presented in a way best suited to the situation. Moving pictures and traveling road shows are sometimes used. In some instances role playing seems to be the best approach. Often, discussions and conferences are helpful in putting the lessons across. An especially extensive and effective method is that of the Formfit Co., as described below:

The Formfit Co., Chicago, has invested more than $300,000 in six years in a continuing research and organizational program aimed to teach salespeople in all types of retail stores how to sell corsets, foundations and bras better. Primarily, this work has been carried on through what is known as The Formfit Institute. Strangely, the idea that has had the most to do with bringing the program to full success was born in the skies over Germany during bombing raids by the RAF. . . .

"One day a small group of executives of our company listened to a most amazing story of a selling job that had an important effect on the outcome of World War II," says Walter H. Lowy, vice-president of The Formfit Co. . . .

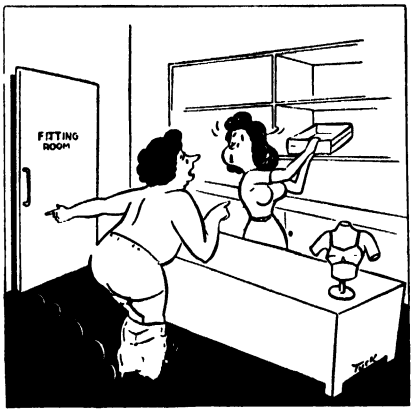
Mr. Lowy's story goes like this: Early in the unpleasantness over Europe, due to the methods of training England's fighters and bombers, that country's air wing had developed into a force carrying on a war in a routine manner. In other words, the air force had settled into a rut. Each man did his allotted task—and nothing more. Gunners in bombers, going to and returning from their targets, were caught reading the funnies or scratching love notes to their ladies. They depended on the fighting planes overhead for protection.

The air command was in a quandary. It wanted élan, alertness, enthusiasm for battle, efficiency without letup—and it was not getting it. Something in the

training of the men seemed lacking. The solution, as all solutions must, came from the problem—in this case the gunners themselves. A bull session was on and this was overheard:

"Our officers don't talk our language," said a bright young flyer. "They talk too much about saving the taxpayer's dollar and such rot. What in hell does a man who thinks he may be killed in the next 15 minutes care about the taxpayer's dollar? Such mouthings don't interest us."

Working on that, an experiment was tried. Two men, one a writer and the other a cartoonist, were put to work. They got out a small leaflet. It told,



"Where's that girl who was waiting on me?"

SOURCE: The Formfit Institute, Inc. Copyright, 1945.

"Excellent, my dear, excellent—the last word in related selling!"

SOURCE: The Formfit Institute, Inc. Copyright, 1945.

in a down-to-earth way, what the command wanted the men to absorb. It was ribald and it used airmen's lingo and airmen's cuss words. It was no parlor-stuff. It was bitter and penetrating. It burned with searing fire, but it carried one message after another like meat in a sandwich. . . .

The tempo of the attack was stepped up and the air force began to put ever-increasing terror into the raids.

Formfit executives, sold on a scheme, put out an order: "Find those two guys!"

They were Porter Henry, the writing man of the team, and John Faulkner, the cartoonist. . . .

When they were rounded up for conference they were told: "We want you to prepare a campaign to teach the salespeople in stores throughout the United States how to sell corsets, foundations and bras." . . .

Ever since that day sales training letters have been going out from The Formfit Institute, which frankly talk the language of slang and patois of the women who deal foundations and bras to the female of the species.

Fannies are called fannies without a single blush. Those utilitarian and ornamental curves that Solomon describes as twin alabaster hills are buzzums. Gals are gals and dames are dames and, describing them, "All look funny with some of their clothes off." Fat-on-the-midriff is sometimes a rubber tire and again a jellyroll. It goes on like that, and the sales women eat it up. . . .

No, it isn't all kidding. The kidding is to get attention; to make the sales crews read every line of the sales letters; to make them read those letters with interest and avidity because that's the way to make ideas stick. Sprinkled through the letters are "thinking paragraphs" like this:

"Few of us are in this business because it expresses any deep urge within our souls. We're in this business to earn a living. Period."

"We don't want any sermons on the job of selling. But we can use any practical suggestions that will help us earn more dough, or to get a promotion."

"There are right and wrong ways of selling—and that's true about selling anything from brassieres to brooms, from corsets to carpet tacks, from girdles to gas-pipes."

"What the customer is basically interested in is not that handful of elastic and nylon and fasteners—she's trying to buy beauty, or glamor, or sex appeal, or poise, or comfort, or whatever else it is that appeals to women of her age and type."

"If all you are selling is corsets, she'll be willing to take the least expensive one that seems fairly satisfactory. But convince her that one particular corset gives her allure, or charm, or whatever it is she dreams about, and she'll break her neck and her bank account, if necessary to have that garment."

"Don't sell a woman a garment . . . sell her what it does for *her!*"

"If you just leave her in a fitting room with the garment, she'll come out in a few minutes, tell you it didn't fit, and go off to some other store where she gets the attention she likes."

"When you get a garment with the proper fit, show a little enthusiasm. Point out what it does for *her.* Sell her on her new figure." [3]

CRITERIA OF GOOD RETAILING

The criteria that may be applied to the effectiveness of a retailer's operations are so numerous and varied that no universally accepted standards are available. The most commonly suggested criterion would probably be, "Does the retailer make money over a period of years that is long enough to include times of easy and difficult selling?" This criterion would certainly not be adequate in some cases. Some happily situated retailers make profits for many years in spite of their poor business methods. Many retailers do not know their costs nor do they exercise astute judgment in their buying of stock items—the jobbers choose the stocks for them.

Few individual retailers who grant credit have exact information as to

[3] Walter H. Lowy, "Why Retail Salesgirls 'Eat Up' Formfit's Training Bulletins," *Sales Management,* Oct. 1, 1950.

For every check mark in each column, score points as indicated. Points are totaled and dealer classified according to the following formula.

A dealer, 91 — 120
B dealer, 50 — 90
C dealer, 21 — 49
D dealer, 0 — 20

TWELVE KEYS TO RETAIL POWER

A retail dealer "potential" evaluation method designed for the Dearborn Stove Company for use by Dearborn salesmen.

Name Dealer_____
Type Dealer_____
City & State_____
Terr. No._____ Salesman_____
Date_____

	A (10 points each)	B (5 points each)	C (3 points each)	D (0 points each)
STORE LOCATION	☐ Downtown shopping district—heavy floor traffic	☐ In a neighborhood central shopping area—good floor traffic	☐ Not in central shopping area but well known address — steady trade	☐ Neighborhood type store — poor location, not well known
STORE SIZE	☐ Departmentalized — Several departments — more than one floor	☐ A big store—separate departments on one floor	☐ Medium sized, may or may not have separate departments	☐ Small store — not departmentalized
STORE REPUTATION	☐ Highly regarded by competitors	☐ No adverse comment by competitors	☐ Unknown factor — new in business	☐ Poor reputation
CREDIT RATING	☐ Superior credit—high limit	☐ Medium line of credit	☐ Limited line of credit	☐ Low line of credit or C.O.D.
CUSTOMERS	☐ Appeals to masses Everybody shops here.	☐ Steady customers — regular trade Specializes in repeat business	☐ Customers drop in to buy a definite article	☐ Appeals to second hand trade
CONSUMER CREDIT POLICY	☐ Complete consumer credit, charge, time payment plan & lay away	☐ No charge accounts, sells either cash or time payment plan	☐ Usually cash — credit extended only in special cases	☐ Cash only — no credit plan available
ADVERTISING ACTIVITY	☐ Regular user of local advertising — several times weekly	☐ Frequent user of local advertising — several times monthly	☐ Occasional user of local advertising — once or twice a year	☐ Never advertises
HEATER IMPORTANCE	☐ Heaters are a major line—large stock often promoted	☐ Heaters a side line, nice stock, secondary importance	☐ Heaters incidental to major lines, small stock, not promoted	☐ Stocks one or two, or sold by catalog
KINDRED APPLIANCES	☐ Carries full line of appliances and/or sells gas	☐ Carries some major appliances and household goods	☐ Carries no major appliances — sells furniture, hardware, plumbing, etc.	☐ Is in a business unrelated to appliances
DISPLAY AND DEMONSTRATION	☐ Good size display — merchandise can be demonstrated	☐ Good size display — merchandise not connected for demonstration	☐ Merchandise display haphazard — no attention given to effectiveness	☐ Merchandise just fitted into available space
PERSONNEL	☐ Aggressive, well trained sales force—Welcomes help from manufacturer	☐ Good sales force — aggressive but not well trained	☐ Fair sales force, not aggressive or well trained but likeable	☐ Clerks will wrap up anything you buy
SALESMAN COMPENSATION	☐ Salesmen paid commission, or salary and commission	☐ Salesmen paid salary with occasional bonus or spiff	☐ Clerks paid salary — no incentive	☐ Family work for the business
	TOTAL CHECK MARKS ____ x 10 = ____	**TOTAL CHECK MARKS** ____ x 5 = ____	**TOTAL CHECK MARKS** ____ x 3 = ____	**TOTAL CHECK MARKS** ____ x 0 = ____

TOTAL POINTS _____ **THIS DEALER IS A "____" DEALER**

Approved_____
Regional Sales Manager

the proportion of their business that is done on credit, even though 15 per cent of all retail failures in the United States result from carelessness in giving credit.

Certain manufacturers who promote the sales of their own products through retailers have set up more exact criteria. The Dearborn Stove Company, for example, has found that successful retailers of their products use four basic methods:

1. The best retail merchants advertise.
2. They have a time-payment plan.
3. They have an incentive-pay arrangement for their sales personnel.
4. They have attractive store displays.

These four elements are included in the company's rating sheet for classifying dealers, "Twelve Keys to Retail Power" (see page 253).

Perhaps the most feasible way for a typical retailer to evaluate his effectiveness is to have an expert in his field of retailing apply to his business operations the general criteria of good business management and the specific criteria that are recommended by the headquarters office of the appropriate association of retailers to which he belongs or should normally belong.

SOURCES

Institute of Distribution, 25 W. 43d St., New York. The Institute is a retail trade association which was organized in 1935 by national distributors and multiunit operators in the nonfood field. Its purpose is compiling and disseminating information on distribution. The Institute provides a central clearinghouse where national distributors can meet and act jointly on matters affecting retail operation. It carries on the usual functions of a retail trade association such as reporting on labor trends, state wage and hour developments, and tax laws, as well as conducting a legal and legislative reporting service. The Institute publishes bulletins on timely information, thus keeping members informed of developments which may affect them.

Fairchild Publications, Inc., 7 E. 12th St., New York. This publishing company offers many books in the retailing area. Among their publications are *Effective Retail Advertising*, *The Ready to Wear Industry*, *How to Operate a Shoe Store More Profitably*, and others which contain information useful to those in the retailing industry (see also page 324).

National Association of Retail Clothiers and Furnishers, 1006–10 Munsey Bldg., Washington. The NARCF is an organization designed to promote the interests of men's and boys' wear retailers, to whom it offers a great

variety of services. A store design service is available to members, and a monthly bulletin on this topic is sent to them. Another monthly bulletin is a *Fashion Market Report,* which contains information about new items as well as data on style trends. A bimonthly bulletin is issued containing business research and cost studies as well as a report on the activities of the Association.

The NARCF represents its members when dealing with government agencies, as well as working for their interests on legislative matters.

Conventions are held regularly, giving the members an opportunity to see each other and discuss mutual problems. Clinics are held, speeches given, and reports of the Association's work are presented.

Associations such as the NARCF exist for almost every branch of retailing. The following are a few other examples:

National Shoe Retailers Association, 274 Madison Ave., New York.

National Sporting Goods Association, 716 Rush St., Chicago.

National Retail Dry Goods Association, 100 W. 31st St., New York.

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QUESTIONS AND EXERCISES

1. Does the number of retail stores of various kinds seem to have any relation to the nature of the products which the stores sell? Explain.

2. Is it necessary for a manufacturer to take steps to provide training programs for retail salespeople? Why do some manufacturers do this even though it would seem that this might be the function of the management of the retail store?

3. One teacher of retail sales personnel claims that the keynote of training programs should not be "service." He admits that the better the service, the better the sales, but he thinks that people who give service are "servants," and who wants to be a servant? Suggest ego-building keynotes for training salespersons, themes other than or in addition to "service to the customer."

4. How can the retail clerks' ignorance of the products they sell result in increased distribution costs?

5. Compare two appliance stores on the basis of the "Twelve Keys to Retail Power." Consider only those factors which can be observed by the average consumer. What additional points should be added from the standpoint of the consumer?

6. Look over the list of the country's 20 biggest retailers. What factors made these become bigger than their competitors?

7. Examine the list of qualities in salespeople disliked most by customers. Suggest a program of hiring that would tend to decrease the disliked characteristics. How would you deal with these personal characteristics in store sales meetings?

17 Food Stores

THE ALERT MARKETER

1. **Appreciates the large share of all retail trade that is sold by food stores.**
2. **Becomes acquainted with trends in food distribution.**
3. **Studies the extent to which food stores sell nonfood items.**
4. **Watches trends in food production as well as food distribution.**

The food stores do almost one-fourth of United States retail trade in dollars (see Table 17–1). The dollar volume of the food industry is

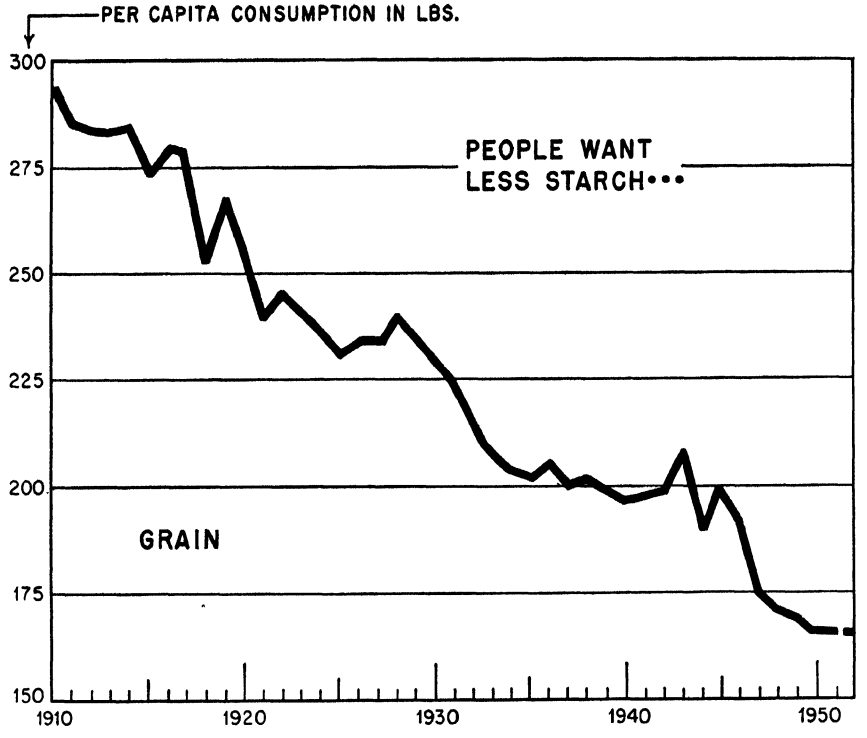
Table 17–1. *Percentages of United States Retail Trade Done by Major Classifications of Stores*

Classifications	Percentage of total	Classifications	Percentage of total
United States total	100.00		
Food stores	23.76	Eating-drinking places	7.92
Automotive	16.79	Apparel stores	7.22
General merchandise	12.92	Home-furnishing stores	5.20
Building materials—hardware	8.00	Filling stations	4.99
		Drugstores	3.09
		All others	10.11

SOURCE: *Consumer Markets*, 1950–1951 ed., Standard Rate & Data Service, Evanston, Ill.

bigger than that of the steel industry. The number of people in the United States employed in food distribution has been estimated at about 5 million.

We would expect the food stores to do a very large share of retailing



DATA: DEPT. OF AGRICULTURE

The Revolution in Eating Habits. In the 1930's dinner often started off with a bowl of soup and a thick slice of bread, went on to meat and potatoes with gravy, and ended up with a slab of pie—and a loosened belt. Today, the typical meal has gone streamlined. First, there's likely to be a fruit juice entree. You eat a choicer cut of meat or poultry, often with a green vegetable and a salad on the side, and top that off with ice cream or fruit.

The changing pattern shows up in the following shifts:

People are turning away from heavy, starchy foods in favor of lighter dishes—especially protein foods.

More and more, Mrs. America is swinging to food that is processed, easy to prepare.

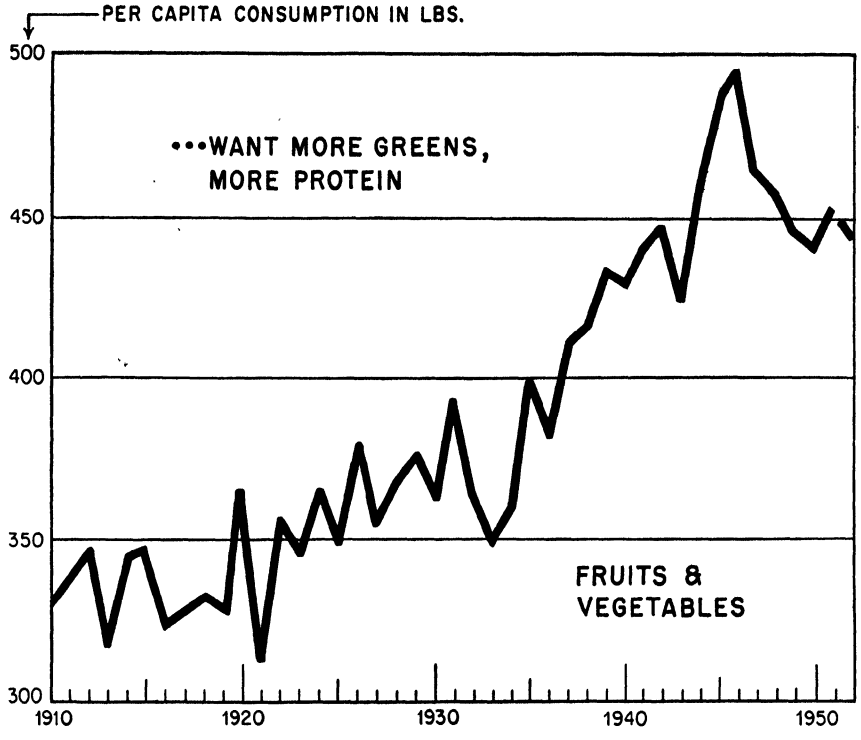
With the new materials, the housewife is seeking to achieve a sort of inventive simplicity in her meals—serving concoctions that are less fancy, yet enhanced with some personal, imaginative touch.

Diners are giving potatoes the cold shoulder. They are cutting down on bread and rolls—or passing them up. There's less desire for cereals. Even a $1.5-million advertising campaign to push grain products, launched by the Millers' National Federation, failed to make headway against the strong adverse current. There's an increasing preference for chicken and other fowl in place of heavier meats.

What's behind the changing food pattern of the American household? It's a combination of factors:

More Money. One big point is rising incomes. In lean years, people tend to fall back on bread and potatoes. In good years, they switch to costlier foods.

The Housewife. If income were the sole key to the new gastronomical patterns, however, you might expect a depression to put us right back where we were, foodwise. But food experts are convinced that, come what may, the housewife will not backtrack to the past, even if she has to do some budgetary



DATA: DEPT. OF AGRICULTURE

juggling.

For one thing, the typical housewife has become more of a creative chef and less of a kitchen slave. She plans more carefully, buys more selectively. The new crop of homemakers tend to think in terms of such ideas as a meal's balance and color appeal.

Nutrition-Conscious. Even more significant is the fact that, since World War II, Americans have become intensely nutrition-conscious. The housewife has been at the receiving end of a continuing barrage of propaganda. Publications of all sorts have dived into the diet field with a vengeance.

Waistline Complex. Recently, the onslaught against obesity has spurred the drift toward a lighter, better-balanced meal. For years, the beauty business has kept the ladies worried by playing upon the social stigma of being fat. Now men, too, are contemplating their waistlines uneasily. The anxiety springs largely from the fact that in the past few years medical men, magazines, and the Metropolitan Life Insurance Co. have been thumping hard on the health hazards, warning that extra inches speed progress of diseases and cut life span.

People are impressed by these warnings. Metropolitan says the volume of requests for its booklet on overweight is almost three times what it was for booklets in the past.

More Convenience. The swing to a streamlined menu has gone hand in hand with a desire for quicker meals. As the urban housewife sees it, she has less space, less time, and less inclination for making an elaborate spread than did her mother.

Packaging. Meanwhile, consumer-sized packaging has put the foods in forms that are convenient, sanitary, and attractive. The spread of self-service stores and supermarkets, for which packaged merchandise is a natural, speeded the trend.

SOURCE: Condensed from "It's a Revolution in Eating Habits," *Business Week*, Sept. 6, 1952, pp. 38–40.

because all persons have to eat. We can wear last year's suit and drive an old car but we must have several new meals each day. A large share of the work and thinking of every housewife centers around the purchase and preparation of foods for the family, particularly ways in which she can buy more economically or serve foods more attractively. The varieties and numbers of food stores available to the American housewife are indicated by Table 17–2.

Table 17–2. *Estimated Number of Retail Food Stores, January,* 1953

Grocery and combination stores:		
Independents (1 to 10)		
Grocery stores (without meat)	125,000	
Combination stores (groceries with meat)	205,000	
Country general stores	17,500	
Delicatessen stores	7,500	
Total independents		355,000
Chains (11 or more units)		
Grocery stores (without meat)	8,000	
Combination stores (groceries with meat)	14,000	
Total chains		22,000
Total grocery and combination stores		377,000
Specialty food stores (chain and independent):		
Meat and fish markets	26,000	
Bakery products stores	21,000	
Fruit and vegetable markets	14,500	
Candy, nut, confectionery stores	31,000	
Dairy, milk, egg dealers	17,000	
Other food stores	2,700	
Total specialty stores		112,200
Total retail food stores		489,200

SOURCE: *Facts in Food and Grocery Distribution as of January 1953*, 20th annual survey, published by *Progressive Grocer*, New York, p. 4.

RECENT TRENDS IN FOOD DISTRIBUTION

In recent decades, consumers have increased their per capita consumption of meat, poultry and fish, eggs, dairy products, fruits and vegetables—all substantially. There were slight increases in the per capita consumption of fats and oils, coffee, tea and cocoa, sugars, syrups and dry beans, peas and nuts. But per capita consumption of potatoes, sweet potatoes, and grain products has decreased considerably.

There has been a great increase in food processing and packaging. Most foods moved closer to the fully cooked ready-to-serve form, some by precooking, some by half-cooking, some by cleaning.

American consumers are getting better foods than they did two decades ago. They are receiving more protein per capita by 3 per cent, more calcium by 18 per cent, more iron by 21 per cent, more vitamin A by 16 per cent, more thiamin by 25 per cent, more riboflavin by 26 per cent, and more vitamin C (ascorbic acid) by 20 per cent. In the same period, the caloric intake has declined 5 per cent.[1]

In grocery distribution one of the most important trends has been that of fewer but larger stores, particularly those owned by the chains. As stated by A. C. Nielsen in a recent annual report to Grocery Manufacturers of America, Inc.:

> Let us consider grocery store sales trends by type of store. Chains, composed of four or more stores under a single corporate ownership, now hold nearly 40 per cent of the total grocery store business—the highest competitive position ever attained by this group. At the same time, there are about 10 per cent fewer chain stores today, in terms of number of outlets, than reported in the 1948 Census of Business. During the past *three* years, corporate chains have lifted their competitive position from 36.1 to 39.6 per cent—a *competitive* gain of 9.7 per cent. As one would expect, actual *dollar volume increases* have been substantially larger.
>
> In the meantime, all of the independent store groups (classified by annual dollar volume) have declined in competitive shares.[2]

In a recent 10-year period, Safeway stores decreased in number from 3,112 to 2,103, Colonial dropped from 619 to 367, and Kroger from 3,392 to 2,349. Volume, however, increased decidedly. In this same 10-year period when A & P decreased its number of stores from 10,936 to 4,798, the annual sales per store rose from $77,586 to $565,748.

In the drive to have more economical, heavy-traffic stores, brands that enjoy a strong consumer acceptance have advantages which tend to make them stronger. The well-advertised, fast-moving items get more space and preferred positions in the stores. The slow-moving items tend to receive less and less attention and to become weaker.

A. C. Nielsen made a study of his company's research data on the food industry to see how brand leadership had changed in a 10-year period. His findings were as follows:

[1] Data by Department of Agriculture. From *Printers' Ink*, Nov. 21, 1952, p. 17.

[2] "Food Store Marketing, 1953," an address by Arthur C. Nielsen, President, A. C. Nielsen Company, to Grocery Manufacturers of America, Inc., A. C. Nielsen Co., Chicago.

Among the 100 leading brands in 1942, 30 had lost their leadership by 1948, and by 1953 nine of these 30 had been displaced.

If you could see the details of this study, I'm sure you'd agree that the major characteristic which has distinguished the winners from the losers has been in innovations and aggressive manufacturing and sales policies.[3]

The development of the independent supermarkets has caused many unaffiliated stores to join some sort of cooperative or voluntary buying group. In grocery wholesaling, the most significant trend has been the closer relation between wholesaler and retailer. The high-volume stores have found it more timesaving and economical to concentrate their buying in one wholesale house.

. . . the decided buying advantages formerly held by large corporate chains have almost entirely disappeared. In nearly every section of the nation independents can now buy groceries from wholesalers at 4% to 6% over manufacturer's quantity prices—or, at about the same as the cost of goods laid down in chain outlets. As a result, independents are now matching any competitive pricing structure and generally realizing a satisfactory profit on sales. The low-cost streamlined wholesalers who have teamed with retailers to make this possible are now numbered in the hundreds. Some sponsor voluntary groups, others are retail owned, while the rest are unaffiliated yet no less effective in their cooperation with retailer customers.[4]

In general, the larger grocery stores are increasing their sales volumes at a relatively greater rate than the small stores. Large stores do not succeed merely because they are large, nor should one conclude that all small stores are doomed to eventual failure. In some areas, the independent grocer is increasing his share of the nation's multibillion dollar food business through aggressive merchandising. Many independents are making their store operation so efficient and streamlined that in some cities they handle more than 85 per cent of total food sales. The medium-sized stores, often called "superettes," doing from $2,000 to $6,000 volume a week ($100,000 to $300,000 a year), have succeeded rather well against the competition of the large-volume chain stores. See Table 17–3 for operating expenses, margins, and profits of smaller stores compared with larger stores.

When independent and chain stores are compared, it is important to realize that the Bureau of the Census defines an independent as a retail firm with from one to ten units or stores. A chain is a firm that has eleven or more units under central ownership.

[3] "Major Advertised Food Brands Not Selling as Well This Year: Nielsen," *Advertising Age*, Nov. 16, 1953, p. 38.

[4] *Facts in Food and Grocery Distribution as of January 1953*, 20th annual survey, published by *Progressive Grocer*, New York, p. 14.

Table 17–3. *Operating Expenses, Margins, and Profits Averages for 769 Food Markets*

	Markets with sales under $200,000, per cent	Markets with sales over $200,000, per cent
Total sales	100.00	100.00
Cost of sales	85.20	83.94
Gross profit on sales	14.80	16.06
Operating expenses:		
Outside labor	.09	.13
Operating supplies	.57	.66
Wages and salaries *	3.62	4.77
Repairs and maintenance	.32	.24
Advertising	.44	.73
Car and delivery	.30	.29
Bad debts	.01	.09
Administrative and legal	.32	.25
Other expenses	.27	.33
Rent †	1.25	1.07
Utilities	.85	.58
Insurance	.26	.24
Taxes and licenses	.56	.31
Interest paid	.12	.08
Depreciation	.65	.85
Total expense	9.63	10.62
Net operating profit ‡	5.17	5.44
Other income and expense:		
Discounts earned	....	.03
Miscellaneous other income	....	.01
Net profit	5.17	5.48

* Does not include proprietor's wages.

† Adjusted to reflect exclusion of owned premises.

‡ Includes proprietor's wages.

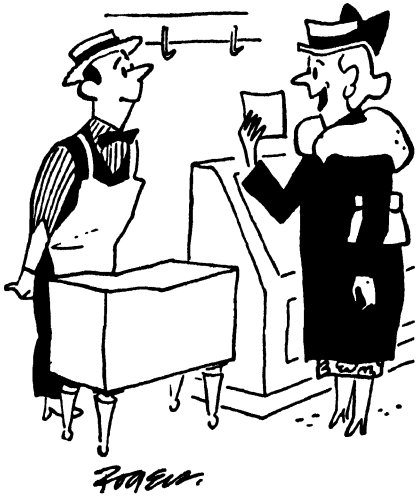
SOURCE: Data compiled by Accounting Corporation of America, from *Facts in Food and Grocery Distribution as of January 1953*, 20th annual survey, published by *Progressive Grocer*, New York, p. 19.

EFFECTS OF HOME FREEZERS ON THE FOOD INDUSTRY

The first food freezers for the home were made by General Motors in 1938 at the Deepfreeze Appliance Division. This was the start of a minor revolution in the food-distribution industry. The name "Deepfreeze" to some has come to mean, mistakenly, food freezer rather than the brand name of a particular manufacturer.

The sales of home freezers and frozen foods have increased to the point where they are affecting the retailing of foods. In many cases, new freezers are sold full of food and on time payments at supposedly wholesale prices. The impact of the freezer-food tie-in sales called "plans" have had an important history in food retailing.

This is how the food plans have operated. Appliance dealers have tied up with food wholesalers and sold both the appliance and the food as a package deal. Some who were neither in the food nor appliance business



"I want some meat to store in our new freezer. I'll take 1½ cubic feet of turkey, 2 cubic feet of haddock, 1 cubic foot of spare ribs. . . ."

SOURCE: By Rogers. Courtesy of *Electrical Merchandising.*

started operations when it became apparent that the plan had profit possibilities. Investigations indicate that the plan in its early stages of development lost some popularity, mainly because of overselling, exaggerated claims of savings in the advertising, incorrect estimate of the supply of food to be included in the appliance sale, short weight, poor quality of food, mechanical failures of the appliance, and poor financing. Banks were not keenly interested in lending on collateral that was to be eaten up. Also, housewives preferred to go back to their favorite stores and brands to replenish their supplies, thus reducing sales of brands carried by the plans. Furthermore, housewives soon learned that they can lose money on their inventory when meat prices fall.

In spite of the shaking-down process which took place in the early years of home-freezer plans, some of the oldest and biggest operators of the plans have continued to do well. Most marketers believe that the good food plan or some modification of it will play an important but not a dominating role in the food market.

The home freezer has caused certain changes in customers' buying

habits. About 5 million United States homes with electrical power, or 12 per cent, have home freezers. This amounts to 60 million cubic feet of storage space. Adding the freezer space in refrigerators provides 80 million cubic feet of freezer storage space. This storage space is nearly equal to the total commercial frozen-food storage space that was available in all public and private warehouses and in meat-packing plants a decade ago.[5] The anticipated rate of sales of from 1.5 to 2 million freezer units a year with an increased amount of meat-storage space in warehouses will have its effects on meat prices. Marketers will watch the influence of food freezers on the seasonality of the meat business and their effects on meat prices through the years.

NONFOOD PRODUCTS IN FOOD STORES

Food store managements became interested in drug and toiletry items because of the high markup on these items, since profit margins on drugs are nearly double those on food products. Some drug manufacturers restricted the sales of their products, however, and food stores often found it difficult to buy the products they wanted from distributors. About 1940, food stores really began to develop their nonfood lines. Stores began by stocking only a small variety of items, but the number of products carried increased rapidly. Most food stores now consider drugs a separate department and place all their drug items together in a circumscribed area.

Drugs account for about 2 per cent of total food store sales volume and 4 per cent of total profit. Obviously, food store operators are going to keep on carrying such a profitable line of goods so long as it does not reduce sales of foods. At first, drugstores were afraid that the profits involved would lead food stores to carry ever-larger stocks of drugs and eventually spoil business for the drugstores. They have come to realize, however, that food stores are interested in only 200 to 300 of the more than 50,000 items that drugstores carry. So even if food stores took over the 200 or 300 lines completely, it would affect only about 5 per cent of total drugstore sales.

Food stores are also carrying a wide variety of other nonfood lines: children's books, cookbooks, ladies' hosiery, socks and underwear, hardware, kitchen utensils, films, greeting cards, sunglasses, cut flowers and seeds, novelties, painting supplies, and toys, dolls, and games.

Another item which has become increasingly important in food stores is magazine sales. In a recent year, the sales volume amounted to $34

[5] "The Freezer–Rocking the Food Industry," *Business Week*, Mar. 28, 1953, pp. 64–74.

million, a 50 per cent rise over the previous year. It is not likely, however, that sales of magazines in food stores will continue to rise at so high a rate.

Some men in retailing today believe that the gains in nonfood sales indicate an important trend in their field. They believe that the frequency with which women visit food stores is bound to result in a higher volume of sales of many nonfood items. Items often used in the home, that do not require special instructions to use, and that can be carried in a sufficient variety of brands to satisfy almost all customers, hold particular promise of sales in food stores. Certain feminine beauty aids, however, may not sell too well in food stores because women have strong brand loyalties toward that kind of product and they prefer the wider selections that drugstores can offer.

MIDDLE-OF-THE-ROAD ATTITUDES ON NONFOODS

The role of nonfood lines in food stores has been widely debated and speculated on by nearly every marketer with an interest in the food field. Many predictions have been made. Some have forecast that the food store will become a junior department store, offering refrigerators, dresses, automobile tires, jewelry, and anything else that the housewife could desire regardless of price, style, rate of consumption, or frequency of purchase. Others have taken the opposite view. Food stores will handle only food, even though certain nonfoods have proved to be good profit makers.

Amid these varied predictions the practical food store operator has been sensibly making up his own mind on how far and how fast he should go. In effect, he has said, "I'm adding the items that my customers want to find in my store, but new nonfoods must measure up to certain standards. As a rule they must (1) be widely used, (2) be consumed or used up within a relatively short time, (3) be packaged for self-service, and (4) return an adequate dollar gross profit per square foot of display fixture occupied."

One of the most successful new lines is the health and beauty aid classification. More than 85 per cent of the nation's leading food stores now sell these items. Housewares, consisting mostly of kitchen hardware and items for minor household repairs and maintenance, are sold by two-thirds of the leading food stores. Many of these stores are serviced by rack jobbers, for the items run into a great number and variety and need the close attention of a specialist who can maintain proper stocks and prices.

Soft goods have been added by many stores, but for the most part these items have been confined to the fastest sellers like nylons, dish towels, dishcloths, T shirts, children's and men's socks, and similar merchandise.

The consensus among food store operators is that the addition of nonfoods will continue but that the food stores should not and will not at any time in the future add nonfoods to the extent that food sales are hindered. Nonfoods added to the food store inventory in the past few years have upped total store volume by 4 to 5 per cent and increased gross dollar margins 6 to 8 per cent, say leading operators.[6]

A survey by Selling Research, Inc., based on interviews with 500 food dealers in 30 markets, found that three out of five grocers were stocking soft goods. Most believed that the addition of the line brought in extra revenue without cutting down sales of foods. However, 46 per cent of the dealers reported that soft goods purchasers number four or less out of every 100 customers who enter the store. Also, 44 per cent of the grocers found that the average soft goods purchase was $1 or less; another 46 per cent reported that it was between $1 and $2.[7]

POSSIBILITIES IN THE NONFOOD FUTURE

The rise of drug and toiletry products in food stores may have far-reaching implications. Since much shopping in food stores and especially in supermarkets is on an impulse basis, the need for preselling of brands is increasing. Drug manufacturers who wish to utilize food store outlets will have to follow in the footsteps of the food manufacturers who increased their advertising and made their products accepted by the mass market.

Several big food chains have retained department store buying syndicates as consultants in developing their nonfood lines, thus demonstrating increased interest in nonfood selling. Some supermarkets have discovered that department store merchandising techniques are necessary to get maximum sales results from their nonfood lines. The buying syndicates of course wonder whether they may be helping to destroy their own department store business by building up competition in supermarkets. Perhaps a new approach will develop that combines the best merchandising practices of department stores with the advantages of the supermarket. Students of marketing should be especially on the lookout for the possibility that supermarket chains may put out their own brands of drugs as they have of foods.

RACK JOBBERS IN FOOD STORES

Rack jobbers are specialists in selling. They sell their items to merchants who would ordinarily not carry their line. The rack may be a special

[6] *Facts in Food and Grocery Distribution as of January 1953*, p. 7.
[7] *Tide*, Feb. 28, 1953, p. 19.

display bin, a few feet of shelving, or a wire form. The rack jobber brings in the merchandise, price- and tax-marked. The merchant accepts a lower rate of profit, usually 20 to 25 per cent, as compared with the same line purchased from a wholesaler and giving 30 to 35 per cent. The advantage to the merchant, to offset the disadvantage of lower net profit, is that the retailer has little investment or responsibility other than that of providing a place to make the sale. The rack jobber owns the rack or rents it to the retailer. The jobber keeps it stocked with fast-moving items. He watches turnover carefully and replaces slow-moving items. In this way, a grocery merchant who is unfamiliar with stocking a line such as toys or toiletries benefits from a management with experience.

A rack jobber may have two prices, one for large-volume stores and another, slightly higher, for stores which depend on markup rather than on volume. The services of rack jobbers have been largely responsible for inducing many grocery stores to carry nonfood items.

Marketers will watch the trend in the use of rack jobbers in the grocery field. It will be interesting to see whether they conduct their services intelligently or allow them to deteriorate into an unprogressive routine service. Also, will grocers deal with a rack jobber long enough to learn how to handle his line profitably and then turn to buying direct from the wholesaler in order to get the margin that has been going to the rack jobber? [8]

ADVERTISING OF FOODS

Modern self-service retailing requires brands that are presold. If a brand has not been presold to consumers by means of advertising, it is easy for the dealer to push substitutes. Brand substitution is accomplished by giving off-brands preferred display positions in a store.

The food industry is flooded with examples of similarity in advertising concepts. Most food advertisers who use national or regional magazines tend to feature recipes with layout and copy that are very similar. Recipe advertising tends to achieve product penetration rather than brand penetration. Except for the largest food advertisers, it does not sell the brand effectively enough for self-service demands. Recipe advertising is a proved way of gaining readership, but it has the following disadvantages:

1. It tends to win readership for the recipe, not the brand.
2. It spreads the readership over all the food products mentioned in the recipe.

[8] *Advertising Age*, Oct. 20, 1952, p. 100.

3. It concentrates on the recipe at the expense of the brand name, its virtues, and its package identification.

Food advertisers find that recipe offers bring in many requests. Free recipes given at stores disappear rapidly. Most food advertisers, however, have not checked to find out what percentages of women who request recipes or read ads featuring recipes actually use the brand featured in the advertising.

Advertising cannot do the job of preselling a specific brand when it sells recipes, especially when the advertising is similar to that of most competitors. The public tends to buy fast and impulsively. This means that the specific brand, its features, and its package as such should be stressed in the national advertising.[9]

MARKETERS WATCH TRENDS IN FOOD PRODUCTION

Much research is being done in foods. There is promise for the future in the studies of antibiotics for preserving foods, electronic cooking, better recovery of flavoring constituents from fruit juices, the use of protein from whey, and the culture of artificial proteins from algae farming.

Only a few years ago, Americans regarded fried chicken as a luxury that was generally served up only at Sunday dinner. Today it not only has become a staple food, the frying chicken is one of the cheapest meats a housewife can buy. The reason is that the annual output of friers went from 200 million to 800 million in 10 years. Half of that increase can be credited primarily to the development of feeding drugs like terramycin and penicillin to poultry. Antibiotics, the same "wonder drugs" that have been found so effective in the treatment of human diseases, not only cure and prevent disease in animals and possibly in plants, but they actually stimulate growth in food animals.

Numerous scientific studies have proved that the growth of chickens is boosted by adding from 2 to 10 grams of penicillin, terramycin, or aureomycin to each ton of feed. Formerly, poultry growers produced a 3-pound chicken in 12 to 14 weeks on about 10 pounds of feed. Now, with antibiotics, they get a 3-pound bird in 9 to 11 weeks on about 9 pounds of feed. Growers get four or more crops of broilers a year instead of three and they do it with less feed. Similar nutritional advantages have shown up in other animals as well. For example, it used to take 125 pounds of feed to produce a 25-pound turkey; today it takes but 110 pounds—and 4 weeks less time. If each turkey raised in the United States showed only half that saving in feed in reaching maturity, turkey growers would save more than 200,000 tons of feed per year.

[9] Condensed from *Grey Matter*, Grey Advertising Agency, Inc., Dec. 1, 1952.

But the most spectacular results so far have come in the raising of pork. Today our pig growers market roughly 100 million hogs each year. The most conservative scientists say that 10 grams of antibiotics per ton of feed will save 40 pounds of feed per 200-pound hog. That means a total saving, for the same number of hogs, of 2 million tons of feed a year.

One of the country's largest pig raisers ran an experiment to check these figures. To 300 pigs he fed a good commercial ration, high in vitamins and minerals—including the animal-protein vitamin B_{12}. Another 300 got exactly the same ration, with ⅓ ounce of terramycin per ton added. The pigs that did not get terramycin in their feed took 155 days to reach a weight of 200 pounds at a cost of $28.27 each to bring to market. But the terramycin-fed pigs reached 200 pounds in only 105 days, at a cost of $20.68 to bring to market. This was a saving of $7.95 per pig.[10]

These examples are only a few of the many that are revolutionizing the production of food. If the present rates of development in producing food continue a few more decades, perhaps the world's food problems will end. In the meantime, marketers will adapt their distribution procedures to fit the new foods.

SOURCES

American Rack Merchandisers Institute, 10–149 Merchandise Mart, Chicago. This is primarily a national trade association and research institute made up of service distributors and suppliers of housewares and other nonfood items merchandised through the supermarkets. The *Toiletry Merchandisers Association*, 617 Vine St., Cincinnati, occupies a similar position in the drug and toiletry merchandising field.

Cleveland Plain Dealer, Market Research Department, Cleveland. This newspaper publishes bimonthly reports, "A Continuing Study of Food Store Sales." The audits and inventories are made by the A. C. Nielsen Company.

A. C. Nielsen Company, 2101 Howard St., Chicago. The Nielsen Food-Drug Index measures consumer sales continuously (every 60 days) by detailed, personally conducted audits of invoices and inventories in 7,000 typical chain and independent stores in seven countries.

National Association of Retail Grocers, 360 N. Michigan Ave., Chicago. This organization collects and provides data about retail grocers. It publishes a monthly bulletin, *NARGUS Bulletin*, which contains up-to-date information about developments in the field. It also publishes various pamphlets which offer advice and information to retail grocers about store management, sales methods, hiring, training, displays, etc.

[10] Condensed from "Boosting Food Output," *Business Week*, Nov. 22, 1952.

National Confectioners' Association of the United States, Inc., 221 N. La Salle St., Chicago. The NCA is an association of candy manufacturers and their suppliers, organized in 1884 for the purpose of promoting the welfare of the industry. This organization publishes a weekly *News Bulletin*, as well as the *NCA Bulletin*, which contains a general review of conditions affecting the candy industry. Reports on research activities in candymaking are furnished on request. It maintains a sanitation department which offers advice and suggestions on maintaining good sanitation in candy factories. It also maintains a trade-mark service and a credit information service, holds regional meetings as well as an annual convention and exposition, represents members in governmental matters, conducts employer-employee relations surveys, and distributes sales-training and educational material.

National Dairy Council, 111 N. Canal St., Chicago. The NDC is a nonprofit research and education organization promoting national health through a better understanding of dairy foods and their use. It was organized in 1915 by leaders in the dairy industry, with the assistance of leading health authorities and nutritionists.

The National Dairy Council serves as a national resource in health education, maintaining cooperative relations with government, professional, educational, and consumer group leaders on the national level. Nutrition research is directed, authentic literature is prepared and distributed, educational exhibits are developed, colorful films produced, factual advertising placed in professional and educational publications, and food and news releases provided to editors.

Market Index—Food and Drug, Curtis Publishing Company, Philadelphia. A good example of the many market indexes used by market researchers in analyzing markets and setting quotas for food and drugstore products is one put out by the Curtis Publishing Company. This book contains up-to-date information on food and drug sales as published by the Bureau of the Census and an actual circulation count of three Curtis magazines delivered in each county of the United States.

The Curtis Publishing Company claims that the percentage distribution of the combined circulation of the three publications is closely related to retail sales by counties in all areas of the United States. Therefore, sales opportunities for each county can be estimated from a study of Curtis Units of circulation. The choice of counties with high Curtis Unit figures should help to increase a company's sales, as such figures are an indication of high retail sales. Curtis Units are also useful as a standard measure with which a company can compare its sales. Should sales be lower than the Curtis Units indicate they ought to be, the company can investigate its selling techniques in those areas.

The book offers a method of establishing sales quotas, again using Curtis Units as a standard. The data concerning market indexes are also useful in the allocating of advertising to the proper media in order to cover the desired areas.

The Curtis *Guide to Markets and Quotas for Food and Drug Store Products* offers this information in a compact and understandable form. A similar book is also available for automotive products.

National Association of Frozen Food Packers, 1415 K St., N.W., Washington. This is a voluntary, nonprofit service organization, organized in 1942. Its members represent some 70 to 80 per cent of total annual production of frozen foods. Its services include collecting and publishing production statistics, maintaining an information service, conducting a nutritional research program, publicizing frozen foods, representing the industry in governmental problems, and sponsoring an annual convention. Students of marketing who enter this field of retailing would find the services of the organization very useful.

National American Wholesale Grocers' Association, Inc., 60 Hudson St., New York. This group publishes materials and conducts conferences to aid wholesalers who are particularly "retail-minded."

National Wholesale Frozen Food Distributors Association, 60 E. 42d St., New York. This is a nonprofit organization that numbers wholesalers, freezers, brokers, warehousemen, suppliers, and others among its members and associate members. Its distributor members handle at wholesale about two-thirds of the total distribution of frozen foods; its packer associates process perhaps 90 per cent of the national total.

The Association publishes annually a *Frozen Food Factbook and Directory* containing retail store data, customer data, price data, and a number of articles dealing with many aspects of the industry.

The Association also publishes a weekly Bulletin service on marketing developments which is available only to its membership. In addition, the Association has segregated its research activities in the field of marketing by setting up the Frozen Food Marketing Institute with offices at 1420 New York Ave., N.W., Washington.

JOURNALS

Food Topics, "The Nation's Largest Retail Grocery Paper," 330 W. 42d St., New York.

Progressive Grocer, "The Magazine of Supermarkets and Superettes," 161 Sixth Ave., New York.

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Sayres, P. (ed.), *Food Marketing*, New York: McGraw-Hill Book Company, Inc., 1950.

QUESTIONS AND EXERCISES

1. What have been the major trends in eating habits over the past 20 years? How have these trends created new problems for the food manufacturer?

2. Have the large food chains increased or decreased the number of units during the past 10 years? Has this policy been profitable?

3. What action can the independent food stores take to equalize the buying advantage of the large food chains? What are the competitive advantages of the independent food store?

4. What influence have the various home-freezer plans had on the food industry? Do you expect that these plans will have a long-range impact on the marketing of food products? Explain.

5. What are the major nonfood lines which are being carried by food retailers? Do food stores ordinarily buy their nonfood items in the same manner as they buy their food products?

6. What are the general characteristics of nonfood products which seem to be well-adapted to sale through food stores?

7. What additional nonfood items do you expect supermarkets to sell in the future?

8. How do changing income levels influence the type of food which is consumed?

9. What percentage of the food business is done by chain stores? What percentage of the total units in the food field are chain store units?

10. What recent scientific developments have had an impact upon the level of food production?

18 Supermarkets

THE ALERT MARKETER

1. **Studies supermarkets in order to appreciate their impact not only on sales of foods but also on other kinds of retailing such as drug, variety, and department stores.**
2. **Notes the reasons for their rapid growth. Why do more and more people seem to patronize supermarkets?**
3. **Evaluates the features of manufactured products such as housewares, toys, and apparel to find out whether a given manufacturer's product can be sold in supermarkets.**
4. **Forecasts the future of supermarkets in America and wonders why they have grown slowly in other countries.**

The beginnings of supermarkets can be traced back to 1912. It was then that John Hartford of A & P persuaded his father to let him open his first cash-and-carry store next to A & P's biggest competitive grocer in Jersey City. In 6 months he put the big store out of business. As a result, John Hartford opened 1,600 standardized economy stores in 2 years. In 4 years' time, A & P annual store sales went from $31 to $76 million dollars.

In 1919, Clarence Saunders introduced self-service in his Piggly-Wiggly stores. Later, these types of economy stores added check-out systems, self-service displays, and other refinements. The early stores, however, lacked one essential of the modern supermarket—size—and played only a minor role in food selling.

The first real supermarkets were products of the depression of the 1930's. They were housed in barnlike structures and piled their stock on

crude pine tables. These first appeared in California; by 1933 Los Angeles had 260 supermarkets which did 35 per cent of the city's grocery business. The old-line grocers soon resented their competition and teamed up to get rid of them by means of loss-leader legislation. In spite of their lowly pine-board beginnings, the supermarkets grew.

Low prices were the basic appeal. The customer assembled his own selections and thereby saved a clerk's time. Supermarkets have a high sales volume per employee; the average sales per employee in a recent year were $41,801 compared with $27,725 in counter-service grocery stores. Previous to the supermarket, the food store took an average markup of 40 per cent. Today, they do business on a gross margin of 16 to 18 per cent, a margin lower than that of any other type of retail store.

The number of supermarkets in the United States is now more than 15,000, less than 4 per cent of all the 400,000 grocery-type outlets in the country, but they do about 42 per cent of the business. The 230,000 outlets (58 per cent) that are not self-service do only 24 per cent of the business. The 150,000 (38 per cent of the outlets) that are self-service stores of less than supermarket size (under $375,000 annual sales) do 34 per cent of the business.[1]

Supermarkets are still increasing in size and numbers. In relation to family population, there is one supermarket for every 2,660 families in the United States. In recent years, their total sales dollars have risen as much as 20 per cent annually and their nonfood volume has expanded twice as fast. They are popular not only because of their 17 per cent markup on food lines and their very low net profit margin of 1 to 2 per cent but also because of psychological appeals.

PSYCHOLOGICAL APPEALS OF THE SUPERMARKET

The supermarket shopper can examine a brand, place it on her shopping basket, return it to the shelf, examine another brand, and choose or reject to her heart's content. She feels that she is buying wisely and to please herself and her family. She can hurry or tarry, all without pressure from an impatient order clerk.

The supermarket is set up like a big catalog. The shopper can study any of the 4,000 to 8,000 items on display and budget her buying as she goes through the store. She can examine recipes and compare prices and make her own decisions.

The social benefits of American industry have also helped supermarkets. The increased incomes of families have enabled them to buy more food as well as the more nutritious foods. The 5-day 40-hour week has left

[1] John R. Gilman, "Why Package Products Face Super Competition in Super Markets," *Advertising Agency*, June 1, 1952, p. 64.

husbands free to help with evening and Saturday shopping. Men shoppers now account for about 20 per cent of the purchases in the typical supermarket. Modern freezers have enabled the stores to carry large quantities of perishable foods.

SUPERMARKETS DEFINED AND CLASSIFIED

To be a supermarket, a retail store must do a volume of at least $375,000 annually. (The actual average is over $800,000. Super Market Institute, a nationwide operators' association, requires a grocery store to have a volume of $500,000 to be considered a super.) It must have four basic food departments: self-service grocery, meat, produce, and dairy, as well as other departments.

A "superette" does $75,000 to $375,000. *Super Market Merchandising* rates $375,000 volume stores as "small." This trade journal also classifies them according to size: small, under 5,000 square feet; medium, 5,000 to 10,000; large, 10,000 to 15,000; extra-large, 15,000 to 20,000; and colossal, 20,000 square feet and over. Of course, they can also be classified as to being chains or independents. Each investigator makes his own classifications to suit his purposes (see Table 18–1 for one classification for a recent year).

Table 18–1. *Who Sells the Groceries?*
(Sales by Sizes of Stores)

	Number of stores	Sales in 1951, millions	1951 percentage of total sales
Supermarkets ($375,000 and over):			
Large chain (more than 99 units)	6,325	$ 6,390	21.1
Small chain	2,715	2,365	7.8
Independent	5,200	3,320	10.9
Superettes ($75,000 to $375,000):			
Independent	63,900	$ 8,380	27.6
Small chain	3,680	705	2.3
Large chain	8,580	1,895	6.2
Small stores (less than $75,000):			
Independent	300,900	$ 7,100	23.4
Small chain	800	60	0.2
Large chain	1,900	157	0.5
All grocery stores	394,000	$30,372	100.0

SOURCE: *Business Week*, June 28, 1952, p. 43.

The average supermarket built in a recent year had about 10,000 square feet, had a parking lot 2½ times the size of the store, employed 30 people, had five check-out counters, attracted 7,360 customers a week, and was built to do a business of from $1.3 to $1.5 million a year. Many supermarkets have air-conditioning, music, rest rooms, luncheon counters, belt conveyors, and intercom systems. Some are even trying to develop a "distinctive selling personality!"

CLASSES OF PRODUCTS SOLD

Supermarkets feature meats because the typical housewife usually decides first on the meat item for each meal and builds her purchases about that. Meat retailing has changed markedly in the course of 20 years. In 1929, there were 49,865 meat and sea-food markets. By 1949, these had decreased to 29,465. On the other hand, the number of grocery stores with fresh meat increased in the same period from 115,549 to 223,662.[2] The supermarket was the major influence of this trend.

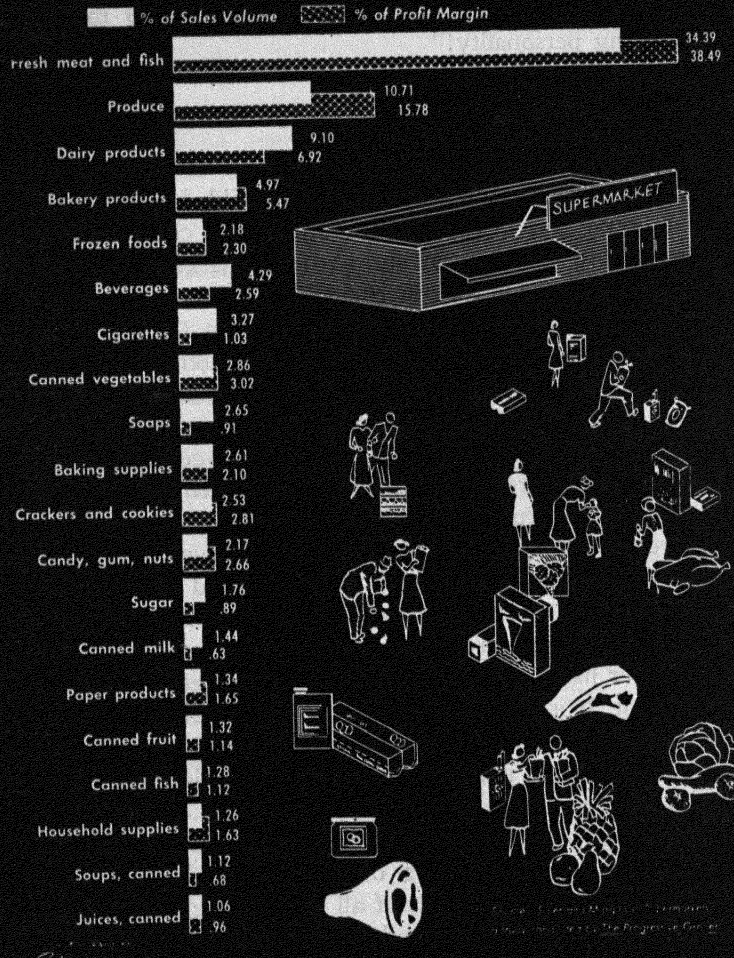
As one would expect, fresh meat and fish account for the largest percentage of sales volume in supermarkets, with produce and dairy products next. When dry grocery products only are considered, however, tobacco and cigarettes are in first place with canned vegetables a close second. You may be surprised that tobacco and cigarettes rank so high since they are actually a nonfood product. However, more and more supermarkets are increasing their number of nonfood items because they return a high rate of profit. For example, food items provide a gross profit generally ranging from 6 per cent to 25 per cent. Health and beauty aids, on the other hand, give a gross profit to the retailer ranging from 25 to 40 per cent. It is no wonder that certain supermarkets already do more than 30 per cent of their total volume in nonfood items. The average, however, for all nonfood items for all supermarkets is about 12 per cent of their total volume.

The most popular nonfood items after cigarettes are drugs, which are sold by more than three-quarters of all supermarkets. Supermarkets account for more than 30 per cent of all sales of such drug products as dentifrices, shampoos, hair tonics, and shaving creams. Drugs are popular because most brands are heavily advertised and easily recognized by shoppers. They are small and take up little shelf room. They meet most of the criteria for sale in a supermarket.

[2] Frederic E. Zeuch, *Advertising Age*, Oct. 13, 1952, p. 66.

SUPERMARKET SALES BY PRODUCT GROUPS

The typical food supermarket gets 92% of its sales and 93% of its total profit margin from 20 product groups, each of which contributes 1% or more of the sales volume. The remaining 8% of sales volume comes from 17 smaller product groups. The study was made in 7 Rhode Island markets in the last quarter of 1950.



Sales Management

CRITERIA THAT NONFOOD LINES MUST MEET

The criteria are as follows: The item must be widely used and must appeal to most consumers. It should be consumed, be used up, or wear out within a reasonable length of time. It must have a brand name nationally advertised with wide consumer acceptance.[3] Preferably, it should sell for less than $1.

Packaging is especially important. Split-second identification must be conveyed by the packages of products sold on self-service shelves. Competition for attention is intense. The consumer is generally in a hurry, must recognize contents quickly, see its cost and the quantity immediately. Transparent packaging helps to meet these requirements.

The Film Department, E. I. du Pont de Nemours & Company, has conducted significant studies on buying habits. In a recent survey on today's shopper in supermarkets, a study was made of 5,338 shoppers who purchased 67,890 items. Shoppers averaged only 17.9 minutes buying 12.7 items—less than a minute and a half per item. Only 29.2 per cent of the purchases were specifically planned; 70.8 per cent of the buying decisions were made right in the supermarket. Obviously, packages must attract and sell fast.[4] In another survey, du Pont found that the average shopper passes through a self-service (prepackaged) produce department in 24 per cent less time than she takes for a service department, yet she buys 16 per cent more produce.

Fundamentally, a supermarket sells convenience goods at a rapid turnover rate. This means that shopping goods for which the consumer wants styles, wide variety, and ample time to try on the items do not fit the supermarket's marketing functions.

RELATION TO MANUFACTURERS AND WHOLESALERS OF NONFOOD PRODUCTS

At least $1 billion a year in nonfood products are now being sold by supermarkets, and there are indications that this figure is increasing each year. Small wonder that manufacturers and wholesalers are interested in this vast market. The supermarket operator too is interested in increasing new areas of his business since it means higher profits for him. Many supermarket operators, however, know little about merchandising new types of nonfood products such as apparel and soft goods items.

A good deal of responsibility, therefore, falls onto the manufacturer

[3] Richard G. Zimmerman, "How to Do Business with Super Markets," *Printers' Ink*, July 18, 1952.

[4] *Latest Facts about Today's Shopper in Super Markets*, Film Department, E. I. du Pont de Nemours & Company, Wilmington, Del., 1954.

and wholesaler. For the protection of their own future interests, they do not want supers to develop a reputation for selling "supermarket shoddy" goods.[5]

It is not an easy matter for manufacturers and wholesalers to adapt themselves to selling to supers. A primary interest of mass self-service retailers is gross dollar profit per square foot of floor space occupied by selling fixtures. This amounts to $1 to $1.50 gross profit per week from each square foot. Very few manufacturers have as yet developed data to prove that their products meet these requirements.

Supermarket operators have certain requirements for all their merchandise, both food and nonfood, which are more exacting than those of most retail establishments. Among the things they demand of a product are the following:

1. A high rate of turnover
2. Quick delivery, in sufficient quantity
3. Prepackaged goods which can be handled without being damaged
4. A guarantee for the product
5. Brand-name products which have already been presold to their customers through advertising

A further problem manufacturers and wholesalers encounter when selling to supermarkets is that even though there is a very high traffic count in supers, it consists to a considerable extent of women who visit the store every third or fourth day. In order to maintain the interest of these shoppers, stock rotation is necessary. In the houseware and health and beauty aids fields, this function has been taken over by the rack jobber, whose functions were described in Chapter 17. In the soft goods field, however, rack jobbers have not as yet developed extensively and the problem of selling certain kinds of soft goods in supermarkets is still to be solved.

HOW SUPERMARKETS HAVE AFFECTED ADVERTISING

In order to attract new customers, supermarkets have found that they must invest 1.5 per cent or more of their total store volume in advertising. But getting customers inside the store is not enough; the customers must want to buy what they see there. In other words, they must be presold on the items in the store.

The supermarket is largely a brand form of retailing. Hence, the national advertising by the manufacturer must concentrate on the association of consumer benefits with specific brand names. Strong product identifiers must be used and featured in the advertising to bridge the gap

[5] "Super Markets Expanding Non-food Items," *Printers' Ink*, Aug. 8, 1952.

between preselling and the point of purchase. A vital link in self-service promotion is package and product displays in stores and in illustrations of the national advertising. Furthermore, shelves should be kept fully stocked in order to make the displays fully effective (see Table 18–2).

Table 18–2. *Fully Stocked Shelves Jump Sales 22 Per Cent*

Item	Normal stocking	Shelves kept fully stocked	Percentage of change
Cigarettes	$3,090	$3,576	+15.7
Soap	242	286	18.2
Beans	122	153	25.1
Foil	453	535	17.9
Coffee	887	1,035	16.7
Frozen foods	339	510	53.1

Does it pay to have your salesmen spend time arranging for better–and full–shelf display in food stores?

It certainly does. Sales jump 22% for the average item if shelves are kept filled. While the tests were made in food stores, the results should be equally good in other stores, especially on items where impulse buying is important.

Careful checks were made in seven eastern food markets of the difference over 2-week periods in "normal" stocks as against reasonably full stocks. The only difference was in the number of packages stocked; no more shelf space was given; no special displays were used; no price reductions were offered.

In practically every instance dollar sales increased more than unit sales. This emphasizes the particular importance of adequate shelf stocks to the makers of quality products.

SOURCE: "*Progressive Grocer* Test, June, 1953." Comments from Marketing Pictograph in *Sales Management*, July 15, 1953, p. 65.

EFFECTS OF SELF-SERVICE ON MANUFACTURERS' SALESMEN

The growth of self-service has meant less work for retail salesclerks but more for manufacturers' salesmen. This is especially true in the selling of grocery products. A major effect has been the tendency of salesmen to spend more time with the big-volume retailers. Many salesmen work directly with the store operator and his employees. The salesmen have, as a result, become merchandising men rather than salesmen. They concentrate on getting additional displays and eye-level shelf position.[6] The salesman for a new product has more difficulty in introducing his new product to the trade, since the supermarket has no store clerks on hand to explain the new product to the shoppers.

[6] "What's the Effect of Self-service on Salesmen?" *Printers' Ink*, May 15, 1953.

Classroom on Wheels. Lansing P. Shield, president of the Grand Union Company, one of industry's fervent advocates of on-the-job training, welcomes two clerks from a supermarket to the trailer, which carries the latest sales techniques to each of the chain's 300 stores.

This thirty-three-foot trailer is designed to teach everyone, from the men who fill from stock its "food-o-matic" racks to the checkers at the cash registers, the latest wrinkle in pleasing the customer and inducing him or her to put an ever larger share of the household budget into food.

Lansing P. Shield believes the men and women who have the final contact with the customer in the store must be just as live as, or more than, the company's compulsive copy.

The company has long been a leader in employee training and rewards for those who take advantage of the program. From profit sharing for managers down to retirement provisions for porters and vacations for all, the big chain has endeavored to inculcate in its employees a sense of participation in management's problems.

At new stores the trailer may spend as much as two weeks. Then it is to be hooked to a specially strengthened Chevrolet sedan and moved to the next location. There it will display the latest in machines and methods from the handling of fresh and dairy produce through the new non-food items which are counted on to enhance the company's gross and net through the knowledgeable participation of its sales force.

SOURCE: *New York Times,* May 2, 1954.

Supermarkets make their profits on fast turnover and low overhead. These require the manufacturer to take many small orders and warehouse the goods until the store operator wants them. As a result, salesmen call back more often for renewals. Salesmen have to spend more time on

"But there was a can on the bottom of the stack that looked larger than the others."

SOURCE: Cartoon by George Clark. Reprinted by permission of News Syndicate Co., Inc.

each call doing merchandising and call more often than they did before mass self-service retailing developed.

EFFECTS ON OTHER TYPES OF RETAILING

Many retail outlets which have been hurt by supermarket competition, especially in nonfood items, are now fighting back. They have realized that food selling brings with it a high traffic count. A number of department stores are enlarging their food departments or installing food super-

markets in the hope that people who come to shop for food will stay to shop in other departments of the store.

In general, department stores prefer what they call preselection to actual self-service. They let the customer have access to the goods and make a preliminary decision. Then, when she needs assistance, a clerk offers it.

Other retailers are developing self-service procedures of their own, adapted to the products they sell. This will give the food supermarkets more competition in nonfood lines. Hardware, lumber, and appliance stores all show the impact of self-service. Even some gasoline stations are giving this new method a chance. Self-service is being tried out by furniture, home furnishings, drug, and phonograph-record stores. More and more retail outlets of all types now display their merchandise on open racks and fixtures from which the customer can make a choice. The object of these methods is to develop selling techniques that do not require the presence and assistance of salesclerks.

SELF-SERVICE ABROAD

Self-service stores have been opened in several European countries. Sweden and Switzerland are developing this type of retailing to some extent, but most European self-service units are still in the small experimental stage. The conservatism of European people causes them to feel that "what was good enough for our fathers and grandfathers is good enough for us."

Some British cooperatives have adopted self-service but the British version is watered down in comparison with the American forms. Most of their stores have a selling space of 400 square feet and the variety of products is small.

Furthermore, very few European families own a car and an electric refrigerator, both of which are necessary for housewives to carry away and store large quantities of foods. Nor are prepackaged and frozen foods available to the extent that we have them. Fewer married women work. European housewives make more shopping trips and spend more time on each trip, with shopping being an important phase of their social life.

THE FUTURE OF SUPERMARKETS

As you can see, the influence and growth of the supermarkets have been tremendous. There are, however, two schools of thought as to their future. One claims that supers can sell anything; the other, that a food store is a food store and must remain so. Between these two extremes is the position of the cautious majority who prefer to watch and wait.

Experimentation in various areas will undoubtedly continue. Supermarkets will experiment in many aspects of retailing. Non-self-service retailers will adapt self-service to their own needs. What this reciprocal encroachment into each other's business territory will lead to is uncertain. What is definite is that you, as a consumer, will profit from the increased competition among retail outlets and the search for ever bigger and better methods of serving the consumer.

SOURCES

Super Market Institute, 500 N. Dearborn St., Chicago. This is a trade association of supermarket operators. To be eligible for membership, a company must operate at least one supermarket, which is defined as "a complete, departmentalized food store with a minimum sales volume of $500,000 a year and at least the grocery department fully self-service."

The Institute is a center of information about the supermarket industry. This is accomplished through meetings, printed reports, films, etc. Services to members include meetings directed to various levels of supermarket personnel, printed proceedings of these meetings, research reports, an individual information service, advertising mat service, Washington service, etc.

Students may write to SMI for information pertaining to supermarkets. They attempt to answer all intelligent inquiries.

JOURNALS

Super Market Merchandising (magazine), 67 W. 44th St., New York.

Progressive Grocer (magazine), 161 Sixth Ave., New York.

Supermarket News (weekly newspaper), Fairchild Publications, 7 E. 12th St., New York.

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Converse, Paul D., Harvey W. Huegy, and Robert V. Mitchell, *The Elements of Marketing*, New York: Prentice-Hall, Inc., 1952, Chap. 19.

Maynard, Harold H., and Theodore N. Beckman, *Principles of Marketing*, New York: The Ronald Press Company, 1952, Chap. 13.

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QUESTIONS AND EXERCISES

1. In what ways have supermarket stores influenced other retailing concerns during the past few years?
2. What are the specific ways in which the supermarket is able to reduce operating costs?
3. What major lines of products sold by supermarkets appear to contribute more to the total sales volume than they do to the total profit margin? How do you explain this variation in contribution by the various product lines?
4. What product line is featured more than any other line in the usual supermarket operation? Why?
5. Why have nonfood lines become so popular in supermarkets?
6. What influence has the growth of supermarkets had on retail advertising and personal selling? What influence has it had on advertising by manufacturers and personal selling by manufacturers?
7. How does the status of self-service operation in European countries compare with the status in the United States? What are the major factors which appear to account for this difference?

19 Drugstores, Variety Stores

THE ALERT MARKETER

1. **Observes how the current marketing revolution, especially the supermarket methods of retailing, is affecting the druggist's selling practices.**
2. **Notes that drugstore annual sales per family vary from state to state. When he travels from state to state or even from city to city, he looks for possible factors that may explain the differences.**
3. **Wonders which manufacturer of a dentifrice is the smarter: the one who directs his efforts toward independent drugstores or the one who concentrates on selling through chain food stores.**
4. **Reads news reports of legislative efforts by druggists to prevent food stores from selling proprietary medicines and himself takes sides with the more progressive party in the conflict.**
5. **Inspects new packages of products sold in drugstores to see whether the new designs fit the needs of self-service merchandising.**

The United States has approximately 50,000 drugstores. Most of them also retail merchandise that does not require any compounding of prescriptions. Only 20 to 25 per cent of a typical drugstore's income is likely to come from prescriptions. The balance comes from other retailing activities such as the fountain service, cosmetics, tobacco department, magazines, hardware, and others.

CHARACTERISTICS OF DRUGSTORE CUSTOMERS

A study of 489 drugstore customers, made in Hartford, Connecticut, resulted in the following findings: More than 47 per cent of fountain

customers in drugstores made another purchase before leaving the store, 29 per cent of the customers came in to buy fountain items, 11.7 per cent to buy newspapers, 9.1 per cent to get prescriptions filled, 6 per cent for tobacco, and 6 per cent for patent medicines. The average length of time spent in the drugstore was 11.61 minutes; 64.3 per cent of the customers spent less than 10 minutes. More than one purchase was made by 37.8 per cent of all customers.

Regarding store traffic, the study showed that only 11 per cent of the customers went all the way back into the store. Of all customers, 27 per cent went three-fourths of the way back, 49 per cent went halfway, and 79 per cent went one-fourth or more of the way. More than 67 per cent traveled to the right and 32 per cent to the left.

Convenient location was the reason why 35.4 per cent stopped at a particular store; good, courteous service attracted 20.8 per cent; 11 per cent stopped from habit; and 15.4 per cent because of friendly atmosphere. A complete line of merchandise attracted 4.5 per cent and quality products 2.9 per cent. More than 59 per cent lived within a half mile of the store and 72.8 per cent lived within one mile.[1]

Another survey, national in scope, was made by a mailed questionnaire to 1,880 women and 1,555 men. The simple open question, "What I would do if I were a druggist" was used. The replies showed that in the matter of personnel, women are more interested in courtesy, politeness, friendliness, and personal attention. Men customers are more interested in efficiency, promptness, and managerial competence. The men are more interested in getting in and out of the store as fast and efficiently as possible. The women customers like to receive suggestions about other goods while being waited on.

Instead of answering the questionnaire as asked, 15.6 per cent of those replying said that they like their present druggist and are satisfied with his store.[2]

Table 19–1 indicates that the reasons for entering a drugstore remained stabilized over a recent 6-year period.

GEOGRAPHICAL VARIATIONS IN SALES PER FAMILY

As in the case of many other lines of retail trade, the sales of drugstores per family vary considerably from state to state, depending upon factors such as per capita income and aggressiveness of the drugstore managers.

[1] "Sealtest Study Shows Drug Store Customer Habits," *Advertising Age*, June 30, 1947.

[2] "If I Were a Druggist," National Panel of Consumer Opinion, Batten, Barton, Durstine & Osborn, Inc., Drug Staff Survey No. 3, 1950.

Table 19–1. *Reason for Entering Drugstore*

	Percentage of women	
	1948	1954
To buy "drug items" (proprietaries, cosmetics, toiletries, sundries, etc.)	49.8	51.1
To leave or pick up a prescription	18.1	21.5
To get something from the soda fountain or lunch counter	12.5	9.6
To get a newspaper, magazine, or book	9.5	7.7
Just to "look around" or accompany someone else	5.1	7.5
To get smoker's supplies (cigarettes, cigars, matches, etc.)	8.3	7.1
To leave film for developing or pick up pictures	3.1	4.2
To buy candy bars, chewing gum, nuts, etc.	3.8	3.4
To buy stamps or get change made	4.1	3.5
To make a telephone call	1.0	0.8

Questionnaires were sent to the housewife members of a consumer panel—a representative cross section of United States families living in towns of 2,500 or more population. The same procedure was used in both 1948 and 1954, and both were conducted at the same time of year. Each housewife panel member received a sealed envelope which she was instructed not to open until *after* her next visit to a drugstore. This envelope contained a questionnaire—the same in both studies—regarding that *one* visit to a drugstore.

Women were asked the question: Of the brands or items you bought, which brands or items had you not planned to buy before entering the store? Of the women making a purchase, 2,312 in 1948 and 2,933 in 1954, 48 per cent in 1948 and 47 per cent in 1954 bought one or more items which they *had not planned* to buy before entering the store. Unplanned purchases accounted for 30 per cent in 1948 and 32 per cent in 1954 of the total items purchased.

SOURCE: From "How Women Spend Their Drug Store Dollars, a Comparison of Consumer Buying Habits, 1948 vs. 1954," Batten, Barton, Durstine & Osborn, Inc., Drug Staff Presentation No. 7.

The annual drugstore sales per family for the states having the highest and the lowest figures are shown in Table 19–2.

As you travel through different states to observe variations in marketing practices, you can understand why the people in states with low per capita income spend less money in drugstores, but why do the people in the District of Columbia lead the nation? Why are some Western states in the high group and other Western states in the low? Why are both Georgia and Pennsylvania in the low group? Are these differences caused

Table 19–2. *Highest and Lowest States in Annual Drugstore Sales per Family*

Highest	Annual sales per family	Lowest	Annual sales per family
District of Columbia	$258	Mississippi	$62
Nevada	196	West Virginia	68
Michigan	143	Arkansas	74
Colorado	141	Alabama	77
Arizona	140	Vermont	77
Wyoming	134	South Carolina	79
Connecticut	132	North Carolina	81
Florida	131	Tennessee	81
Texas	122	Maine	82
Missouri	121	Kentucky	84
Rhode Island	118	Montana	86
Massachusetts	115	Oregon	87
New Mexico	113	Georgia	88
California	113	Pennsylvania	89

SOURCE: "Drug Store Sales per Family, 1952," from Marketing Pictograph by *Sales Management*, May 10, 1953.

by the customs of the people who live there, lack of competition from food stores, or by the stimulating influences of drug manufacturers and drug wholesalers? All these possible answers apply but the only way you can find out which explanations apply to a specific state is by observing conditions there. This suggests that whenever you find yourself in a new area, note the marketing aggressiveness or lack of it on the part of the drugstores you visit.

EFFECTS OF THE MARKETING REVOLUTION ON DRUGSTORES

Supermarketing has been a major influence in the current so-called marketing revolution. By the early 1950's, food supermarkets were making one-third of the sales of certain drug and toiletry items, which only a few years previously had been sold only in drugstores. Convenience drugstore products are being sold increasingly in food supermarkets, and the druggists have been aware of it.

The reactions of druggists to the encroachments by food stores have been, in too many cases, merely defensive. Druggists have boycotted brands sold through supermarkets, refused to give them store or shelf display, and switched customers to brands that were sold only in drugstores. They have felt sorry for themselves and resorted to legislation

rather than to more ingenious marketing as their means of meeting competition.

An example of this "feeling sorry" attitude, in my estimation, is the retail drug business' pet phrase, "Distribution by legislation." This appears to be the stock answer you get when the retailer in the drug business admits that he hasn't kept pace in a competitive sense with the store across the street or when he has failed to adjust his own operations to the daily changes forced upon him by influences beyond his immediate control. "Pass a law" has been the magic answer. Any kind of law will do in most cases . . . a local law . . . a state law . . . or a federal law.

I assume all of us are acquainted with various local and state-level attempts to legislate distribution of certain products under the guise of "protection of health." Sponsors of such distribution legislation are admitting that they either don't want to meet competitive efforts to conform with known consumer "shopping habits" or they are admitting that they can't. Either is bad for the future of the retail drug store as we know it today.

However, there have been more recent and more asinine examples of the "let's pass a law" fraternity in the retail drug business. One is that which . . . involves the introduction of NEW products that tend to duplicate present products in the pharmaceutical field. Some prominent retail druggists, supposedly leaders in their field, have thrown in the sponge again . . . they are somewhat publicly advocating "laws to regulate new product introduction" in the trade press. What kind of silly business is this? In no other industry has any retail group dared to make such conversation . . . much less advocate it by resorting to the law for regulation. The very thought, itself, is against everything this country has stood for . . . for the past 150 years. There is no doubt but what so-called "duplication" in the drug trade presents a very real problem . . . particularly to the retail druggist. . . . BUT the answer can't be found by having the retailer stick his head in the sand like an ostrich and holler "let's pass a law" so that they will not have to tackle this difficulty head-on. Practically all classes of retail trade are confronted with "duplication," in a sense, every day but I have yet to see any of their problems solved by legislatures.[3]

Fortunately, certain intelligent druggists and business leaders have looked at their problem of competition from supermarkets more realistically.

Alton Tobey, president of the New Hampshire Pharmaceutical Assn., urged his members to push super-distributed products as much as others. "We tend to hurt ourselves," he said, "by failing to support fast-moving drug store merchandise merely because it has supermarket distribution." "Rather than aiding supermarket distribution of these products, we should give them our very best sales and merchandising support." With growing frequency, Mr. Tobey's advice seems to be taking.

[3] Lyle J. Purcell, "Breaking Old Habits and Establishing New Ones," address before the American Pharmaceutical Manufacturers' Association, Los Angeles, Feb. 16, 1954.

What does this dramatic trend mean to the drug and toiletry manufacturer? Principally, the same things the supermarket growth has meant to the food manufacturer: a highly accelerated need for more "pre-selling," a wider acquaintance with and better acceptance of his products by consumers of every type and bracket, an intensification—and perhaps an expansion—of his advertising and a new determination to make his whole marketing operation more efficient and effective. Actually, the major drug manufacturers are pretty expert at those things now, for they have long operated in a feverish kind of competitive atmosphere.

But, if anything, that atmosphere will now grow more heated than ever. Sales to consumers in supermarkets are quick sales. There is not much pondering over brand preferences; those have already been established. And there is no influence from the store clerks, of course. If these drug products are "impulse purchases" normally (as many of them are), their presence in their new retail surroundings gives them now a "supermarket impulse" kind of status.

One great, long-range danger, we suppose, is that once the supermarket chains learn enough about the drug business, they will be tempted by the inevitable—to expand their own private brand operation into that area. That has not happened yet, though the cards do seem to be stacking themselves for it eventually. The way the chains are stepping up their private food brands may seem to be a hint of things that could come.[4]

Actually, the typical druggist is often in a state of mental conflict as to what he should do about competition. His training has been that of the professional man rather than that of the aggressive retailer. He would be happier to continue to compound prescriptions and advise customers than to invent new schemes for selling factory-made merchandise. Also, he realizes that many of his customers would prefer their drugstore to be a drugstore rather than a variety store, as shown by the comments of several thousand housewives in a national survey. When these respondents were asked how they would run a drugstore, 43 per cent said they would run a drugstore, not a variety or "something else" store.[5] Apparently, the answer for the individual druggist depends upon whether he wants to be a strictly professional man or a professional man who operates a profitable commercial enterprise.

PROBLEM OF THE MANUFACTURER IN MARKETING A DRUGSTORE PRODUCT

Any manufacturer of a product normally sold through stores must study the trends in sales through the various channels of trade. Food stores have caught up with drugstores as sales outlets for dentifrices and are moving rapidly in the retailing of products such as razor blades, shampoos,

[4] Reginald Clough, "Drugs and the Marketing Revolution," *Tide*, Feb. 8, 1952.

[5] "If I Were a Druggist," Batten, Barton, Durstine & Osborn, Inc., Drug Staff Presentation No. 6, April, 1954.

and hand lotions. In the case of dentifrices, however, the chain drugstores are far in the lead on a store-for-store basis. The annual dentifrice sales per store and shares of the market in a recent year for five types of stores that sell dentifrices vary as shown in Table 19–3.

Table 19–3. *Chain Drugstores Are in the Lead in the Sale of Dentifrices*

Type of store	Annual dentifrice sales per store	Percentage of the market
Chain drugstores	$3,200	12
Chain food stores	1,300	20
Variety stores	800	11
Independent drugstores	750	29
Independent food stores	75	19

SOURCE: Data from *Drug Trade News* and *Drug Topics*. From Marketing Pictograph by *Sales Management*, Dec. 15, 1952.

It is obvious, of course, that a whole lot of little stores such as the independent drugstores might sell a larger percentage of the market than the big chain drugstores. When A. C. Nielsen Company studied the effect of the size of food and drugstores on sales of remedial products, particularly laxatives and headache remedies such as aspirin, they found the following facts to be true:

1. There are nearly 500,000 possible outlets for drug items, but 25% of the total—drug stores, food chains and large food independents—do 84% of the business.
2. The 3,714 chain drug stores are the most important outlet on a per store basis. Although only 0.8% of the total food and drug stores, the drug chains do 12.6% of the remedial business.
3. Large (more than $100,000 annual volume) independent drug stores come next on a per store basis. The 7,645 large independents are 1.6% of the total, but have 19.4% of the volume.
4. Medium ($50,000–$100,000) and small (less than $50,000) independent drug stores follow, with food stores trailing these stores in importance.

However, the 25,000 chain food stores represent 5.5% of the total and now account for only about 7.0% of the business, but are growing very rapidly in sales of remedial products. A similar situation exists with large independent food stores.[6] [See Table 19–4 for data concerning the division of sales for five remedial product groups like aspirin.]

[6] Condensed from a talk by James O. Peckham, Executive Vice-President of A. C. Nielsen Company, before the 1953 Proprietary Association, reported in *Advertising Age*, June 15, 1953.

Table 19–4. *Division of Sales for Five Remedial Product Groups in Drug and Food Stores*

Type of store	Number of stores	Percentage of all stores	Percentage of consumer sales—dollar basis
Chain drug	3,714	0.8	12.6
Large independent drug	7,645	1.6	19.4
Medium independent drug	16,072	3.4	21.2
Chain food	25,722	5.5	7.0
Small independent drug	28,366	6.1	18.2
Large independent food	35,636	7.9	5.3
Remaining independent food	346,330	74.7	16.3
Total	463,485	100.0	100.0

The above Nielsen figures indicate that the food stores in 1953 accounted for a relatively small amount of total sales on items like aspirin. The current marketing revolution, however, is likely to effect further shifts in the relative influence of food versus drug stores in the sale of convenience drug products.

SOURCE: From a talk by James O. Peckham, Executive Vice-President of A. C. Nielsen Company, before the 1953 Proprietary Association, reported in *Advertising Age,* June 15, 1953.

EFFECTS OF GROCERS' SELLING DRUG ITEMS

The druggists' bogeyman is, of course, the grocer who sells drug items. The fear is valid to a degree but the effect has not been so disastrous as some druggists imagine. The A. C. Nielsen Company has made continuous studies of the relationships between drug and grocery store sales of products formerly sold only in drugstores. On the whole, the findings have indicated "a pretty healthy condition for proprietary manufacturers and for the drug store business generally." One important finding was that the "expansion of drug and toiletry business through food stores has not disturbed the normal drug store trend of increasing volume. This indicates that increased exposure to sale through grocery outlets has resulted in additional sales of these items."

Studies of 15 drug and toiletry groups, including dentifrices, shampoos, headache remedies, laxatives, hair tonics, and others indicated that "the 15 drug and toiletry groups have apparently followed a normal trend in drug stores, and on top of that normal drug store trend, are forging ahead to the tune of 25 percent to 30 percent in the food stores.

"In other words, the food stores have not caused losses in drug stores and it is our feeling that the additional display and exposure to purchase

in almost 400,000 food outlets represent largely plus business which would not have occurred if this additional exposure to sale had not been achieved.

"Investigation into whether food stores are taking business away from druggists was made with the view that if they were, there would be poorer sales of brands pushed by grocers and better sales of brands promoted by druggists. Drug store sales of fifteen brands of drug and toiletry items with major food store development, and 12 where food store development was minor, were compared. Results indicate that drug store sales of both classes of items are practically identical." [7]

ADOPTION OF SUPERMARKET METHODS BY DRUGSTORES

Druggists realize that a great share of drugstore items are sold by nondrugstores, grocery chains, and supermarkets because of the better merchandising and one-stop shopping. This fact has prompted McKesson & Robbins, Inc., New York, to adapt their distribution methods of drug goods to the new methods used by other distributors. A model drugstore was opened in a McKesson & Robbins Newark office for demonstration purposes. Their investigation showed that consumers want service when buying drugs, they demand certain brands, departmentalization is a factor in increasing size of purchases, and some items are too small to offer sufficient display space. Their model store also demonstrated the fact that many more items can be displayed to increase sales and to coordinate store traffic. Customer service can be improved. Sales of larger and related items can be stimulated in a small area. The future of the drugstore can be secured through modernization programs used by other merchandisers without losing the individuality of the drugstore as an institution in American life.

McKesson plans to fight supers with their own weapons, i.e., open display of merchandise; plainly price-marked items; clean, brightly painted and lighted interiors; smart store fronts; departmentalization. The company will sell departmentalized display fixtures to drug operators, promote the use of new decorative lighting and color schemes, and generally help the druggist tidy up a bit.

First off, the old wrapping counter will come out by the roots. It has to go.

McKesson's research shows that 87% of a drug store's business is transacted at the wrapping counter. Most counters are too small and cluttered to offer sufficient display space, many are hideously outdated. Basis of McKesson's plan is a fixture to take the wrapping counter's place. Called the "Self-selector," it is a 21-ft. section capable of displaying 4,418 different items—those which make up that 87% of proprietary sales. . . .

[7] *Ibid.*

The selector (and for that matter, the entire program) is built around eight major departments which the druggist depends on for quick turnover of nationally-known products: hair care, baby needs, vitamins, oral hygiene, cough and cold remedies, pain relievers, laxatives and first-aid items. . . .

The company will soon open other model stores throughout the country to demonstrate "basic principles" of merchandising. In addition, drug store operators and officials in the business will be exposed to audio-visual programs designed to point up the benefits of streamlining.[8]

Self-service in drugstores is increasing slowly. (A self-service drugstore is defined as one in which 50 per cent or more of the selling area is devoted to merchandise displayed on fixtures that are completely accessible to customers.) Only 1 per cent of the nation's drugstores have adopted it. Of those that have, most are on the West Coast where supermarkets were originated; the fewest are in New England (see Table 19–5).

Table 19–5. *West Coast Druggists Are More Venturesome*

Region	Percentage of 484 self-service drugstores	Region	Percentage of 484 self-service drugstores
New England	0.62	East South Central	1.86
Middle Atlantic	1.65	West South Central	5.17
East North Central	10.12	Mountain	13.02
West North Central	6.61	Pacific	53.31
South Atlantic	7.64		

SOURCE: Jules S. Trieb, "Why Manufacturers and Agencies Must Watch Self-service Drugstores," *Printers' Ink*, Nov. 7, 1952.

With the exception of fountain service, tobacco departments, and prescription departments, drugstores can be made 100 per cent self-service. "Self-selection," described as a combination of self-service and personal attention, has been recommended by some leaders.

Self-service display fixtures in some converted stores have increased the volume of business by 20 per cent. Some have doubled their volume regardless of size of store, and all departments in the store have gained (see Table 19–6). Lynn Stiles, of the University of Illinois, found from a study of 89 drugstores that the average sales transaction in converted independent stores was increased from 46 to 76 cents and the average increase in chain stores converted to self-service was from 62 cents to $1.19. Stiles found that typical self-service stores operate at a lower cost

[8] "On Tap: About-face for Drug Stores," *Sales Management*, July 15, 1953.

Table 19–6. *Effects on Sales after Conversion to Self-service*

Nine months after conversion to self-service, the Bond Drug Store, Northampton, Mass., reported the following departmental sales increases:

	Percentage		Percentage
Baby goods	614	Feminine hygiene	99
Cosmetics	509	Prescription	74
Hair products	337	Men's toiletries	51
Proprietaries	166	Fountain, candy	49
Stationery, school supplies	122	Household items	41
Oral hygiene	119	Tobacco	24
Photo products	103	Liquor	5

SOURCE: Jules S. Trieb, "Why Manufacturers and Agencies Must Watch Self-service Drugstores," *Printers' Ink*, Nov. 7, 1952.

than service stores, and large self-service stores operate at an even lower cost, from 20 or 21 per cent to 25 to 27 per cent.[9] Stiles also observed that druggists are not so worried by possible loss of professional atmosphere as they were at first. Also, the increase in pilferage is offset by the larger volume of sales.

Certain problems involved in the conversion from conventional service drugstores to self-service will need to be faced. Manufacturers will have to redesign their packages to conform to the needs of self-service retailing, particularly for convenience of handling and durability. Pilferage must be considered. An example is mounting lipsticks on large cards in order to decrease shoplifting. One manufacturer of nylons already packages them in a long plastic tube to prevent pilferage. Drugstore items that are in the $25 class are a serious pilferage problem and some of the more expensive items such as fountain pens, cologne, camera supplies, wallets, and razors, have already been removed to the check-out counter.

Children, of course, have a great time in the toy sections, particularly with items that have removable parts or wind-up keys separate from the toy. It is a good prediction that managers of self-service drug stores will not long continue to buy toys in which the wind-up keys are not firmly welded to the clockwork.

Children also love to poke the Aerosol shaving cream containers and spew the lovely white foam out over the other shaving creams. Buyers of loose-leaf fillers frequently make sure that there are three holes punched in the margin, by the simple expedient of tearing off the wrapper until they can be certain

[9] See "Self-service Reaches the Drugstore," *Business Week*, Mar. 7, 1953.

of this. This has led the more astute manufacturers of looseleaf paper to band it the long way, in self-defense.[10]

Packages must also be designed with eye appeal as well as sales appeal. Packaged products need to be designed so that they cannot be opened and damaged by casual shoppers. A price-marking area should be provided on each package. Bottles should have only white caps on which prices may be clearly marked. On soft goods, a removable tag can be placed for pricing. More and more manufacturers will do tagging as an assembly-line procedure because it costs the manufacturer less than the store operator to pin price tags on items.

Prewrapped items have a timesaving advantage at the check-out counter. A self-service store has advantage over service stores in the sale of feminine hygiene items, especially if these items come prewrapped so that they are not on display in a shopper's cart.

In self-service stores advertised brands far outsell unfamiliar brands. Experience indicates that all efforts to introduce unadvertised brands into self-service stores have been unsuccessful. Consumer advertising will have to familiarize the shopper with both the product and the package so that the shopper recognizes it when she sees it on the shelf.

Special consumer promotions or combination deals are a problem in self-service stores because of the difficulty in holding together the several items of a combination deal. Combination deals now are unpopular with the self-service druggist because many of these combination items are not fastened very securely and thus cause confusion at the check-out counter.

More study will have to be done in regard to the proper location of items so that the shopper can find them easily. Some items can logically be located in one of several groupings, and this fact causes some shoppers to have difficulty locating what they want. In spite of these and other difficulties, experiments will continue in new marketing setups.

"DRUGROCERY" STORES

Some drugstore managers have organized their stores as supermarket setups. Some supermarkets have operated complete drugstores, with a pharmacist in attendance. And some drug and food stores which operate independently are jointly leasing space in the same structure.

Marketers do not venture an opinion as to how far the combination "drugrocery" will go. On this subject, a report made by Rexall after one year of operation in what was called the "Owl-Lucky Star" combination

[10] The problems and tips for self-service in drugstores were condensed from Tom Dillon, "Agency's Merchandising Tests in Self-service Drug Store Provide Tips for Manufacturers," *Advertising Age*, Nov. 3, 1952.

in Ontario, Canada, contains some interesting information. The report showed that for the more expensive drugstore merchandise and products like vitamins, headache remedies, hair preparations, and foot products, a salesperson with product knowledge is required. Additional findings were as follows:

> The drug store traffic in such a combined operation shows a tremendous increase because women visit markets, on an average, four times as often as they do drug stores. . . . Figures show a 600 to 700% increase in cosmetic pick-up lines. . . .
>
> The sale of items common to both grocery and drug stores (paper goods, insecticides, soaps, housecleaning needs, sundries, etc.) has been almost fantastic.
>
> A typical month's operation at Ontario will find the drug end of the picture contributing not quite 13% of the total volume while the combined grocery, meat and produce departments will account for 80% of the volume. The remainder is done by liquor and cigars.
>
> Despite this, drug sales will account for over 40% of the entire store's total net profit, while the grocery, meat and produce departments combined account for 50% of the entire store's total net profit. This disproportionate drug profit is, of course, accounted for by the much larger gross profit enjoyed on the sale of most drug store products.
>
> In the light of these figures it is no wonder that more and more grocery stores are selling more and more drug store products.[11]

The Owl–Lucky Star combination was part of a larger pioneering experiment by Rexall Drug, Inc., which stirred up considerable excitement in the drug trade at the time. The purpose was to team up some of the Rexall drugstores with supermarkets in order to help the drug business. The experiment had two forms: a *joint arrangement* in which drug and grocery stores operated side by side, each having its own check-out counter, and the *integrated* stores. In the latter, the stores operated on a 50–50 basis but used common check-out counters.

After several years of trial, it was found that the experiment did not work out as originally planned.

One stage of the experiment showed that (1) the joint operation of one store by two organizations is too cumbersome and (2) drugstores and supermarkets cannot work on a 50–50 basis. Dollarwise, the volume of drugs in such a combination is only 12 or 14 per cent. The experiment as a whole has not, however, been finally concluded. One effect seems to be that it probably helped to speed up rather than retard the supermarket's invasion of the traditional drugstore's field of operation.[12]

[11] From report made by Rexall after one year of operations in the Owl-Lucky Star combination in Ontario, Canada, *Advertising Age*, Oct. 20, 1952, p. 101.

[12] "Druggist Loses," *Business Week*, June 28, 1952, p. 64.

The higher operating costs that are pushing food store managements are also pushing those of drugstores. Drugstores are trying several patterns. There are four types of drugstores in the West: the conventional, which still dominates; semiself-service; completely self-service; and combination drugroceries.

The reason for these variations from the conventional is seen in the comparative figures of labor costs in them: conventional, 20 per cent; semiself-service, 15 per cent; self-service, 10 per cent; combination, 7 to 8 per cent. Basically these differences are accounted for by the differing volumes of business. Self-service operators buy direct, eliminating the average 7 per cent differential required to move merchandise from a chain warehouse to the individual store.

The most recent development, and thus the least stabilized, is that of the self-service drugstore. Although most, if not all such stores are operated by chains, they function in direct opposition to normal chain policy. Instead of a low-wage manager taking almost 100 per cent direction from headquarters, self-service managers are usually paid on the executive level (as much as $25,000 per year) and operate much like a self-contained independent.

The independent manager does all buying, advertising, and merchandising locally. Volume is depended upon for profit. A self-service manager strives for a 30 per cent gross margin instead of the 40 per cent which is conventional and this means that he must achieve an adequate volume of sales. A properly located and managed self-service drugstore can increase volume 300 to 400 per cent in a given location. Certainly, modern marketers will watch the distribution pattern of drugstores.

"Whatever final pattern emerges, it appears that distribution patterns may be inextricably mingled in the food, drug, hardware, housewares and even clothing and appliance industries." [13]

VARIETY STORES

A variety store is a retail store that handles a wide assortment of goods, usually of a low or limited price. The field is almost completely dominated by the chain organizations. "A chain store is a group of retail stores of essentially the same type, centrally owned and with some degree of centralized control of operation" [14] (see Table 19–7). In fact, F. W. Woolworth was the first to open this type of store way back in 1879. S. H. Kress and S. S. Kresge followed about 20 years later.

Merchandise in variety stores is usually of a low unit value and is sold

[13] Data and conclusions condensed from *Advertising Age*, Oct. 20, 1952, pp. 101–102.

[14] "Report of the Definitions Committee," *The Journal of Marketing*, October, 1948.

Table 19–7. *The Number of Variety Stores,* 1951

Type of operation	Number of stores	Sales	Percentage of total sales
Variety chains, operating 100 or more stores (includes 306 Canadian) *	5,471	$2,174,536,529	72.7
Variety chains, operating 10 to 99 stores (includes 249 Canadian) †	1,970	236,063,400	7.8
Variety chains, operating 3 to 9 stores (includes 58 Canadian)	2,079	160,275,000	5.4
Two-store variety chains (includes 14 Canadian)	1,242	73,548,000	2.5
"Verified" single-unit variety stores (includes 39 Canadian)	6,853	274,510,000	9.2
"Low-volume" and marginal single-unit variety stores	6,086	72,151,470	2.4
Total United States and Canada	23,701	$2,991,084,399	100.0
Less Canadian stores	− 666	− 141,990,000	
Total 1951 United States variety stores	23,035	$2,849,094,399	

* Companies	Stores operated	Companies	Stores operated
F. W. Woolworth Co.[1]	1,943	G. C. Murphy Co.[2]	295
S. S. Kresge Co.[1]	689	J. J. Newberry Co.	478
W. T. Grant Co.	482	H. L. Green Co., Inc.[3]	228
S. H. Kress Co.	259	McCrory Stores Corp.	205

[1] Includes Canadian stores [2] Includes 71 "Morris" stores [3] Includes 83 Metropolitan stores (Canada)

† Examples are Chainway Stores, D & C Stores, Inc., Dodd's 5-10-25¢ Stores, Inc.

SOURCE: From "Estimated Census of Variety Stores in 1951," research study by *Variety Store Merchandiser.*

on a self-selection basis. Variety stores were the first important type of store to emphasize self-selection. Neither credit nor delivery service is offered to the customer—the customer selects what he wants and pays the salesperson or cashier-wrapper. There is a minimum amount of personal selling assistance; sales are promoted primarily through the use of displays of merchandise. As is usually the case where self-service prevails, "impulse" buying is very high. For this reason, the package of the product and its eye appeal are very important.

In recent years, especially during the Second World War, there was much upgrading of merchandise lines in the variety store as inexpensive

Playing the cards close to your chest can have a lot of advantages in business. And the variety chains are a prime demonstration of it.

All through the postwar boom, the five & dimes have kept on carrying much the same goods they did 10 years ago. They haven't upgraded their stock much. Even more than most retailers, they have been reluctant to depart from tried and true operational formulas.

This cautious policy hasn't made much news, but it has paid off. . . .

The interesting thing is that, despite their modest gains, the variety chains have done better over-all than department stores since World War II. Department stores showed much higher profits and sales gains than variety stores just after the war. But the variety stores have more than balanced that out by their stronger showing since. . . .

What we have is a case of the tortoise and the hare. If variety stores don't hit the high spots, neither do they sink into the low ones. They fail to feel a pickup in business as quickly as other retailers, but they aren't so hard hit when business goes sour. . . .

The question remains, of course, whether variety store people will be content with this sort of solid, dependable foot-slogging while others—notably the supermarket operators—breeze ahead.

Variety stores haven't upgraded very much . . . the variety stores still try to hew to the old mass merchandising line . . . unlike the supermarket operators, variety store people haven't gone too far

SOURCE: "Five & Dimes Are a Case Where the Tortoise Strategy Is Working,"

items became scarce. After the war, prices in general were higher so that the old "five and dime" shrank farther back into the past.

Today, some managements of variety chains believe that they should return to the lower price lines. The consensus is that if they continue as they have been, with some stores selling refrigerators and fur coats, they will soon be members of the department store group. They believe that they are specialists in the field of inexpensive goods and fear to venture into areas in which they lack training and know-how. Variety stores want to continue to offer good values but in the low-price lines. Variety stores have a stable position in the retail field, with sales rarely dropping badly even in depression times. Operators, therefore, prefer to hold on to their security rather than take chances.

afield. The backbone of their sales is still much the same as it was a decade ago. Here is the Harvard Business School list showing the percentage of sales by type of goods in 1940 and 1951:

	1940, per cent	1951, per cent
Apparel, accessories	27.4	31.5
Dry goods, domestics	7.8	9.8
Notions, smallwares	6.8	6.2
Hardware, etc.	9.4	8.2
Home furnishings	7.2	5.9
Drugs, toiletries	7.9	5.0
Toys, games, books	4.9	8.6
Stationery	6.5	7.2
Jewelry	1.9	1.7
Soda fountain	5.7	5.4
Confectionery	6.7	5.3
Miscellaneous	7.8	5.2
	100.0	100.0

This doesn't show much shifting over the past decade, but the changes that do appear are significant. The variety store operators are putting considerably greater stress on apparel, toys, games, books. They are yielding ground to the supermarkets in the toiletry, drug, and candy business.

What will variety stores do about supermarket competition? There is now considerable experimentation going on in the field. Many chains are seeing how far they can extend self-service. . . .

Business Week, July 26, 1952.

PILFERAGE

Shoplifting has always been a problem in retailing. In recent years, however, self-service and open displays have made pilferage easier. No one knows how much profit disappears into the pilferer's shopping bag, brief case, newspaper, extra-size pockets, big coat, skirts with trick waistbands, umbrellas, and to confederates who look innocent when detected. Most estimates range from ¼ of 1 per cent to 2 per cent of total dollar sales. Department and drugstore losses tend to run higher than those of food stores. Variety stores are in the biggest loss class.

Professional shoplifters of furs and jewelry are always a threat, but most pilferage is done by nonprofessionals or casuals, particularly women

and juveniles. Its incidence is greater in areas where marginal earners live, but most merchants believe that the great majority could afford to pay for the goods. Kleptomaniacs are supposed to represent only a very small percentage of those caught.[15] Some merchants also believe that the pilferage done by store employees is a greater loss than all that by outsiders.

How do stores protect themselves against pilferage? When the problem becomes especially severe in an area, merchants often band together to form protective associations. Some cities, such as New York and Cleveland, keep central records of legal charges and sentences and pool the information for the benefit of member stores. Most stores, however, set up their individual methods of detection such as employee training for detection, mirrors on walls to reflect shopping activity, warning signs that publicize the store's protective service, railings to control traffic, one-way vision screens, extra lighting, and rules against customers taking baby carriages into certain shopping areas.

The accusation of a suspect requires the advice of competent legal counsel in regard to the manner of approach. Generally, the clerk who detects pilferage seeks the assistance of a key employee in continuing the observation of the suspect. The suspect is not approached inside the store. When outside, the key employee, with the clerk, courteously requests return to discuss a private matter.

In private discussion, detecting clerk is available to name items stolen, place hidden. This system frequently results in admission of guilt.

When guilt is admitted, suspect is requested to give a signed statement. This is witnessed by both key employee and the detecting clerk.

CAUTION: Never contact a suspect in the presence of less than two persons. At least one should be an eye-witness to the act of shoplifting involved.[16]

SOURCES

The Federal Wholesale Druggists' Association, 2 Lexington Ave., New York. This is a cooperative organization to benefit independent druggists. Approximately one-third of the total retail drug outlets in the country are allied under the banner of FWDA.

The organization offers a combined service to both wholesalers and retailers. It represents the individual wholesaler in his daily contact with the manufacturer, the public, and various Federal agencies. It attempts to reduce the cost of distribution of merchandise from its source to the consumer so that retail merchants can benefit by such savings. It is primarily operated by and for the independent druggists who have elected

[15] "Cracking Down on Shoplifters," *Business Week*, Nov. 1, 1952.

[16] "Pilferage Control in Food Stores," Scott Store Advisory Service, Scott Paper Company, in cooperation with the William J. Burns International Detective Agency.

to combine their individual buying strength for the purpose of mutual gain.

The National Association of Chain Drug Stores, Vanderbilt Hotel, 4 Park Ave., New York. Objectives are to promote and advance the profession of pharmacy and health as the cornerstones of the druggist's business, to promote the general welfare of the chain drugstore industry, to render service pertinent to the industry which shall be of general interest to both associate and active members; and to provide an appropriate medium through which suppliers and chain drugstore managements can present problems of mutual interest.

The Association endeavors to be of service to active members by making studies of rents, store locations, prescriptions, self-service, and fair trade; by disseminating information and interpretations in governmental matters such as food and drug acts, Federal trade laws, excise taxes, and legislation of any nature as it pertains to the drug industry; and by holding meetings for all active members at regular intervals.

The Limited Price Variety Stores Association, Inc., 25 W. 43d St., New York. This Association, organized in 1933, is the national trade association for both independent and chain variety retailers. Its member companies represent more than 7,500 variety stores whose annual sales comprise over 85 per cent of the annual total variety store sales in the United States. It is a nonprofit organization, owned and controlled by its members, whose sole purpose is to aid the successful store operations of its member companies.

Students of marketing will find the Limited Price Variety Store Association a useful source of information in this area. For the marketing man directly or indirectly associated with variety stores, it is a clearinghouse for information and a valuable service organization.

Variety Store Merchandiser Publications, 192 Lexington Ave., New York. Publishes a monthly business magazine for the so-called "5 & 10" variety stores (prices range from 5¢ to $10). Also publishes an annual *Directory of the Variety Market*, which serves as a standard reference volume in this field for retailers and manufacturers.

Some special services rendered by this publishing firm are (1) a library of sound-slide films, produced by the editors and used in stores and schools for training prospective salespeople and managers or owners of variety stores, (2) an annual Window Display Contest among all variety stores in the United States, (3) an Annual Packaging Contest and Clinic, and (4) a Reader Service Department, composed of selected booklets on variety store operations.

Circulation of the monthly publication *Variety Store Merchandiser* is

restricted to the variety store field and manufacturers selling it. The Directory, films and Reader Service booklets can be purchased by any interested retailer, manufacturer, or other person.

Operating Results of Limited Price Variety Chains, published by the Graduate School of Business Administration, Division of Research, Harvard University. (Annual, since 1931. *Out of Print:* Reports for 1936, 1937, 1946, 1951, 1952.)

JOURNALS

American Druggist, 250 W. 55th St., New York.

American Professional Pharmacist, 676 Northern Blvd., New York.

Drug Topics, 330 W. 42d St., New York.

Chain Store Age, Drug Editions, 2 Park Ave., New York.

COLLATERAL READINGS

Agnew, Hugh E., and Dale Houghton, *Marketing Policies*, New York: McGraw-Hill Book Company, Inc., 1951, Chap. 5.

Brown, William F. (ed.), "Legislative and Judicial Developments in Marketing," *The Journal of Marketing*, October, 1952, p. 199.

Maynard, Harold H., and Theodore N. Beckman, *Principles of Marketing*, New York: The Ronald Press Company, 1952, Part 3.

Phillips, Charles F., and Delbert J. Duncan, *Marketing Principles and Methods*, Homewood, Ill.: Richard D. Irwin, Inc., 1952, Part 3.

QUESTIONS AND EXERCISES

1. Chain stores were once looked upon as ogres that would drive the corner grocer into oblivion and drain all the rural cash into big cities. Lawmakers passed graduated state taxes—the larger the number of stores, the greater the tax per store. In 1939, 25 states had special chain-store tax legislation on their books. By 1953, the number had dropped to 15. The taxes had failed to produce very much revenue; besides, many chains are operated by local interests. In addition to these two mitigating influences, can you name any others that may have drawn fire from the chain store as a target of lawmakers?

2. Have drugstore operators been alert and aggressive in meeting the competition from food stores? What steps have been taken to meet this competition? What steps have been taken to avoid it?

3. Have the increased sales of drug items by food stores resulted in a decreased sale of these products through drugstores? Explain.

4. What advantages are there in the operation of a self-service drugstore? What disadvantages?

5. What modifications would you expect to be made in packaging as more drugstores turn to self-service?

6. What drugstore products are most likely to show increased sales under self-service conditions? How do you account for the difference in response to self-service for various lines of goods?

7. Why do so many drugstores retain their fountains?

8. Are the sales per family for various lines of retail trade essentially the same in all areas of the country?

9. Can drugstores be made 100 per cent self-service? Explain.

10. What is the significance of the Owl-Lucky Star experiment from the standpoint of the chain drugstore? The independent drugstore?

20 Department, Specialty and Branch Stores. Shopping Centers

THE ALERT MARKETER

1. **Watches the trends in share of retail sales by department stores in comparison with other retailers.**
2. **Notes how department stores are affected by the population shift to the suburbs and how some stores adapt themselves to the shift.**
3. **Visits department stores to observe their effectiveness or lack of effectiveness in selling certain big-ticket items such as appliances.**
4. **Becomes acquainted with the kinds of published statistical data that are available to guide management.**

The department store market includes all department, dry goods, general merchandise, and departmentalized specialty stores with an annual sales volume of $100,000 or more. There are 10,578 stores in the United States which fall into this category. This figure includes 2,580 department stores, 6,604 dry goods and general merchandise stores, and 1,394 departmentalized specialty stores.

These stores are of every size, ranging from the largest stores in the nation to stores that have just the minimum $100,000 volume per year. This minimum is one traditionally set by government definition for a department store. The market includes large, medium, and small cities, as well as suburbs and rural areas.

The department store market accounts for more than $1 in every $9 spent at retail by American consumers (see Table 20–1). In fact, in 47 major classifications of general merchandise, these stores sell more than one-third of the total volume sold in the United States. For example, in the radio, television, and phonograph market, more than $1 out of every $6 are accounted for by sales in department stores. Half of the dollar

Table 20–1. *What the Department Store Market Sells*

Classification of merchandise	Percentage of total retail volume	Classification of merchandise	Percentage of total retail volume
Linens and domestics	72	Boys' wear	56
Piece goods	72	Hosiery	55
Lingerie	63	China and glassware	50
Corsets and brassieres	61	Notions	45
Dresses	58	Men's furnishings	42
Infants' wear	58	Housewares (including portable appliances)	32
Curtains, draperies, etc.	56	Floor coverings	32

The above table gives some examples of the importance of the department store in selling the merchandise of certain classifications. In 47 major categories of general merchandise, the department store group accounts for one dollar in every three; for some products the ratio is higher still.

SOURCE: Analysis of census figures by *Department Store Economist*, from Marketing Pictograph in *Sales Management*, Aug. 15, 1952.

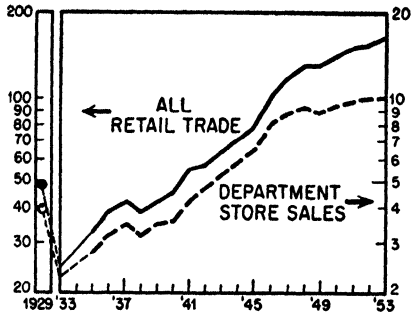
volume of the millinery business is concentrated in about 8,000 department stores and more than a third of total fur sales are made through fewer than 2,000 stores in the department store category. Department stores are not only big in sales, they are often the leaders that set the buying and merchandising patterns for other retailers.[1]

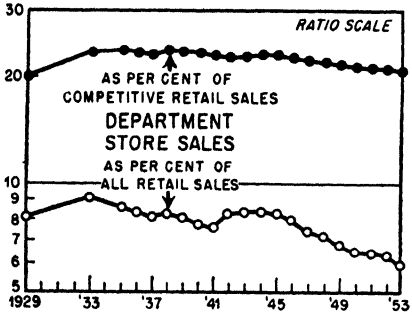
Some department stores emphasize the sale of hard goods; others stress soft goods. *Hard goods* consist of electrical appliances, cutlery, pans, kitchen cabinets, furniture, lamps, and other more or less durable items that are bought infrequently and made of metals, wood, or plastics. *Soft goods* is a vague classification for all textiles.

TREND IN DEPARTMENT STORES' SHARE OF RETAIL SALES

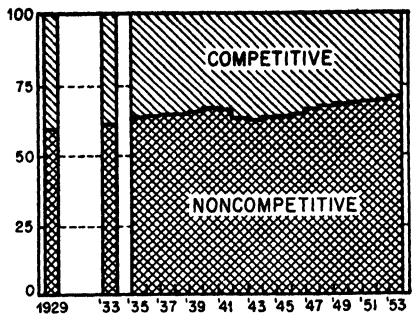
Retail sales more than tripled from 1929 to 1953. Department store sales also advanced, but their share of the total dropped from 8.1 to 6.0 per cent. Furthermore, sales of stores selling goods that compete directly with department stores also decreased somewhat in proportion to all retail sales. The stores that increased their sales were stores that are not directly competitive with department store trade. These were mainly the automobile dealers, food stores, and eating places. The department

[1] Condensed from "The Department Store Market," published by the *Department Store Economist*. For original source and references see report, *Market Facts*, 1952.





Dollar volume of total retail trade has risen more rapidly since the war than sales of department stores . . .
. . . but the proportion of retail trade with which department stores do not



compete directly was also increasing . . .
. . . so that the share of department stores in the lines in which they do compete fell more slowly than their share of all retail trade.

SOURCE: From Philip Golden, "Department Stores and Retail Trade," *Business Record,* National Industrial Conference Board, June, 1953.

Billions of dollars. 1929–1951 are old series figures. 1952–1953 are new series adjusted. 1953 annual rate is based on seasonally adjusted data for first quarter.

Percentages 1929–1951 are based on old series figures; 1952 and 1953 on new series adjusted. 1953 refers to first-quarter estimates, seasonally adjusted. For complete explanation, see source given.

store share of sales of the trade among directly competitive stores was about the same in 1953 as in 1929.[2]

Another study of stores doing more than $1 million in annual sales showed that they earned lower net profits in the early 1950's than in the previous 19 years. The study indicated that while total retail sales went up in 1952, while mail-order houses had a 6.3 per cent gain and variety stores gained 4.3 per cent, department stores gained only 3.5 per cent. The department store categories that had the biggest declines were floor coverings, major appliances, and women's suits. Department stores are clearly losing position in the household goods market. The bright side of the report was in books, stationery, and magazines, all of which made increases.[3]

Even though department stores and supermarkets are in quite different retail categories, comparisons between the two are illuminating.

1. Sales per sq. ft. of selling space for department stores were $81 in 1950, for supermarkets they were $142.48.

[2] Philip Golden, "Department Stores and Retail Trade," *Business Record,* National Industrial Conference Board, New York, June, 1953.

[3] Study by the Controllers' Congress of the National Retail Dry Goods Association, reported in *Tide,* July 4, 1953, p. 14.

2. Annual net sales per employee in 1949 for department stores were $13,983, in 1948 for supermarkets they were between $35,000 and $40,000.

3. Gross percentage margins, including cash discounts, in department stores remain practically the same, at 35.5 in 1935 and 35.5 in 1951. In supermarkets, the margin has dropped from 25 per cent in the early 1930's to 16.6 per cent in 1951.

4. Number of stock turns in department stores range from 3.9 in 1935 to 3.4 in 1951. In supermarkets, stock turns in the grocery department average around 17 times a year.

The fact emerges that consumers are willing to do without costly services if the savings reflect themselves in lower prices and more value for the purchasing dollar. This idea is penetrating many fields of retailing, such as drug and variety stores, specialty stores and others, many of which are also going the way of self-service.

In general, the department store has resisted these changes. By not following the trends the department store is creating a threat for itself. If it loses volume as it fears, it will not be because of the supermarket but because of its own lack of foresight and courage to meet the challenge of the day.[4]

The functions of department stores traditionally have been those of the show place or fair, plus emphases on prestige, facilities for selection, credit, delivery, and the privilege of returning goods, all of which tend to add to the costs of goods and operation. Their buildings are in high-rent areas. They also have to maintain expensive buying offices, usually in New York, or have affiliations with New York buying organizations.

NEW YORK BUYING OFFICES OF DEPARTMENT STORES

Most department stores of the country are affiliated with one or more New York central buying organizations such as Associated Merchandising Corporation and Mutual Buying Syndicate. There are four types of buying offices in the independent store field:

1. The individually operated and owned stores that buy from road salesmen and periodically send their own buyers to New York, Chicago, California, and other markets.

2. The stores that purchase buying services from resident buying offices in New York. Stores served in this way have no connection with other stores served by the buying office, but they render greater service by combined market representation.

3. The various groups of stores that feel the need for more than a buying service rendered by an office not controlled by them. These stores have merged their efforts and set up a central organization in New York to:

a. Do research work

[4] Statement by M. M. Zimmerman, publisher and editor of *Supermarket Merchandising*, at 42d annual convention of National Retail Dry Goods Association, reported in *Advertising Age*, Jan. 19, 1953, p. 50.

b. Do personnel work
c. Work out uniform methods of accounting
d. Exchange operating figures between stores
e. Study advertising methods and uniform selling plans
f. Perform a daily style service
g. Set up a central buying organization of specialists in each line to assist store buyers on their regular trips to New York, to buy for the store buyers when they are not in the market, to organize the buying of merchandise when volume can be used advantageously

4. Those stores that have exchanged their stocks for the stock of a holding company either privately or publicly held. In these cases the operations are similar to Class 3, only here there is financial control.[5]

DEPARTMENT STORE MANAGEMENTS HAVE CURRENT DATA AVAILABLE

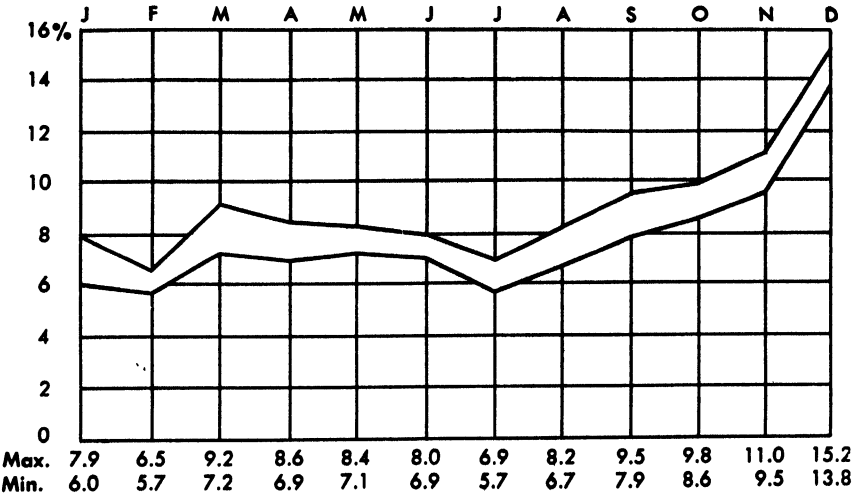
Anyone who hopes to become an executive in the department store field must become acquainted with the current data concerning their operations. Harvard Business School publishes especially helpful annual surveys. The reports are often presented in person by Malcolm P. McNair to interested organizations such as the National Retail Dry Goods Association. Data presented deal with matters of managerial importance such as total sales volume, gross margins, expenses, net profits, number of transactions, the average sales check, and others.

The source for almost all data dealing with department stores in the United States is the Federal Reserve Board. It compiles its data from information furnished by about 500 department stores all over the country. The stores send weekly reports comparing their sales for the previous week with those of the same week for the previous year to their Federal Reserve district bank. The 12 banks compile the district reports and then send them on to Washington. There, the Federal Reserve Board gathers the figures into a national picture and publishes the "Figure of the Week." This is a graph which shows the percentage of change in weekly sales from one year to the next. Accompanying the "Figure of the Week" are data showing the percentage of change for each of the Federal Reserve districts.

The reports from the stores are on a voluntary basis and for this reason the sample is not always the same from week to week. The Federal Reserve Board feels, however, that the reports represent a good geographic distribution because the sales of the stores represented are equal to more than 60 per cent of total United States department store sales.

All department stores which provide information fit the definition found

[5] "Department Store Membership in 18 New York Buying Groups," *Sales Management,* Aug. 15, 1952. This magazine publishes from time to time the names of the leading New York buying offices and their department store memberships.



Department Store Seasonal Sales Pattern Varies Only 2% in 13-year Period. The two lines in the chart above show the narrow limits between which total seasonal sales in department stores fluctuated during the 13 years from 1939 to 1951, inclusive. The highest and lowest percentage of annual sales for each month over this period are shown. Despite wide variations in economic conditions over this period, the seasonal buying habits of customers changed very little.

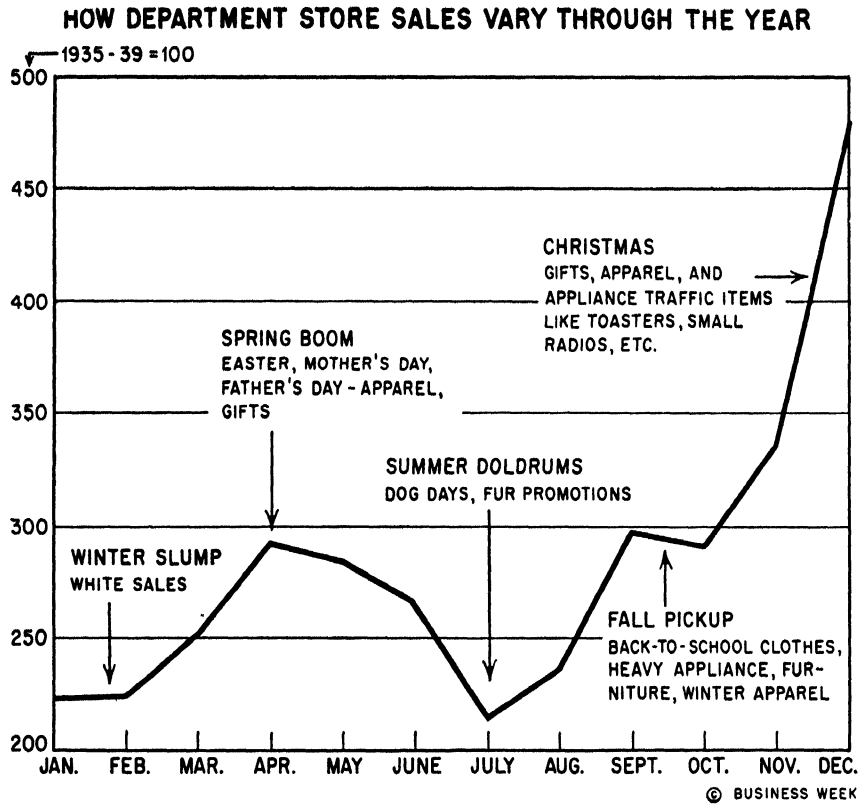
SOURCE: From "Annual Time Table of Retail Opportunities," American Newspaper Publishers Association, Bureau of Advertising, Retail Department, Frank Kilcheski, New York, 1952 ed.

in the *Standard Industrial Classification Manual* put out by the Bureau of the Budget. According to that definition a department store is one normally employing more than 25 people and integrating under one management many departments carrying a general line of apparel and home furnishings. There are about 2,600 stores which fit this description. Some 1,500 of these send weekly or monthly reports to their district's Federal Reserve bank.

The individual Federal Reserve districts also issue monthly figures for cities within the district on sales and stocks, from which a department head can compare his results with those of similar departments in the stores of his city. Some districts issue other statistics on a weekly or monthly basis. Boston, for example, not only publishes transaction statistics but reports weekly on sales by departments for cities in the district.

While exceedingly useful to department store managements, all these figures can be misleading unless users are aware of their limitations as well as their advantages. For example, where average value of transactions is given, seasonal allowances must be made at those times of the year when the average value is raised by sales of furs, large appliances, or other high-priced goods.[6]

[6] See *Business Week*, Apr. 28, 1951, p. 79, for above chart and explanations.



WHAT IT'S LIKE TO BE A DEPARTMENT STORE BUYER

Generally, the job of a department store buyer is one of the best paying in merchandising and one of the most exciting, but it is also one of the toughest. The college woman who aspires to the title should appreciate the tensions as well as the drama.

Many buyers work on a percentage basis plus a bonus for exceeding the previous year's sales. The store gives the buyer a certain amount of working capital with which to buy stock, a place to sell it, janitor service, advertising, and other services, but she functions in many ways as though she were in business for herself.

Most of her time is spent in her department keeping stock in good selling condition, looking after the sales personnel, and checking inventory. She attends many in-store meetings, helps conduct training programs, and has conferences with members of management. She keeps in close contact with the store's New York buying office. If she is selling women's apparel, for example, she may have to make a trip every few weeks to the garment district of New York, a small segment of Man-

hattan 20 blocks long and one block wide. There she must avoid asking herself, "Do I like it?" and instead ask, "Will it sell?" [7]

The hours of work are long and the strains are heavy. Buyers are tense as a result of their battles against the advertising department and the constant requirement to make each day's sales top the figure recorded for the year before. Management always has on hand pages of sales figures and costs to keep the buyer under pressure to meet quotas or preferably to exceed them.[8]

HOW DEPARTMENT STORES TRY TO INCREASE THEIR BUSINESS

In recent years there have been more intensive attempts on the part of department stores and their owners to improve their sales. One approach is to tap new markets through opening new stores. In addition, they capitalize on many of the new trends in retailing. Some stores, for example, are open two nights a week. Merchandise is displayed in a way that encourages self-selection. Multiple purchases are encouraged by displaying related items together. Charge accounts are welcomed. Parking facilities are provided.

Most managements use as their main effort to bring customers into their stores the bargain offering. Clearance sales offer real savings to customers. Special sales of popular items are usually part of a planned campaign to get more customers into the store in the hope that they will purchase other goods as well as the bargain for which they came.

A preseason sale, on the other hand, results when a manufacturer is caught in a between-season lull and is willing to lower his prices to the store in order to keep his employees busy. The store benefits from this because it gains customers and makes profits.

The bargain basement is also a device to bring customers into the store. Here again, though the customer may save through lower prices, the store itself does not necessarily lower its profits. Bargain basements do not offer the variety of goods that the rest of the store carries, nor is there as much service. Because of this, however, the basement markup is usually lower than that of the rest of the store. Bargain basements usually stock "irregulars," such as garments with a pulled thread, which are sold to the store more cheaply by the manufacturer. Occasionally a manufacturer will be willing to sell what remains of his previous season's stock at greatly reduced prices. Such goods are marked irregular although there

[7] "What It's Like to Be a Department Store Buyer," *Changing Times, The Kiplinger Magazine*, September, 1952, p. 13.

[8] For a firsthand and interesting account of the working life of a buyer, see Emily Kimbrough, *Through Charley's Door*, Harper & Brothers, New York, 1952.

is really nothing wrong with them. Bargain-basement buyers also purchase "job lots" at reduced prices. These lots consist of a manufacturer's discontinued line or a surplus he may have of a certain type of goods. Most of this merchandise too is marked irregular. Store managers hope that customers who are attracted by bargains will stay and purchase regular items as well.

Low prices, which mean bargains to the shopper, tend to increase the store's sales. Widespread price cutting, however, may actually hurt the department store. Price wars generally decrease profits for the stores.

Department stores are often themselves responsible for their lowered sales because they do not take advantage of their selling opportunities. Anyone who observes the selling methods in several department stores will be surprised by the way in which many sell their hard goods, items such as electrical appliances, kitchen cabinets, cutlery, pots and pans.

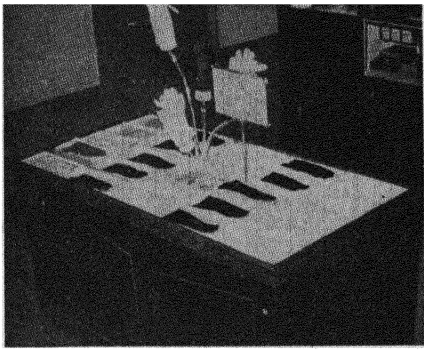
Take a simple electric iron. A shopping tour made in 14 New York department and furniture stores—and remember that these include some of the major department stores in the country—disclosed that electric irons were:

- —buried in between noisy pressure cooker demonstrations;
- —hidden from view by heaters, fans and other more bulky items;
- —stocked in as many as 16 brands, although 8 brands fell within the narrow $8 to $10 price range;
- —shown without display material of any kind in most instances;
- —stacked one next to the other in glorious brand confusion;
- —displayed without even a carton so that it was difficult to discover brand names without a near-up examination;
- —shown without any effort to sell or promote one brand, or even just two or three brands;
- —unaccompanied in almost all instances by manufacturer literature;
- —being "sold" by salespeople who didn't have the vaguest notion about either (*a*) the reasons for the differences in price between well-known irons or (*b*) the particular virtues of any one iron.

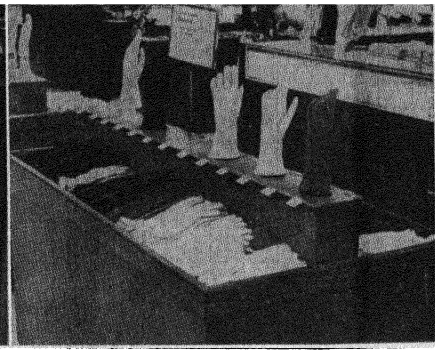
Bear in mind that this is the set-up in what are presumed to be the more progressive department stores. This isn't even self-service or self-selection—because even in supermarkets where small appliances are carried, the customer is not confused on just a few brands which are accompanied with suitable display material, explanatory literature, etc.[9]

Automatic ironers were just as poorly displayed and promoted, though a high-priced item entitled to extra selling attention. Most of the salesmen knew nothing about the operation of the ironers. If a demonstration plan was available, the salespeople had not been informed of it.

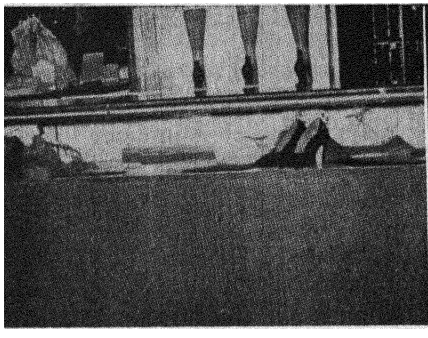
[9] E. B. Weiss, "How to Sell to and through the New Department Store," *Printers' Ink*, June 4, 1948.



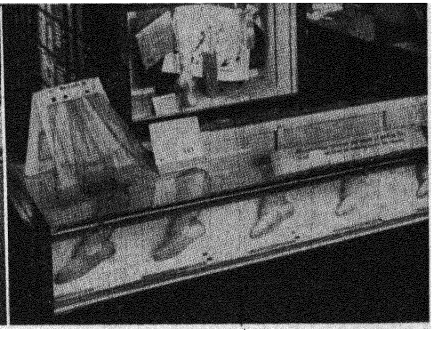
1. BEFORE Promotional gloves on this table were shown in their original boxes without any sizing.



2. AFTER With proper sizing in this improved presentation, self-selection and impulse buying increase.



3. BEFORE Pretty show cases in the hosiery department failed to tell a specific story.



4. AFTER Each of 5 cases presents a different brand completely with uniform display and ticketing.

SOURCE: From W. J. Caddelle, display director, Allied Stores Corp., "Simplified Selling–Faster Selling–Bigger Sales," *Printers' Ink*, Jan. 15, 1954.

"Lost sales opportunities in retailing cost money—for the retailer, for the consumer, and for the manufacturer." A one-year study was made by the Research Bureau for Retail Training, University of Pittsburgh, of the department store types of purchases by 400 representative families of Allegheny County. The study was applied particularly to the five large department stores in Pittsburgh's downtown shopping center. It was found that for every $100 customers spent in these particular stores, they also shopped for merchandise costing $87 more but finally bought it elsewhere. That is to say, in a typical large department store, for every $1,000,000 in sales, that store had a chance to sell $870,000 more but lost it when the customer, after shopping for what she wanted, walked out and made her purchase in store B or store C or in some similar store either in the downtown shopping center or elsewhere.[10]

[10] Harrie F. Lewis, "Lost Sales Opportunities in Retailing," *Harvard Business Review*, January-February, 1949.

The present sales position of department stores necessitates improvement of slipshod selling methods. Improvements will probably include some of the following: Stores will carry fewer brands and do a better job with each, more stores will concentrate on advertised brands, salespeople will be better trained, the manufacturer's promotional material will be used more effectively, there will be more demonstrations, floor layouts will be improved, there will be more trade-in offers and better stock control.

For items such as electrical appliances, better servicing will be assured the customer. Department stores need the volume that appliances could bring them; appliance makers find that the high traffic rate of department stores is good for their sales volume. Possible mutual benefits should bring appliance manufacturers and department store owners into more effective marketing relations.

That stores overlook many opportunities for improving operating efficiency is well-known. A case in point is the time study undertaken by the May Co. of Los Angeles of the efficiency of their wrapping and packing department. For years, packing operations had been carried on in a manner that wasted many man-hours and therefore wasted dollars.[11] If managements would institute more efficiency studies of a similar nature, they would be pleased by the extent that their expenses could be lowered.

SPECIALTY STORES

Specialty stores are retail institutions whose appeal rests in their wide assortment of a limited line of shopping goods. They are most commonly apparel accessory stores such as millinery, shoe, lingerie, or hosiery stores. Specialty stores may be part of a chain organization or they may be owned by an independent retailer.

These small stores have certain advantages over larger stores handling a wider variety of goods. One advantage is that their salespeople are usually well-acquainted with the narrow line of goods with which they deal and, therefore, can be especially helpful to customers. A somewhat personal relationship is often built up between the salesperson and the regular customer, which, of course, builds customer loyalty.

Even advertising may be on a personalized basis. For example, some stores will write or telephone certain customers when an item arrives in which the individual customer is interested. Aside from direct mail, most specialty stores do little advertising. They depend on their proximity to other stores to bring in traffic, on window displays and interior decorations to attract shoppers, and on their specialized service to cause the customer to come again.

[11] Frank I. Swenson, *The Balance Sheet*, February, 1948.

Of course, specialty stores have some disadvantages. They cannot profit from the natural inclination of the shopper to browse and to wander into different departments as in a large department store. Hence, there is little profit from impulse buying. Specialty stores are handicapped by their small volume when placing orders because they cannot take advantage of large-order discounts. They must also keep their advertising down to a minimum as they cannot afford a large campaign. Specialty chain organizations do not, of course, suffer from these last two limitations.

Their advantages seem to outweigh their drawbacks, however, for specialty stores are popular with consumers and will probably continue to be a well-established part of our retailing system.

Of course the apparel market has changed somewhat as higher incomes and migrations to the suburbs have taken place. The percentage of income of the highest quarter of the population that goes to apparel has dropped from 12 per cent to 9 per cent in the 5-year period 1947–1952.[12] "Class" and "mass" markets for clothing are merging more and more each year.

BRANCH STORES

Any analysis of trends in department store sales should recognize the population movement to the suburbs. As an example, in the 1940–1950 period more people moved out of New York City than moved in. Also, the rise of shopping centers has modified the functions of the department store. Most suburban families have automobiles. The automobile enables shoppers to drive to a shopping center, but the congested traffic conditions of downtown shopping streets make the use of the automobile difficult and irritating.

The development of branch stores in suburban areas is an important trend in modern retailing. Approximately 20 per cent of the larger department and specialty stores now have suburban branches. Many of those who already have branches are planning to open more and many of those who do not have them plan to open them.

Alert department store managements want to follow their customers by means of branches. These branches are not merely store units with merchandise supplied from a central warehouse and with supervision from a central office. Rather, the merchandise departments of the parent store with the buyers of the parent store supervise and buy for the merchandising at the branch stores.

Anyone who follows the reports published from time to time concerning the relatively greater increases in sales and profits for the branch stores, compared with those of the parent stores, usually finds that the

[12] Henry Bach Associates, *Advertising Age*, Nov. 2, 1953, p. 36.

branches run ahead of the parents that spawned them. This finding should be expected.

Branch stores have budgetary advantages in that they "live off" their parents to a considerable extent. The main store usually takes care of all nonselling functions, such as bookkeeping and record keeping. Branches which are near their parent stores even rely on the main store's advertising and promotions, doing very little of their own.

It must not be assumed, however, that the establishment of branch stores ensures greater profits to the company as a whole. In fact, some retailers feel that the growth of branches may ultimately prove detrimental to the volume growth of the parent organization. They feel that, should too many branches develop, there will be a surplus of store capacity in the nation and parent-store volumes will decrease sharply. This puts some department store owners in a puzzling situation. If they do not build branches, their competitors probably will. If they do build branches, surplus store capacity may develop.

There is a more optimistic side to this picture, however. Many retailers are of the opinion that it is only natural for new suburban stores to take some of their volume from their main branches. If the stores are well-operated they should in time develop a local market of their own and they may even bring business to the parent store.

The branch-store trend should be watched in the years to come as an important aspect of retailing but not as one that will soon eliminate the large department stores. Some department stores are losing volume to the shopping centers, but the downtown department store is likely to remain a shopping center that can be most easily reached by a high percentage of the people in a metropolitan area. Branch stores cannot duplicate the huge varieties of items, colors, sizes, etc., which are stocked in the downtown stores. Downtown stores provide a glamour in shopping that is missing from suburban branches.

The experience of Marshall Field & Co. should be significant. This well-known department store built two branch stores in 1929 because the population trends and growing congestion on downtown streets called for the establishment of outlying stores. Despite the sales of the suburban units, Field's Loop store continued to expand its volume because "satellite units seem somehow to add to the pull of the central body." Field's extensive experience with branch stores indicates that "careful study and analysis, and the resultant development of opportunities in both downtown and outlying areas, is the proper response." [13]

[13] Statements by Lawrence B. Sizer, Vice-President and Director of Public Relations, Marshall Field & Co., American Marketing Association meeting, Chicago, 1953.

SHOPPING CENTERS

Shopping centers are not retail outlets in the same sense as department stores or supermarkets. Rather, they are a structural arrangement of various retail outlets. Marketers, however, who deal with department stores and supermarkets are especially interested in this aspect of retailing.

In the smaller centers, the supermarket is most often the main store, but in the larger multimillion dollar centers department stores are usually the core of the development. There is also some trend among the larger centers to have fewer and larger stores.

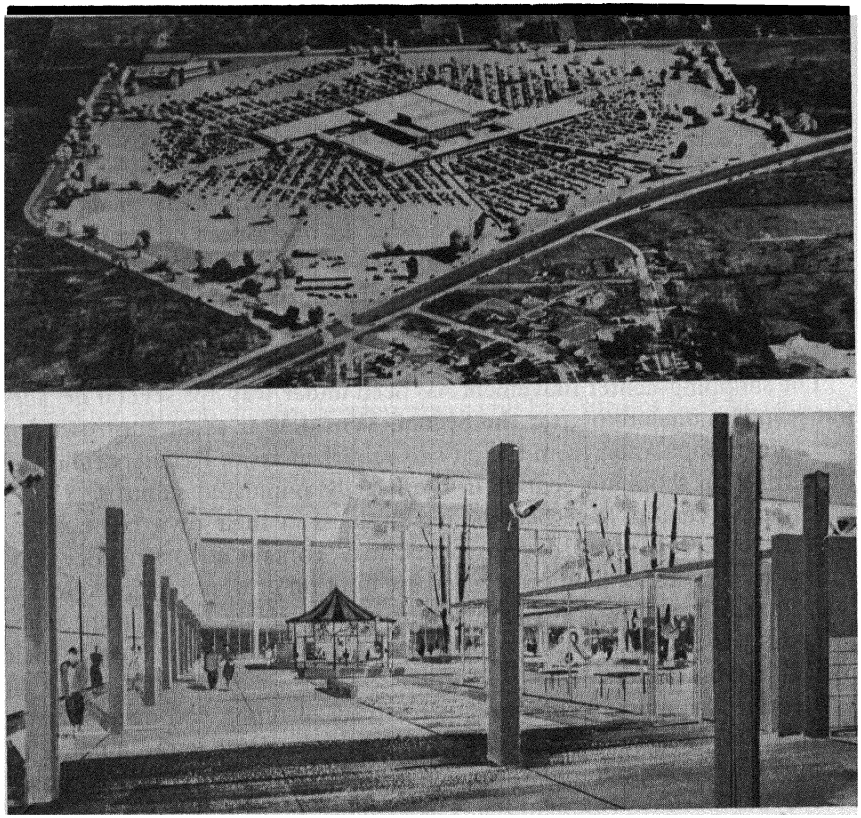
The shopping-center movement has been under way for several decades but gained momentum after the Second World War as an outgrowth of the shift in population from the city to suburban areas. Retailers followed by setting up shopping centers in the heavily populated suburbs.

Shopping centers have become big business in their own right. They have become real estate developments, may contain a housing development as well as a shopping center, and are built on or near a main highway. Some create their own market without relying solely on adjacent communities. Several large department stores have built and now operate their own shopping centers.

Successful shopping centers require careful planning and development. The potential market of the center must be investigated: the number of shoppers it can hope to draw, their purchasing power, previous shopping habits, and possible competitors. The number of stores in the center is sometimes determined by analyzing the purchasing power of families within a 30-minute driving distance. With this background information, the shopping center can be tailored to the needs of the area and stores can be chosen to take a profitable place in the development.

Another major problem is to decide on the size of the center. If it is too small, a fringe business will grow up around the edges and develop competition for the center. On the other hand, a center can be too large for the shopper's comfort. One-stop shopping, a basic appeal of the shopping centers, may be physically impossible if the shopper must park his car so far away that he cannot comfortably walk to all the stores in the center.

Convenience in shopping is extremely important. Traffic, both foot and vehicle, must be carefully planned. A three-to-one ratio of parking space to selling space is now generally accepted as the necessary minimum to avoid parking problems. An effort is usually made to plan the pattern of the stores in such a manner that the large stores pull the shoppers past the small stores. This, of course, benefits the small specialty shops whose traffic increases without the expensive promotional campaign such an increase in customers would necessitate in a downtown area.



The J. L. Hudson Company's Huge Regional Shopping Center, Northland Center. Hudson's branch store is the central unit of the nearly 1,000,000 square feet of floor area.

Occupying 161 acres of a 409-acre site, Northland Center is in Southfield Township, Oakland County, Michigan. Hudson's branch is approximately one-fourth the size of the downtown Hudson store (which is the tallest store structure in the world, and the second largest in business volume). The selling area is nearly one-third that of the downtown store, because of scientific layout of selling space.

The center is designed as a group of one-story stores, shops, markets, restaurants, etc., grouped around garden courts and malls. It is a complete one-stop center where a customer can fill every shopping need. In the center of this vast retailing area is the three-story Hudson store. The approximately 70 tenant stores include men's, women's, and children's apparel stores, a supermarket, drug and variety stores, hardware and furniture stores, a bank, service shops such as cleaners, shoe repair, barber shops, and others.

Northland Center is in an area which has shown a population increase of 200 per cent in 1940–1950, making it the fastest growing section of metropolitan Detroit. In fact, 38 per cent of the entire city's growth was in the Northland Center trade area. The suburban area of Detroit has grown 75% in the 1940–1950 decade.

An auditorium with entrance from both outside and inside the Hudson store, so that it can be used after shopping hours, will be the major community service unit. This and other facilities will be provided, as available, for meetings of Boy Scouts, fraternal organizations, civic service clubs, women's groups, and so on.

The main complaint against the small independent stores in the center is that they reap the benefits of the promotional campaigns of the big stores without contributing to the campaigns themselves. If this trend continues, it may mean that as the shopping center movement grows, the economic power of the larger retailers will increase.

The presence of these small specialty shops is, however, of value to the shopping center. Experience indicates that serious shoppers like to "shop around" before buying. To attract large numbers a variety of merchandise must be offered or the shoppers will go to downtown stores where there is a wider assortment of goods. The specialty shops provide much of this needed variety. Another advantage of having these shops in the center is that they often offer higher-priced lines than the big outlets can effectively handle. Shopping centers are usually middle income in character because of their suburban location; however, many shoppers are not looking for bargains—they can afford and want the higher-priced items which the specialty shops carry.

The middle-income nature of the shoppers has had a considerable influence on the merchandise carried by the stores in shopping centers. Good lines of medium-priced items are in demand. The suburban shoppers —generally younger men and women—are shrewd buyers. They know what they want and have definite ideas about various brands. Stocks must be adjusted to meet their demands.

Displays must be suited to the needs of these suburban shoppers—open but so arranged that the children whom the suburban mothers bring with them cannot damage or upset the merchandise. Shoppers are left alone to choose what they want, but salespeople are available when needed.

Shopping centers in general encourage a policy of nocturnal shopping. Centers that stay open only two nights a week are conservative. Three nights a week is typical and there are cases of stores remaining open six nights. Some centers do 30 per cent of the week's volume at night. Generally, theirs is a week-end business which starts on Thursday and reaches its peak on Saturday. Saturday night is slow, however, even in many rural areas.

The center's nocturnal business naturally affects its advertising and promotional campaigns. "Couple" promotions are especially popular. To promote the center, operators hold square dances, dog shows, fashion shows, and cooking demonstrations. Also, they offer free shows for children, band concerts, fireworks on the Fourth of July, and door prizes.

These advertising campaigns are often conducted on a cooperative promotional pool basis. Each store contributes in proportion to its selling space in the center. Such cooperative campaigns help to establish the identity of the center in the minds of the shoppers.

In other centers, the advertising for the center as a whole is considered the responsibility of the owner of the center and each store advertises independently. A combination of the two methods may also be used, with the owner contributing to the cooperative pool and the individual stores carrying on independent as well as cooperative advertising. Some regional centers have their own shopping newspaper.

Shopping centers are growing rapidly. More than 20 multimillion dollar centers have been built or are on the drawing boards. There are countless small neighborhood centers and more are being built. Each center may contain from 20 to 50 stores as well as movie houses, radio stations, and community centers. Some centers are even planned to duplicate completely the shopping facilities of downtown areas. Super shopping centers that have at least one major department store and 100 supporting shops, from restaurants to beauty parlors, are developing. These are regional and need a surrounding population of at least 100,000. Such a rapid movement is bound to go through some shaking-out stages, but it is certain to have a great deal of influence on merchandising and advertising practices of the future as well as some cultural effects.

SOURCES

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Haire Publishing Company, 111 Fourth Ave., New York. This company publishes merchandising trade magazines, each of which serves one specific retail field. The editorial content is designed to help retailers in each area keep abreast of every development in their industry, what to buy, where to buy, and how to sell. Some of their publications are *Handbags & Accessories*, *Housewares Review*, and *Premium Buyer's Guide*. These publications place major emphasis on moving merchandise and giving retailers, wholesalers, and manufacturers vital information they need to help them sell. They present new product news, news digests, industry leadership articles, pretested selling ideas, case histories on successful promotions, industry trends, tips on management "know-how," display ideas, and sales-training data.

Fairchild Publications, Inc., 7 E. 12th St., New York. This firm is primarily engaged in the publishing of five trade newspapers and one magazine, all dealing with specific industries. Examples are *Men's Wear*, *Women's Wear Daily*, and *Retailing Daily*. Among the services offered are the dissemination of business information through numerous surveys done by their research department and the publishing of related books.

Bureau of Business Research, Graduate School of Business Administration, Harvard University, Boston. The Bureau is a part of the Division of

Research and carries on annual studies of department store and variety chain operating costs. It has prepared numerous bulletins, mostly concerned with the operating expenses of retail businesses. The Bureau also participates in other research projects of the school when extensive statistical analysis is involved.

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QUESTIONS AND EXERCISES

1. Describe the general importance of the department store in retailing.

2. What has happened since 1929 to the percentage of retail business that is done in department stores? Does this mean that department stores are gradually losing out? Explain.

3. Does the department store dominate the distribution of any particular merchandise lines? Explain.

4. Compare the supermarket and the department store from the standpoint of operating costs and performance.

5. What is a central buying organization? Describe its general method of operation. How may these organizations be classified? Why do so many department stores make use of central buying organizations?

6. What are the duties of a department store buyer? A merchandise manager?

7. What means are department stores using to increase their volume? Which of these methods do you expect to be most effective in the long run?

8. Make a critical comparison of a major controlled shopping center and the downtown shopping area from the standpoint of their price, product, and promotion policy.

9. What might be done to change the seasonal aspect of the retail business?

10. Visit a specialty store and a department store. Point out some differences that have not been mentioned in the text.

21 Other Outlets and Means of Selling

THE ALERT MARKETER

1. **Concentrates his efforts on the outlets that are of proved value for his product but is also on the lookout for other and better outlets.**
2. **Considers any new outlets such as the automobile accessory store and gasoline station.**
3. **Considers some of the old and oft-overlooked means of reaching the consumer such as the consumer co-operatives.**
4. **Investigates the possibilities of automatic merchandising.**

In actual practice, the alert marketer becomes acquainted with all the various types of retail outlets, even those of relatively minor importance. These are so numerous that adequate treatment of most of them is not possible here. If he sells furniture, for example, he makes an intensive study of all outlets that sell furniture. In addition to the conventional channels, he also is on the alert in regard to the possibilities of other outlets that have been developed by unrelated industries such as the gasoline and tire companies.

AUTOMOTIVE RETAIL OUTLETS

The service station often sells more than TBA (tires, batteries, and accessories). One petroleum company sells more than 1,000 separate private or nationally advertised items through its dealers. These range from home freezers and boats to toys, games, books, and garden tools. More and more seemingly unrelated consumer merchandise is being sold through such retail automotive outlets as oil-company service stations and accessory stores. Tire companies such as Firestone and B. F. Goodrich

are putting more retail stores in downtown areas and shopping centers, many with modern service facilities.

Consumer convenience is causing the trend. Service stations are gaining more favor as convenience purchasing stores—an effect of the automobile

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National Petroleum News estimates that for every 1,000 gallons of gasoline sold by service stations ($200 to $250), these accessory and nonautomotive products are purchased:

Other merchandise	$18.24
Accessories (auto necessities)	30.07
Batteries	10.94
Tires and tubes	34.95
Motor oils and lubricants	28.11
Lubrication services	33.70
Other regular services	11.16

Some 19 of 24 major oil companies warehouse and distribute TBA merchandise. Three others actively push TBA sales with merchandising and selling efforts but avoid warehousing through other arrangements. Another pushes TBA sales but wants its dealers to pay its gasoline bills first. There are more than 188,305 service stations involved in TBA programs, and many of them sell nonautomotive items as well.

SOURCE: Table and comments from Harold E. Green, "Want New Outlets by the Side of the Road?" *Printers' Ink*, Aug. 18, 1950.

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age. Because of the influence of the automobile in modern life, it is quite likely that more and more unrelated products will be sold through automotive accessory stores and petroleum company outlets.

CONSUMER COOPERATIVES

In contrast to the relatively recent development of the tire and gas companies as retail outlets are the consumer cooperatives. They are so old in marketing and so modest in their claims that many a marketer overlooks their possibilities as an outlet for his product.

A cooperative is a business set up to provide goods and services at cost to member patrons and others. These organizations consist of many different types, the two most common being the producer or marketing cooperative and the numerous varieties of the consumer type. Whenever total cooperative business volume is mentioned, it is well to realize that at least 60 per cent of the figure is accounted for by those organizations which are primarily of the producer cooperative type. In many instances, a cooperative may engage in both consumer and producer activities.

The consumer cooperatives conduct purchasing operations mainly in

order to save money for members on their buying. Their aim is to get lower prices through large-scale purchasing and the elimination of many distribution costs, including the retailer's profit margin. The rules which consumer cooperatives follow were formulated in 1844 by 28 weavers who banded together in Rochdale, England. Known as the Rochdale principles, they are as follows:

1. Open membership; no exclusion because of race, creed, or color
2. One member, one vote; no voting by proxy
3. Share capital to be paid a moderate, fixed return
4. Surplus of an association to be returned to the member in ratio to his purchases
5. Neutrality of the co-op in religion and politics
6. Trading on a cash basis
7. Education of members in cooperative principles

Cooperatives represent some 10 million United States families today, many of whom belong to three or four co-ops. They are particularly strong in the Middle Western farm belt, where they first developed in this country. There co-ops provide a great variety of services and operate everything from retail and wholesale stores to laundries, creameries, gas stations, and so forth.

Many present-day cooperatives engage not only in marketing and purchasing but also in manufacturing; they provide many products and services including petroleum, grain, fruit, livestock, milk, farm machinery, electrical appliances, banking, publishing, insurance, electric power, funeral service, and telephones. The individual co-ops have learned that they have a better chance of growing and prospering if they pool their resources in larger organizations. Nationally, the co-ops operate through two main organizations, the Cooperative League of America and National Cooperatives, Inc., both of which have their main headquarters in Chicago.

The Co-op League serves as the public relations voice of the cooperatives. It represents cooperatives in Congress on any questions in which they have an interest. It also serves as a liaison between cooperatives in the United States and those abroad.

National Cooperatives, Inc., does the buying for the 25 regional wholesale organizations that operate it. They thus get the benefit of quantity purchases. NC deals only in items which all member groups can use. It also has subsidiaries in the manufacturing field, including a milking machine company, a chemical products factory, and the Cooperative Mills of Auburn, Indiana. Co-op product quality and the co-op trade-mark are also protected by NC.

The 25 regional cooperatives which own National Cooperatives, Inc., are in turn owned by about 6,000 local co-ops, which operate more than 7,000 retail outlets. The regional groups are actually the giants in the

co-op field. At first they were organized just to make quantity purchases for their member organizations but as time went on they became increasingly involved in production. Co-ops affiliated with NC operate some 200 factories, refineries, mills, and similar producing plants. Two-thirds of these enterprises have been acquired since 1939.

Another large regional cooperative is the Ohio Farm Bureau Cooperative Association. This co-op owns fertilizer plants and also three insurance companies. Its auto insurance firm is one of the largest in the United States and growing larger. Because of the financial support the insurance companies can offer to new enterprises, these co-op–owned organizations have become very important. Co-op life insurance in force totaled $1 billion at the end of 1950, and admitted assets of the companies amounted to $130 million.

However, the farming community is still the core of the American cooperative movement. Consumer co-ops organized by urban dwellers have never been too successful, but co-op stores have found a favorable environment in university towns. There are successful consumer co-ops near both Harvard University and the University of Chicago.

As far as retail business is concerned, that carried on by the co-ops still represents only a minute percentage of the national total. In fact, A & P volume alone is more than the total retail business done by all co-ops.

Labor unions, particularly the CIO–United Auto Workers, have shown an increasing interest in co-ops. Credit unions have also aided co-ops in their growth. There are more than 12,000 credit unions in the United States with a membership around 6.5 million. Services to members include savings accounts and all types of low-cost loans.

Some major advances in consumer services have been brought about by the co-ops. One of the best examples of this is the program carried on by the National Rural Electric Cooperative Association. It has enlisted as members half of the country's farm families and has helped to raise electrification of farms from 11 per cent in 1935 to 85 per cent in 1952. Many business managements believe that the electric co-ops will not be conquered by private industry; as a result, appliance firms are making a bid for the electric co-op market. General Electric Co., Crosley division of Avco Mfg. Corp., Dow Chemical Corp., Frigidaire division of General Motors, Allis-Chalmers Mfg. Co., American Telephone & Telegraph Co., du Pont, Motorola, Inc., Nash-Kelvinator Corp., Reynolds Metals Co., Westinghouse, Thompson Chemicals Corp., and Greybar Electric Corp. all maintain exhibits at the Rural Electric Association convention or advertise in electric co-op papers.[1]

Many cooperatives serve, of course, as purchasing agents for their

[1] For a more detailed report see "Co-ops' Annual Sales Run in Multi-billions," *Advertising Age*, Apr. 21, 1952.

members and by buying in volume save them money on such supplies as seed, tools, packing cases, and fertilizer. Cooperatives supply about one-fifth of the fertilizer, 16 per cent of the petroleum, and one-fourth of the mixed feeds used on farms. Some cooperatives also purchase farm equipment for use by their members. This saves the individual producer the expense of buying equipment for which he may have only a limited use. It also furnishes the members with types of equipment they might not otherwise have the opportunity to use and thus leads to improvement in farming.

One of the most interesting and extensive of the producer cooperatives, of special interest to the marketing student, is the California Fruit Growers Exchange. Since the early 1900's, this organization has marketed a major portion of California's citrus crops. This cooperative represents about 15,000 members who belong to local associations which own and operate packing houses. There are some 200 such locals grouped into 26 district exchanges. Each district elects a member to the board of the central exchange. This board meets regularly and all members are invited to attend, ask questions, or make contributions to the discussion. The exchange has many administrative departments such as sales, transportation, advertising, research, products, and field control.

The exchange also operates the Exchange Lemon Products Company, the Exchange Orange Products Company, and the Fruit Growers Supply Company. The orange and lemon products companies process the poorer quality fruit into oils, fresh juice, stock feed, and other side-line products. The Fruit Growers Supply Company is the purchasing agent for the entire organization, purchasing for all the local associations any supplies which they may need to package and market their fruit.

Another organization of this nature, though on a smaller scale, is the California Walnut Growers Association. Its plant in Los Angeles is one of the most modern and efficient processing plants in existence. Land O' Lakes Creameries, Inc., is another example of a cooperative which is composed of district and local associations. Land O' Lakes has utilized extensive advertising and this, coupled with the high standards of quality it maintains, has created a wide demand for its product.

In addition to the cooperatives which are designed to meet the needs of large groups of consumers or producers, there are many others which serve a more limited group. In some instances the members may be business firms, which set up a special agency to provide service for all participants. Examples of business-owned cooperatives are the Railway Express and the Associated Press. There are also cooperatively owned mutual insurance companies which are serving a fast-growing number of policyholders. Cooperative home ownership is increasing in many cities.

In conclusion, we might say that though cooperatives are and will

probably remain an important channel in American marketing, it is doubtful that their share of the consumer's retail dollar will increase greatly. Still, every marketer should consider their potentials for his product.

AUTOMATIC MERCHANDISING

The annual retail sales volume through machines today is about $1.5 billion. This does not include receipts from juke boxes, slot machines, or pinball machines because these are not regarded as part of automatic merchandising. Table 21–1 presents the estimated industry figures.

The first vending machine was invented in Alexandria 2,000 years ago by a Greek named Hero. A coin dropped into his machine tipped a balanced bar which opened a valve through which spouted holy water. The same principle is used in the vending machines of today. The weight of a coin opens a lock, tips a bar, or starts a motor—and out comes the product sold by the machine.

Hero's invention was forgotten until about 1882 when the first modern vending machine was produced in Germany. This machine was a scale that weighed a person in return for a coin. The machine became very popular when it was introduced in America. Soon afterward penny chewing-gum machines were developed. A cigarette-dispensing machine was developed by William H. Rowe in 1926. Soft-drink machines soon followed and then the rush was on.

An Australian machine, nicknamed Elmer (for Electrical Merchant), can dispense 25 products at the same time. It can handle products as large as a box of corn flakes. A machine recently introduced in the Middle West is equally versatile, serving a complete precooked meal on an aluminum plate.[2]

Before the Second World War, machines concentrated on standard items such as gum, cold drinks, candy, cigarettes, and nuts. Today, they sell apples, doughnuts, hot meals, electric shaves (lotion supplied free), perfume, nylons, etc. You can even use a washing machine, typewriter, telescope, or voice recorder if you have the necessary coins.

One of the vending machine manufacturer's first jobs was to make the machines customer-proof. It was too easy to trick the first robots into giving a jackpot for just one coin. Today's machines have a built-in "slug rejector" and are too sturdily constructed to be smashed open.

Penny nut and candy dispensers are the largest class of vending machine. Bottled-drink vendors are next in line, with cigarette machines running a close third. As for individual products, nickel candy bars are the

[2] See *Your Life Magazine*, May, 1952. Copyright, 1952, by the Kingsway Press, Inc., New York.

Table 21–1. *Estimated Industry Figures*

Number of Vending Machines in Operation
(In thousands)

Type of machine	1949	1950	1951
5¢ and 10¢ candy	347	370	396
1¢ items	1,000	1,230	1,340
Cigarette	364	403	436
Cigar	16	19	21
Cup beverage machines	19	27	32
Bottle beverage machines	410	466	507
Coffee machines	2	4	9
Total	2,158	2,519	2,741

Number of Units Sold by Class of Vending Machines
(In millions)

Product	1949	1950	1951
5¢ and 10¢ candy (bars)	2,500	3,200	3,600
1¢ items	5,200	6,400	7,000
Cigarettes (packs)	2,800	2,500	2,800
Cigars	33	40	44
Beverages (cups)	840	1,197	1,353
Beverages (bottles)	3,800	3,500	3,534
Coffee (cups)	30	298	340
Total	15,203	17,135	18,671

Annual Dollar Sales by Class of Vending Machines
(In millions)

Product	1949	1950	1951
5¢ and 10¢ candy	$126.0	$162.0	$180.3
1¢ items	52.0	64.0	70.0
Cigarettes	588.0	543.0	665.0
Cigars	3.3	4.0	4.4
Cup beverage drinks	42.0	60.0	81.2
Bottle beverages	192.0	178.0	180.0
Coffee	1.5	16.0	20.0
Total	$1,004.8	$1,027.0	$1,200.9

SOURCE: Wilbur B. England, "Automatic Merchandising," *Harvard Business Review*, November-December, 1953. (Corrected September, 1954.)

biggest sellers, followed by cigarettes. Machines are estimated to account for one out of every six packs of cigarettes sold, one out of every five candy bars, and one-fifth of all cold and fruit drinks. In spite of this, however, vending machines account for less than ½ of 1 per cent of over-all retail sales, but members of the industry hope to double their volume within a decade.

Vending machines are appearing everywhere. They sell insurance at airport terminals. They are replacing soda fountains in some supermarkets, variety stores, and even drugstores.

The number of machines in operation before the Second World War was about 1 million. Now the number is approaching 3 million. The largest class of vending machines, the penny nut and confection dispensers, number 1,340,000.

The 11,700 vending machines in the New York subways yield 1.167 million pounds of pennies a year, or approximately $1,716,150. About 2.5 million pounds of merchandise are sold annually by these subway vendors, 65 per cent of the volume being in chewing gum. The New York subways have the world's largest vending operation.

In the United States today there are a half-million bottled-drink dispensers, 400,000 nickel and dime candy bar vendors, and 12,000 ice-cream machines. Hot coffee and ice-cream vendors have increased most rapidly in recent years.

One reason for the rapid installation of coffee vending machines is that corporations encourage their use. The machine overcomes much of the time wasted by the "coffee break," a well-established ritual in many offices and factories. In-plant feeding problems of business firms have been lessened to some extent by machines that sell sandwiches, hot soups, and milk. Studies show that where milk is automatically vended in factories, out of every 200 workers who have access to the dispensers, 100 will buy a bottle a day.[3]

Currently, the greatest opportunities for full-time vending are in industrial plants, educational buildings, and offices. Some progress will also be made in selling milk by machines in apartment houses.

Organization of the industry. The largest vending machine operators in the United States are the Automatic Canteen Corporation of America, ABC Vending Corporation, and the Rowe Corporation. Most of the industry's operations are, however, handled by some 4,000 small and medium-size operators. Most operators have fewer than 10 employees.

There is as yet no set procedure for placing vending machines. The operator of the machine makes an agreement with the owner of the location and installs his machine. The terms of the agreement depend on the bargaining power of the operator and the location owner.

[3] "Robot Restaurants: A Marketing Jackpot," *Tide*, Mar. 28, 1953.

Success in vending by machine depends mainly on two basic factors, traffic and impulse buying. Together these produce volume. Most people drink coffee every day and many drink it on impulse. If the operator can find a location where many people can stop to have a cup of coffee, his machine will pay. On the other hand, such items as Christmas cards and underwear are not purchased by impulse and few locations offer sufficient traffic to make them profitable to the operator.

The operators buy the machines from the manufacturer, stock them with supplies furnished by the suppliers, arrange for placement with the location owners, and then service them. While fewer than 100 firms manufacture all the machines and parts used in the machines, there are many times that number of suppliers.

The industry, in short, is made up of four divisions:

1. Suppliers of the industry. These are the multitude of companies which make the items—candy, cigarettes, cups, drinks, etc.—which go into the machines. . . .

2. Some 75 firms which manufacture the vending machines or parts used in the machines. Some of the big ones are Coan Mfg. Co., Madison, Wis.; Cole Equipment & Supply Inc., Chicago; Bert Mills Corp., Lombard, Ill.; Rowe Mfg. Co., New York; and Spacarb Inc., Stamford, Conn.

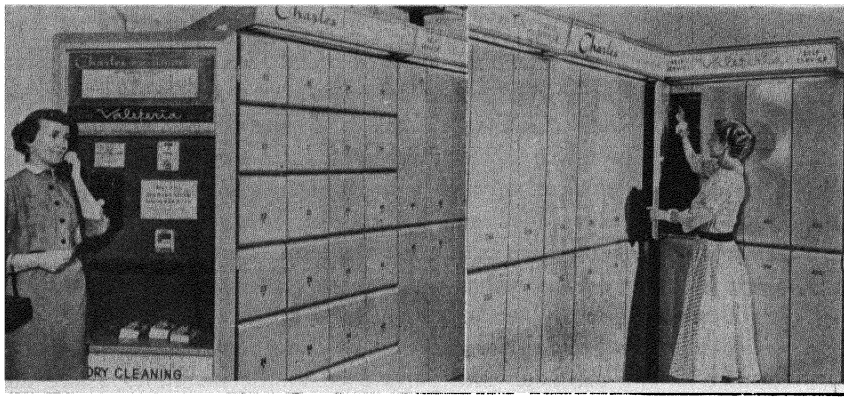
3. Locations. The vending machines are now concentrated in factories, business offices and military posts, but they are getting more and more locations in railroad and bus stations, airports, restaurants, theaters and apartment buildings. The location owner often gets 5% to 10% commission on sales, depending on the type of product vended.

4. Operators. The several thousand operating firms are really the principals in this business, bringing together all segments of the industry. The operators buy the machines, stock them with merchandise, sell the location owner on having a machine installed and then service the machine.[4]

What has caused the rapid growth of vending? One very important factor is that the robot type of buying is on the increase. The public will buy almost any category of merchandise in any type of retail outlet on a self-selection and self-service basis. This means that people buy mechanically without the great care and consideration they gave to each purchase a few generations ago. Today almost every type of merchandise is bought more rapidly. Furthermore, greater numbers of brands of consumer products are acceptable to consumers and therefore more suitable to impulse buying.

It is generally agreed that merchandise values are more standardized than ever before; hence, shoppers accept these values and are willing to buy them by machine. Also, the middle class of our nation is constantly increasing; hence, more customers can satisfy their material longings with

[4] "Vending Machine Sales Just Keep On Growing," *Advertising Age*, Sept. 22, 1952.



The coin-operated Valeteria has been market tested for several years now, and it looks as though the U. S. Hoffman Machinery Corporation, manufacturers of this mechanical merchandiser, will make the laundry, dry cleaning, and allied service industries an important addition to the vending machine market.

Valeteria is a telephone-and-locker combination run from a central switchboard in the dry cleaning plant. The customer lifts the phone on the locker unit and is connected immediately with the operator at the plant. She tells the operator what she wants cleaned and the operator opens a locker automatically for her to deposit her clothes. Later the same day, the customer pays the charge via the coin slot, the operator opens a locker, and the customer removes her clean clothes. The machine not only receives money, but it also gives the correct change and returns incorrect money deposits.

So far it has been installed in department stores, railroad terminals, office buildings, supermarkets, parking garages, and on college campuses. Dry cleaning plant operators who have tested Valeteria find that it is an economical way to increase their local market coverage —that in many locations where a store could not be operated profitably, Valeteria provides a profitable income.

a minimum of financial difficulty. Buying is becoming more self-service and largely a physical act requiring less and less mental exertion. Shoppers need no longer ponder the merits of two different brands; either one is probably good and within the consumer's budget.

The development of robot selling has been accelerated by the increasing cost of personal selling and the prompt service of the machines. There are nearly half as many vending machines as salespersons in the country now, and some predict that in the not too distant future the machines will outnumber the salespeople.

There are, however, definite limitations to automatic vending. Sometimes the machines are not profitable. Take the case of the Eastern grocery store chain which installed hosiery vending machines in some of their stores. The hose sold for $1 a pair but sales decreased and the chain's management decided to remove the machines. Consumers could buy hosiery more cheaply at department stores; therefore, they did not bother with the machines. If a product can be purchased at the same price or cheaper in an equally convenient store, the machine will have difficulty in competing in that market.

Wm. Filene's Sons, big Boston department store, experimented with U-Serv-U vending machines at bus and airport terminals. These machines sold an assortment of goods ranging from handkerchiefs, socks, and underwear to toys, gloves, and jewelry at prices up to $1.75. The test got under way at the time with considerable fanfare, but after two years of operation the experiment was abandoned.

The explanation was that the traffic was not heavy enough at the locations of the machines and that people did not want to buy the higher-priced items costing $1 or more. Nor did they want to buy style goods from a vending machine. The items that sold well were the cheaper trinkets, the small toys, key chains, and puzzles. As a result, Filene's has changed its ideas about "merchandise vending" and is looking for locations that have heavier traffic. Also, before merchandise vending can be fully developed, it will be necessary to have electronic devices that make change for paper money.[5]

Robert Z. Greene, president of Rowe Corp., one of the three leading vending companies in the country, has listed the main requirements for a product to be sold by machine as follows:

> There seems to be a widespread mistaken impression that almost every kind of item will eventually be sold by machine, but mechanical selling has its limitations. There are many items a machine can never sell as well as a live salesman.
>
> To advertising or sales executives weighing the possibilities of added sales for a product through automatic merchandising, Mr. Greene addressed these questions:
>
> 1. Does your product have a huge market?
> 2. Is it easily packaged?
> 3. Is it used or required by most people most of the time?
> 4. Do customers buy it on impulse?
> 5. Is the unit cost low, preferably a dollar or less?
> 6. Is it a brand name, nationally advertised, with wide consumer acceptance?
> 7. Is it a nuisance item with rapid turnover and low profit, sold more as a convenience to the public than as a money-maker?
>
> If your product meets all or most of these tests, it may well be that the silent salesman can become a supplementary salesman, creating sales where no sales existed before.[6]

Vending machine manufacturers can make a machine to sell almost any product. Thus any manufacturer willing to gamble can try out his product in a machine. There undoubtedly are many items which might sell in theater lobbies, factories, apartment houses, and transportation terminals

[5] "Where Vending Machines Fall Short," *Business Week*, Feb. 21, 1953.

[6] "Mass Retailing Requires Greater Use of Vending Machines: Greene," *Advertising Age*, Aug. 17, 1953.

because over-the-counter retailing in these outlets is impractical. Machines may be the means to do the job.

Vending enthusiasts believe that machines will enable stores to sell certain high-demand items 24 hours a day. Drugstores could offer their top demand items in machines at all hours, and grocery stores could sell milk and other large-volume products in the same way. Gasoline has already been sold 24 hours a day by automatic vendors.

In European countries, vending machines function mainly as odd-hour dispensers. In Scandinavia, Germany, and Holland, shops are forbidden to be open after certain hours. Hence, most European vending machines are in store-front locations accessible from the street in after-business hours. In Scandinavia, particularly, the machines sell canned meats, fruits, vegetables, and groceries. The largest vending machines in the world are in European countries.

While expansion of vending is certainly foreseeable, industry leaders make no prediction that it will replace other retail outlets. Though increasing sales costs favor the likelihood of machines taking over the selling of packaged and some other items, it is generally felt that there are few instances where the vending machine can replace salespeople *if* the volume of sales is high. The machine's main role seems to be to make goods available where personal selling is not profitable or practicable. There is at present little worry among retailers that vending machines will absorb either their business or their profits.

It is agreed, however, that robot shopping and robot retailing are phases of definite trends in marketing. Vending machine selling is a phase of the same influences that have made mass retailing by self-service stores effective. Thus far mass retailing methods have brought marked benefits to the consumer. The modern marketer will watch their further development and consider their appropriateness for his product.

ARGUMENTS FOR AND AGAINST THE USE OF DIVERSIFIED OUTLETS

Anyone who observes American business managements in action is likely to wonder why the management of one concern sells through every imaginable kind of retail outlet while the management of a competing company sells through only a very few. Both companies may be operating at a profit, both may be operating at a loss, or one may be making and the other losing money.

Economists and marketing theorists have been trying to analyze these differences and discover by means of scientific studies the basic causes for the failures and the successes. Thus far, these studies have been rather fruitless.

The main reason for their lack of conclusions is the fact that the really significant influences are inherent in the philosophies and the personalities of the top management men, and these influences are not measurable by slide rule or statistics. They are, however, noted and recognized by every marketing consultant who deals with top management men. The whole question as to whether a company should try to sell its product in every gasoline station, bookstore, mail-order house, army post exchange, industrial commissary, and hot-dog stand must often be answered by another question, "Do we have the kind of management that really wants to sell through all possible outlets or is our management essentially one that is happiest to operate in the traditional channels?"

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COLLATERAL READINGS

CONSUMER COOPERATIVES

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Maynard, Harold H., and Theodore N. Beckman, *Principles of Marketing*, New York: The Ronald Press Company, 1952, Chap. 14.

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Westing, J. H., *Readings in Marketing*, New York: Prentice-Hall, Inc., 1953, Chaps. 17 and 18.

QUESTIONS AND EXERCISES

1. Do you expect service station operators to develop an additional interest in carrying a wider range of merchandise? Why?

2. What are the Rochdale principles of organization followed by most cooperatives?

3. What are the functions of the Cooperative League of America and National Cooperatives, Inc.? How do they aid individual cooperative units?

4. If you were a member owning 100 shares in a cooperative, how many votes would you have? If you owned 10 per cent of the shares, what percentage of the profits would you receive?

5. How do you account for the fact that consumer cooperatives have not reached the same relative importance in the United States as in certain European countries?

6. What are the characteristics of products which are being effectively sold through vending machines?

7. What elements appear to be necessary for an effective automatic vending machine operation?

8. Do you think that automatic vending machines will replace salesmen? Explain.

PART SIX

PROMOTING THE SALE OF OUR PRODUCT THROUGH DEALERS

22 How Advertising Is Used in Marketing

THE ALERT MARKETER

1. **Thinks of advertising as only a part, but an important part, of a comprehensive marketing plan. He therefore studies the practices of advertisers in order to see how advertising plays its role in the integrated follow-through of the whole marketing plan.**
2. **Studies all the various means and media for reaching prospects and compares their appropriateness for different marketing purposes.**
3. **Becomes acquainted with the devices developed by researchers and research service organizations for evaluating the effectiveness of advertising.**

The manufacturer who wants to reach people in order to make them customers has available three major channels of communication:

1. He can have salesmen call at the home or the business place of each person.
2. He can assign the task to retail salespeople and expect them to tell people about the manufacturer's product.
3. He can advertise in order to sell the product directly or to persuade people to want it in order that dealers or salesmen can sell it more easily.

Some companies use all three methods. Others emphasize or use only one or two of the methods. In this chapter we shall stress the role of advertising and the advertising manager in modern marketing.

VALUES OF ADVERTISING

The sales and advertising functions are similar in that the main purpose of each is to persuade individuals outside the company to act in the company's interests. Advertising is a form of mass communication; salesmanship is a person-to-person form of persuasion. "Selling and advertising are cup-and-saucer, hook-and-eye words." [1]

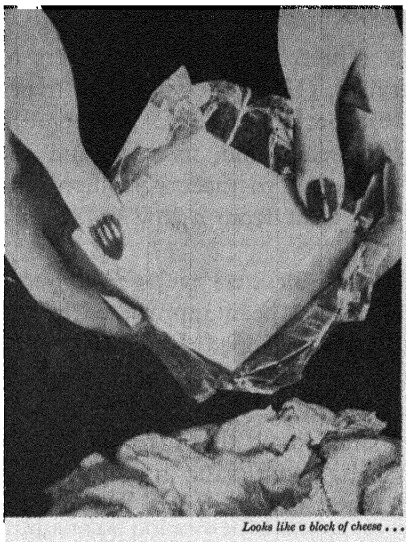
While the salesman uses the charm of his presence to arouse the customer's interest in his product, the advertising man makes use of the personality elements which he injects into his art and copy. He utilizes the various techniques of writing, the many methods of layout and illustration which attract and hold attention. It is in these areas that a good advertising man makes his specialized contributions. And underlying all his artistry is the purpose of telling the reader (or listener) how he can solve his problems by means of benefits derived from owning the product.

From the viewpoint of the benefits which the public derives from advertising, the most important economic consideration is advertising's contribution toward mass production. Advertising makes mass production feasible and thus helps to bring down costs to the consumer. The use of mass-production methods brings about the employment of ever-greater numbers of workers. There are more people employed today in making the machines for the mass-production assembly lines than were employed in the entire field of manufacturing 100 years ago. As an example of how mass production has raised the employment level: in 1850, 320 out of every thousand men, women, and children in the United States were gainful workers. By 1950, that figure had risen to 420 out of every thousand.

The effect of advertising on living standards is interestingly revealed in this set of figures. U.S. advertisers spend 15 times as much per capita as English advertisers. In this country, we spent $43.36 per capita in 1951. In the same year English advertisers spent $2.91 per capita in England. Did our far greater spending increase the cost of our merchandise? Hardly. An Englishman has to work twice as long as we do to earn enough money to buy a pair of shoes; twice as long for a pound of coffee or a pound of spaghetti; three times longer for a package of cornflakes; and almost 10 times longer for a can of vegetables.

What effect has advertising had on prices right here in our own country? Last year we spent more than three times as much per capita on advertising as we did in 1914—$43.36 against $13.13. Has this tremendous increase been added to the cost of the merchandise? Let's see. Today a man can earn a pair of shoes in about one-third the time it took him in 1914. He can earn a baby

[1] Nicholas Samstag, "Some Differences between Advertising and Selling," *Advertising Agency*, April, 1953.



Looks like a block of cheese . . .

. . . actually separates easily as peeling a banana!

10,000 demonstrators could not have done it so fast, so cheaply!

TEN YEARS of Kraft research produced a revolutionary method of making pasteurized process cheese *in slices*, ready to use.

So well, in fact, did the factory do its job that the finished package, in spite of its label, appeared to hold a solid block of cheese!

How were consumers to be convinced that a package so neat actually contained eight individual slices that could easily be separated?

Demonstrators might have tackled the job, store by store, community by community. *But even 10,000 demonstrators could not have kept pace with the mass production at the plant.*

Mass demonstration the answer

By using advertising to make *mass* demonstrations via newspapers, magazines and the Kraft Television Theatre—Kraft quickly and economically convinced consumers coast to coast.

So quickly, in fact, that additional production facilities have been added to keep up with demand.

Thus from advertising's ability to give *mass demonstrations*, our client gets speed and economy paralleling that which comes from *mass production* technics in his factories—making it possible to deliver a finer product with advantages for all!

Can these benefits of advertising be better utilized in your behalf? We'd be glad to talk with you about it. Just call or write us.

• • •

J. WALTER THOMPSON COMPANY
420 Lexington Ave., New York 17, N. Y.

New York, Chicago, Detroit, San Francisco, Los Angeles, Seattle, Washington, D. C., Miami, Montreal, Toronto, Mexico City, Buenos Aires, Montevideo, Rio de Janeiro, São Paulo, Santiago (Chile), London, Paris, Antwerp, Frankfurt, Milan, Johannesburg, Port Elizabeth, Cape Town, Durban, Bombay, Calcutta, New Delhi, Sydney, Melbourne.

carriage in less than a third, an electric fan in one-twelfth, and a light bulb in one-fifteenth of the time.[2]

ADVERTISING HELPS REDUCE COSTS OF SELLING BY SALESMEN

Anyone who studies costs in marketing is likely to note the high cost of salesmen's calls on prospects. In the industrial field, the average cost of a salesman's call on a prospect was found to be $17.24, according to a survey conducted by the Sales Executives Club of New York. Data

[2] Bayard F. Pope, Jr., "What Good Is Advertising?" *Advertising Agency*, May, 1952.

were furnished for this survey by 228 representative manufacturers of industrial materials, equipment, and services. Of these companies, 81 per cent indicated that their sales costs were between $5 and $30 per call depending upon the product or service being sold, its cost, and the amount of engineering and research necessary to meet customers' demands. The total range of costs per call went from a low of $1 to a high of $130.

The survey also disclosed that industrial salesmen averaged about 9 orders per 100 calls on customers who had not been approached in any way before, 16 orders per 100 calls on leads developed through advertising, and 38 orders per 100 calls on customers who had previously received and studied the manufacturer's catalog. Using these figures and the average call cost of $17.24, the Sales Executives Club found that the average cost per order was about $187 for cold calls, about $107 for advertising follow-ups, and about $44 per order when the prospects had studied a catalog.[3]

The above figures are average for certain general classes. Each marketer, of course, must determine for his particular situation the appropriateness or inappropriateness of the marketing tools available to him. Advertising for many businesses becomes an effective tool when rightly used. A small manufacturer, for example, marketed his product to farmers by means of a large sales force. He estimated that the average cost to the company of having a salesman call on a farmer was $3.50. To reach by means of personal calls the 300,000 farmers of a certain region whom he considered prospects would have cost him $1 million.

The manufacturer decided that his most important objective, at that time, was just to bring his product to the attention of the farmers. He found that he could place a half-page advertisement for $1,200 in a farm paper that went to his farmer prospects. Obviously, not all the farmers will notice a half-page advertisement the first time it appears. By repeating the advertisement in several issues of the farm paper, however, he brought his product to the attention of his prospects at a cost of $3,500, considerably less than personal calls would have cost him. As in many cases, advertising not only aids the sales force—it becomes the whole sales force.

KINDS OF ADVERTISING PROBLEMS IN RELATION TO SELLING

Large manufacturers often have the same kinds of marketing problems as small ones. The larger ones, through years of experiment and experience, tend to develop principles to guide them in their practices. E. I. du Pont de Nemours & Company has, through the years, shown a

[3] "N.Y. Sales Execs Report Industrial Calls Cost $17.24," *Advertising Age*, July 13, 1953.

consistent talent for developing new products and marketing them. This diversification of their production has necessitated a multimillion-dollar advertising budget in order to promote their many products. About one-half the budget is used for industrial advertising.

With such a multitude of products, their marketing and advertising problems are, of course, very complex. Through years of experience, du Pont has come to the conclusion that its sales problems—which automatically means its advertising problems—fall under five basic headings. The first is *exploratory selling*, which involves finding out whether or not a market exists or to what extent it exists. *Introductory selling* is the process of introducing new products or improvements in products. *Extension* or *expansion selling* involves increasing sales by adding new users or encouraging new users. *Holding type of selling* is that in which the company strives to maintain its position in an established market or in a declining market. And finally, *education selling* explains or gives facts on products or policies in the hope of increasing good will and subsequently increasing sales.[4]

Much research has gone into the discovery of these five sales-advertising categories. In solving their sales problems, advertising has been found to be not only helpful but, at times, indispensable. Du Pont treats its advertising and sales problems as facets of the whole marketing plan.

PREPARING AN ADVERTISING PLAN

Experienced marketers recognize that an advertising plan is part of a company's larger marketing plan. In many companies, however, the marketing plan has not been formally stated. Particularly where the marketing plan has not been carefully analyzed and described, the development of the advertising plan requires a systematic approach. The plan is likely to have the following steps or stages:

1. Make a survey of the basic facts in the situation. If the company's marketing situation and programs have been formulated, the situation from the standpoint of advertising is easily stated. Where this is not true, a comprehensive survey should be prepared. This survey in its written form usually covers such facts as the past sales for the product, competitors' sales, distribution channels used by the company, production costs, dates when new models will be available, advertising expenditures in the past, results from previous advertising, consumer surveys, trends that are affecting sales, and others. These and any other facts pertinent to the situation are put into writing for review.

[4] "Du Pont Places Hundreds of Ads for 5 Sales Objectives," *Sales Management*, May 20, 1950.

2. Hold a meeting for executives to review the situation. When the survey of the available facts in the situation has been completed, it should be reviewed in a meeting attended by the responsible company executives. When the company uses an advertising agency, the account executive attends. All these men discuss the facts presented in the survey. Some statements are modified or corrected, diverse opinions about the past advertising and the company's marketing problems are discussed, and the basic facts are established and agreed upon.

3. Determine the objectives of the advertising. After the facts in the situation have been agreed upon, the goals in the advertising can be established. What should the advertising be expected to accomplish? Should it build dealer good will in order to open doors for salesmen? Should it correct prejudices and misinformation on the part of consumers? Should it increase consumer acceptance at the retail level? Should it establish prestige for the product's brand name? Whatever the objectives chosen, they should be agreed upon by the company management and the advertising manager. Once agreed upon, the objectives should be stated in written form. Amounts of money available to attain the objectives must also be determined.

4. Develop the basic ideas that are to be used to accomplish the objectives. Some central idea, appeal, or theme is needed in the advertising in order to attain each established objective. The appeal for each objective and each product should be specified. The appeals may be varied to fit specific markets, but all the major appeals should be known in advance and coordinated. If this is done, each advertisement in the campaign will be a unit that ties in with the objectives.

5. Decide how the appeals are to be implemented. The appeals to be used can be stated in abstract form but their effectiveness cannot be estimated until they are presented in "roughs" (sketches) of the advertisements that are designed for use in specific media. For television commercials the storyboards or sketches should be developed.

This of course means that the media to be used, whether magazines, newspapers, radio, television, or others, must be designated before the appeals can be implemented.

6. Schedule the procedures. Dates must be set up as to when advertisements or other promotional means are to be used. A chart or table of some kind is essential. This should include the dates when work must begin by designated individuals for the preparation of the copy, illustrations, and production of specific advertisements. Deadlines for each step in the operations and persons whose approvals must be obtained should be listed on paper and copies given to everyone who is directly involved in the plan. Names of persons to do the work and dates of completion of their

assignments should be designated and used by the company's advertising manager to facilitate getting work done on schedule.

7. Summarize the whole program in writing. Some kind of summary that states costs and their justifications in relation to marketing objectives is helpful. Management men may not recall all the objectives, plans, and agreed-upon costs six months after the program was developed. If the main objectives and steps in the development of the advertising plan are stated in writing, all the interested executives will be better informed and more likely to be cooperative in the course of the whole year or the period to which the plan applies. The management executives of the company are, of course, especially interested in the costs of the advertising. Costs, to them, are likely to be expressed in terms of the costs of the media used.

HOW MODERN MARKETERS SELECT THE MEDIA TO CARRY THE ADVERTISING

When the executives who are responsible for advertising reach the stage in their thinking that requires them to decide on the media to be used, they have many possible choices. Shall they use newspapers, magazines, television, radio, trade journals, direct mail, or some other medium such as outdoor posters? One conventional procedure is to think of the costs in terms of a page in color in, say, *The Saturday Evening Post*, the time for a 15-minute evening TV show, or the cost of mailing 100,000 circulars to the names on a list. Certainly, the advertiser who has limited funds to spend must consider the costs involved in the use of the various media. Most experienced national advertisers, however, tend to think in terms of "number of consumer impressions per advertising dollar."

The numbers of consumer impressions per advertising dollar are estimated from regular readership surveys of magazines and newspapers by service organizations such as the Daniel Starch Readership Reports or A. C. Nielsen Company reports for radio and television. One national advertiser, for example, found that the average black-and-white page in four leading women's service magazines delivered women noters (see-ers) of the advertising at an average cost of 106 women per dollar spent for the advertising. He also found that certain daytime television programs for housewives on 42 stations delivered an audience of a million women per commercial at a cost of 314 women reached per advertising dollar.

The findings of this particular advertiser do not mean, of course, that television is always three times as effective in getting attention, per dollar spent, as magazine advertising. Media, as a rule, do not compete with each other—they supplement each other in a well-planned campaign. The rela-

tive costs and effectiveness of each of the various media are matters that require careful study by a specialist such as the media expert of an advertising agency. The example does, however, point out that more must be studied than the dollar cost per page in certain publications compared with the cost of television time. The modern marketer does not buy space or time—he buys impressions made on consumers per dollar spent.

Many factors enter into the selection of media: the kind of product, the markets to be reached, the appeal, whether the marketer seeks primary demand stimulation or selective demand stimulation, and so on. The specialists in media selection know the relative advantages, disadvantages, and costs of media and make recommendations that fit the budget of the marketer. When the media expert knows the market to be covered, he usually knows or can estimate the percentage of coverage that can be obtained through the use of specific media such as a metal working trade publication or a general news weekly.

Sometimes neither the management nor the media expert knows which of several possible markets will prove the most productive for the manufacturer of, say, a chemical product that could be used in several fields such as in the textile, automotive, or electrical appliance manufacturing businesses. To find the most responsive industry, the media expert may advertise the chemical product initially in a "horizontal" publication, one that has some circulation on certain management levels in each of the three fields. The inquiries obtained, when classified by industries, will indicate which one of the three fields is most responsive for the chemical manufacturer. Knowing that, he can then concentrate by means of more advertising on the "vertical" publications of that particular business. A vertical publication usually goes to all levels of management of one industry.

Certain standard tools for the media man are available to every marketer. For industrial products, *Industrial Marketing's* "Annual Market Data & Directory Number" provides basic market data on all major industries and lists of national trade associations that may be asked for information, plus a digest of numerous market analyses.

For all other publications such as consumer magazines and farm publications, as well as radio and television, the *Standard Rate & Data Service* monthly publications provide data on hundreds of publications and broadcasting stations. The modern marketer becomes acquainted with these publications as well as the government statistics and trade association reports that apply to his business. Every sensible marketer has a filing system of his own into which he places data and reports from every source that offers him new facts about his industry.

MODERN MARKETERS MEASURE THE RESULTS OF THEIR ADVERTISING

Some companies do not try to measure the effects of their advertising. Such failure makes it difficult for management to justify to its board of directors the expenditures for advertising or to ask for increased funds.

The argument against measurement is that advertising and sales efforts are both carried on at the same time and that a specific order seldom can be attributed to any one influence such as one advertisement. In spite of such difficulties, alert marketers tend to seek one or more measures of the effectiveness or lack of effectiveness of their advertising. Measures can be devised in advance of campaigns. The method of Chas. Pfizer & Co. of Brooklyn is an example of a systematic plan for measuring effects of advertising.

Pfizer has been known and accepted as a manufacturer of pharmaceuticals and fine chemicals in the medical field for many years—since 1849 to be exact. But it was only in 1951 that the company set out to capture a fair share of volume in the new farm market. The first products were antibiotic (terramycin) and vitamin B-12 animal feed supplements, designed to speed growth in farm animals; and for about 10 months the objective was to secure distribution without the support of any regular advertising and merchandising program.

At the end of this 10-month period, the Pfizer market research department checked the field for recognition of the company name and the name of its antibiotic.

Using the U.S. Census data and employing every effort to insure a fair sampling, the researchers asked farmers to identify four products with four firms and, in a switch test, the firm with the product. The three other companies with products well established in the field of animal husbandry, were included to provide check points in the scoring.

The results: Almost no farmers identified terramycin with Pfizer or (in the reverse test) named Pfizer as the producer of terramycin.

In the first test, Companies A, B, C, and Pfizer were named. Farmers scored 87.6% in naming A's product, 45.1% in naming B's and 48.0% on C's. Only 5.4% named terramycin for Pfizer.

When the test was reversed, and products A, B, C and terramycin were named by the interviewer, 68% of the farmers named A company as the maker of its product, 28.5% named B company and 14.2% named C company accurately. Only 2.1% named Pfizer.

Shortly after this test, Pfizer undertook a comprehensive advertising and promotion campaign.

A second farm-recognition survey comparable to the first was made a year later. In the company-product test, Pfizer moved from 5.4% to 34.5%. In the product-company test, Pfizer moved from 2.1% to 23.9%.

Companies A, B and C remained virtually stationary. In fact, C's score in the second test, 12.5%, was barely more than half as good as Pfizer's 23.9%, though product and firm had been known for years.[5]

The above method of measurement is usually called the "recognition" test. It is frequently used to find out how many people know or can recognize a slogan or sales point that has been stressed in the advertising. For consumer products, a common form of measurement is to run certain advertisements in one area but not in a comparable area and then to note the effects on sales of the two areas.

Some advertisers offer a coupon or invite inquiries that are keyed to indicate the publication or TV station. Smart advertisers go a step farther than counting the number of inquiries—they also follow up representative samplings to find out whether the inquiries result in sales and whether first sales lead to repeat sales.

In the case of publication advertising, the most widely used measure is the Daniel Starch Readership Reports. These reports indicate the extent to which specific advertisements are noted and read. Even though many advertisers criticize the Starch reports (especially when their advertisements happen to have low ratings!), the Starch service is widely used and has definite values as well as a few limitations. Its findings are being constantly studied by the specialists in advertising research, particularly by those of the larger advertising agencies.

ADVERTISING A PROBLEM FOR TOP MANAGEMENT ALSO

In many companies, top managements relegate advertising problems to the advertising manager and his subordinates. They think of advertising as an incidental responsibility. Policy makers at the top should understand what advertising can do and how it works. All managements become concerned about anything that affects the flow of materials through the factory but few are equally disturbed by influences that slow down the flow of goods into the market. C. B. Larrabee, president and publisher of *Printers' Ink*, has expressed this tendency as follows:

> Anything that slows the potential flow of products after they leave the factory should concern management as much as anything that hinders the flow of raw materials into the factory or the flow of these materials through the factory until they become the finished product.
>
> Management must understand all the factors that go into advertising and the relative importance of those factors.
>
> In advertising today you have to start back with the product before a line of advertising is written.

[5] Carroll J. Swan, "Farm Market Coup Success—How Pfizer Did It," *Printers' Ink*, Nov. 13, 1953.

Not so many years ago the product was conceived in a vacuum, as it were, and then the merchandising program built around it. Today in many cases the product is created against the background of the merchandising program.

Merchandising thinking influences the building of the product. That part of management which comprises the engineering, the production, the laboratory brains either should have a merchandising sense or should know how to work with people who do have it.

Forceful advertising reflects forceful management. Weak advertising means weak management.

Advertising failures are management failures.

Unless you start with that basic premise, the most searching studies by the ablest market research experts won't help you pay extra advertising dividends. . . . With the coming of giant, highly mechanized and highly efficient retail units, management in many industries has been forced, often against its will, to recognize that the marketing side of business holds the key to financial and production success.

Mass production can't exist in its own vacuum. It requires the wholesome warmth of sales.

That is one basic economic fact of life that is beginning to dig itself deeply into modern American management thinking. . . .

A number of companies have created a new executive position, that of marketing director. He is given different titles by different companies. But no matter what the title, his job is to coordinate sales, advertising, sales research and merchandising—and to integrate them with the rest of the company operation.[6]

When advertising is coordinated with the other operations of a company, it is not considered an expense but an investment in the same way in which a new machine for the factory is an investment.

Management should budget advertising expenditures realistically. Such expenses as costs of picnics for factory employees should not be charged to advertising. Furthermore, when management knows its marketing objectives and has definite plans for attaining them, the management does not divert funds for advertising to the panicky meeting of competition's prices by giving dealers extra allowances on price. When special deals or contests are offered, they are costs of a larger marketing plan and these costs should not unexpectedly draw off the funds that were allocated to the planned advertising.

WHAT TOP MANAGEMENTS EXPECT FROM THE ADVERTISING MANAGER

Modern managements expect advertising to mesh with the sales department. The advertising department, in most firms, belongs under sales.

[6] C. B. Larrabee, "Advertising Is Management's Problem, Too," *Printers' Ink*, Oct. 9, 1953.

When organized as separate departments, the advertising department and the sales department work together in order to bring in business at a cost that enables the company to make a profit. Management expects the advertising department to develop programs of promotion that help to increase the return on the capital invested in the business.

It is taken for granted that the advertising department should develop eye-catching ad layouts, dramatic promotions, and well-attended sales meetings, but the real test is whether the ads, promotions, and meetings help to bring in business at a profit. Advertising is a means toward an end and not an end in itself. The advertising man's objective is to move goods, not to meet deadlines or to entertain people.

A basic responsibility of the advertising department is to provide ideas for marketing. As stated by Charles L. Whittier, vice-president of the plans board of Young & Rubicam:

"Our foremost responsibility is to provide an effective sales impact against the consuming public. And this sales impact is the impact of IDEAS —ideas expressed in words and pictures, animate and inanimate, read and listened to—ideas that persuade consumers to want and to buy and to keep on buying advertised merchandise." [7]

The advertising department has responsibility for competent attention to certain details involved in marketing such as preparing art work, writing copy, having engravings made, selecting appropriate media, authorizing the payment of certain bills and a thousand other matters, but the all-embracing function is the providing of ideas, ideas that help to move goods into the customer's hands. All other matters are mechanics involved in achieving that end. Techniques are incidental to the main sales problems.

Some of the more common responsibilities that involve the implementing and application of ideas are finding new markets, backing up the sales and distributing organizations with promotional materials, maintaining customer good will, educating users on the merit and use of the product, being aware of competition, knowing trends in consumer behavior, discovering new buying influences, and providing these kinds of aids and information to the members of the company organization who can use them effectively.

In short, the advertising manager should have a broad understanding of business in general and his company in particular.

He is called upon to translate for customers and prospects the ability and accomplishments of his production people, his engineering department, and his sales and merchandising forces, as well as the policies of his top manage-

[7] Charles L. Whittier, as quoted by James D. Woolf, "Are We Losing Sight of the Function of Advertising?" Advertising Federation of America Convention Proceedings, 1952.

ment. He must also be able to integrate his general advertising and promotion effort with publicity, film, technical literature, exhibits and house organs if he is to make the advertising dollar produce the greatest results. To do these things, he must possess a wide range of knowledge entailing a basic understanding of the entire organization . . . and management expects this understanding.

But in addition to an understanding of the other functional parts of the organization, management expects the advertising manager to understand (1) what it takes to make a sale at a profit and (2) what it takes to make a dollar net after taxes.

What should the advertising manager know about what it takes to make a sale at a profit? To begin with, he must know a great deal more than headlines and art work. He must know marketing and understand market research. He ought to know, preferably by actual experience, what a salesman does, how he does it, and why he does it that way instead of some other way.

He ought to have the most current and up-to-date information concerning the sales force, its organization and its activities. The advertising manager should realize that any cost incurred in moving goods from the platform of the plant into a customer's hands is part of the cost of selling. He should understand, although not necessarily be an authority on, the relationship of order service, warehousing, transportation, packaging, shipping, inventory turnover, sales training and sales office routine.

And what, you might ask, should an advertising manager know about what it takes to make a dollar net after taxes? He needn't be a fiscal or accounting expert, but he should be a business man as well as an advertising man. He should have a familiarity with break-even point fluctuations and corporate taxation. And to help him formulate a practical advertising program and budget, he should keep up to date on economic trends and expectations, particularly as they affect the markets with which he deals. Management expects an understanding of these things . . . and also, incidentally, a comprehensive understanding of advertising . . . from advertising managers.[8]

SOURCES

The Advertising Council, Inc.: 25 W. 45th St., New York; 203 N. Wabash Ave., Chicago; 425 Bush St., San Francisco; 1200 Eighteenth St., N.W., Washington; Taft Building, Hollywood, Calif. Established in 1942, the Council is financed by agencies, advertisers, and media. It functions as a nonprofit organization, representing all phases of advertising, dedicated to the uses of advertising in the public service.

Advertising Federation of America, 330 W. 42d St., New York. Formed in 1905. Individual membership is automatic through membership in local advertising clubs, national advertising associations, and sustaining members

[8] Tomlinson Fort, "What Management Expects from Industrial Ad Managers," *Industrial Marketing,* July, 1953.

that are affiliated with the Federation. It functions to help make advertising increasingly effective as an instrument of distribution and increasingly useful to the public; to raise standards of practice in advertising; to disseminate better knowledge of advertising's functions and better understanding of its social and economic values; to provide a common forum for cooperative effort in advertising; to encourage improvement in education and training for those in advertising. The Bureau of Research and Education maintains a complete classified bibliography on marketing, advertising, and related subjects.

Advertising Research Foundation, Inc., 11 W. 42d St., New York. Chartered in 1936; reconstituted and expanded in 1951. Functions: To supervise the conduct of research studies that are of general interest to subscribers; to review and appraise media research reports for the exclusive benefit of subscribers; to make general advisory facilities available to media subscribers; to supervise in complete detail and validate media studies; to perform other functions necessary and proper to further scientific practices in advertising and marketing by the fostering of research. ARF seeks to promote greater effectiveness in advertising and marketing through completely impartial and objective research, to uncover facts which point the way toward more effective advertising.

National Industrial Advertisers Association, 1776 Broadway, New York. Founded in 1922, NIAA has several classifications of membership. Two main classes are: *Active members*—persons engaged in advertising and marketing to industrial, technical, and professional fields on behalf of a manufacturer, dealer, or advertising agency; *associate members*—persons who serve the active membership directly in the production and distribution of advertising to industrial, technical, and professional fields. NIAA has thirty-three chapters, twenty-nine in the United States and four in Canada, and membership-at-large representing several European countries and South America.

Some of its purposes are: To affiliate industrial advertising associations into a central body for furthering the best methods of industrial advertising and marketing; to provide a means through which industrial advertisers may assist each other, by exchange of ideas, in the production of more efficient work; to develop industrial marketing as a profession, and to promote a common understanding and good fellowship among industrial advertising men.

Association of Better Business Bureaus, Inc., 723 Chrysler Bldg., New York. Research, industry and public relations office for 100 Better Business Bureaus in the United States and Canada. It offers conference facilities to business and industry groups. It assists in the development of self-

regulatory procedures pertaining to advertising and selling practices in all fields, and improvement of business-consumer relations generally. It coordinates trade practice, investigative and information activities of local Bureaus and assists them in providing information on business practices, companies, products, services, and persons, and offers information about fund-raising appeals. It produces consumer material, including *Fact Booklets*, available at nominal cost, on subjects of concern to consumers.

JOURNALS

Advertising Age, 200 E. Illinois St., Chicago. Published weekly by Advertising Publications, Inc.

Advertising Agency, 48 W. 38th St., New York. Published monthly by Moore Publishing Company.

Advertising Requirements, 200 E. Illinois St., Chicago. Published monthly by Advertising Publications, Inc. Conducts a Reader's Service Department. Includes postal permit reply cards in each issue to make requests for specific reports easy.

Industrial Marketing, 200 E. Illinois St., Chicago. Published monthly by Advertising Publications, Inc.

Printers' Ink, 205 E. 42d St., New York. Published weekly by Printers' Ink Publishing Company.

Sales Management, 386 Fourth Ave., New York. Published semimonthly by Sales Management, Inc.

The Journal of Marketing, 1525 E. 53d St., Chicago. Published quarterly by the American Marketing Association.

Tide, 232 Madison Ave., New York. Published fortnightly by Magazines of Industry, Inc.

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QUESTIONS AND EXERCISES

1. In what ways does advertising contribute to effective marketing? To social welfare?

2. Should a manufacturer who introduces a new product expect advertising to pay for itself in the form of profits which cover the costs of the advertising? Explain.

3. What do you understand by exploratory selling? Expansion selling?

4. What are the major steps in preparing an advertising plan? What should be accomplished at each step or stage?

5. What is the lowest common denominator in comparing the relative cost of a magazine advertisement with a TV commercial? Is such a comparison the final answer? Explain.

6. Do the various media such as radio, TV, magazines, and newspapers compete with or supplement each other? Explain.

7. What is a "horizontal" business publication? A "vertical" business publication? Under what conditions might you favor one or the other?

8. What are some of the common methods of measuring advertising effectiveness?

9. What are the contributions of various social sciences to measuring advertising effectiveness?

23 Merchandising Aids

THE ALERT MARKETER

1. **Recognizes the importance of merchandising aids and the need for integrating them into the marketing program.**
2. **Becomes acquainted with the modern methods of merchandising and the aids that stimulate sales at the dealer level.**
3. **Pays extra attention to display materials and methods of making their use effective.**

The manufacturer who has a good product, properly priced, well-designed, and attractively packaged, knows that the product will not sell itself. He knows that his salesmen can get orders from dealers for it, but more than orders are necessary. The product's sale must be promoted through a whole series of influences at the place where dealer and prospective customer meet face to face. Merchandising aids are necessary.

Merchandising [1] has a wide variety of meanings—some all-inclusive and some rather narrow. One inclusive definition describes it as the fusion of all the selling influences applied to the merchandise: quality of the merchandise, national advertising, local advertising, the price, promotion in the store, sales efforts of the clerks, etc.—all the elements that bring about the sale of the product in a store.

A more useful definition is to differentiate it from advertising and salesmanship. Advertising's primary job is to stimulate the desire to buy.

[1] "*Merchandising:* 1. Buying and selling goods and all their functions—sometimes excluding advertising and salesmanship; adjusting purchases to sales possibilities; product planning for profitable distribution. 2. Any activity that makes advertising or other promotion more effective, especially by calling it to the attention of influences that might otherwise overlook it; a special promotion." *Dictionary of Marketing Terms, United States Usage,* prepared by Richard Webster, International Chamber of Commerce, New York, p. 59. Copyright, 1952.

There's nothing *gentle* about the point-of-sale

Much of your advertising is read or looked at in the calm surroundings of the home.

But when your lady customer goes shopping, she looks at things differently. Sometimes—when a bargain is involved—she's a tigress!

Our point is this: Writing copy for the living room is different from creating advertising for the point of sale. That kind of advertising—the kind that must hit hard and pay off on the spot—is our one and only business.

We have specialized in *advertising at the point-of-sale* for fifty years and our nationwide organization serves some of the biggest—and smallest—advertisers Let us show you more results from your *advertising at the point-of-sale.*

Write for *Idea File—samples of idea-provoking Advertising at the Point-of-Sale created by Chicago Show Printing Co., 2640 N. Kildare, Chicago 39; 400 Madison Avenue, New York 17.*

CHICAGO SHOW PRINTING COMPANY CHICAGO • NEW YORK

50th Anniversary CHICAGO SHOW PRINTING COMPANY 1903–1953

• Lithographed displays for indoor and outdoor use
• Cardboard Displays • Cloth and Kanvet Fiber Banners and Pennants • Mystik® Self-Stik Labels
• Animated Displays • Mystik® Self-Stik Displays • Econo Truck Signs
• Stencoil Outdoor Signs • Mystik® Can and Bottle Holders • Booklets and Folders

Advertising at the POINT-OF-SALE

Merchandising's primary job is to stimulate purchase at the point of sale. The distinction here is that while advertising may bring prospects into a store for a product, it is merchandising's function to give the retailer additional aid in making the sale of the product to the customer. If the three—advertising, merchandising, and salesmanship—are properly planned and executed, the marketing campaign is likely to be effective. Few advertising campaigns that involve dealer effectiveness can be successful

unless merchandising aids stimulate purchase at the point of sale. Of course, a merchant as well as a manufacturer performs merchandising functions.

When a series of related merchandising aids are organized into a plan to help the dealer make sales during a specific period of time or under certain conditions, the plan is often called a *promotion*. This term, however, has many broad and varied meanings such as "any method of contributing to sales and profits by informing customers and prospects about the existence, price, performance and distribution of a product or service." [2]

The meaning of merchandising aids becomes understandable when expressed in terms of their concrete form: display materials, mailings to lists of prospects, booklets, reprints of advertisements that have appeared in national magazines, posters, etc. The preparation of these and similar aids is a function of the advertising department but the planning for their use must be integrated into the marketing program by the marketing director. He considers such questions as the following:

1. Can the retailers and their salespeople be induced or trained to utilize the promotional material?

Dealer helps of all kinds are sent to retailers from manufacturers by the truckload. According to a representative group of members of the National Retail Dry Goods Association, however, the material is useful to the extent indicated by Table 23–1.

Dealers are perfectly willing to use "helps" supplied by the manufacturer, but only if they are well-planned. Manufacturers should try to suit their "helps" to the needs of the different store types. Posters, for example, should be made to look like regular retail store signs. Display material should look "retail."

2. Can the company magazine advertising be tied in with the dealer?

A popular tie-up with magazine advertising is the local store credit line for the merchandise shown in a magazine advertisement. Many sales promotion managers of retail stores rate this above all other types of tie-in. However, sales promotion managers have some complaints, too. They feel that the magazine publishers swamp them with so many blow-ups of advertisements and other merchandise aids that the store cannot use them. On the whole, however, both large and small stores are grateful for good promotional helps given them. This is especially true of apparel stores, who can use fashion show tie-ins and advice on cultivating special customer groups such as college girls.

Magazine publishers are constantly developing tie-in materials for use by merchants because the publishers realize that they can sell more space

[2] *Glossary of Business Paper Publishing Terms*, The Associated Business Publications, New York, October, 1952.

Table 23–1. *Use of Manufacturer-prepared Material*

Material	Percentage of use		
	Always	Never	Sometimes
Newspaper mats	11.3	16.5	72.2
Newspaper art	5.7	19.7	74.6
Radio scripts	5.6	37.0	57.4
Stuffers	18.9	4.5	76.5
Catalogs	2.2	46.2	51.6
Window displays	6.7	18.5	74.8
Interior displays	9.2	10.8	80.0

There are four things wrong with manufacturer-prepared material: (1) It doesn't use the retail slant, (2) it is not flexible, (3) it is usually too exclusive (stores like to display items which go together), and (4) it often arrives at the wrong time and is sent to the wrong people.

SOURCE: Table and statement by Howard P. Abrahams, manager of the sales promotion division of the National Retail Dry Goods Association, reported in *Advertising Age*, Nov. 24, 1952, p. 2.

when they further the interests of advertisers at the dealer level. Any manufacturer who wishes it can gain helpful suggestions from almost any magazine publisher concerning merchandise aids. As with almost every other sort of promotion, when such tie-ins are properly handled they can be very effective sales aids.

3. Can the merchandising aids be tied into a special day or week?

Special days and weeks have become an accepted part of the American marketing scene. A recent survey was conducted to discover newspaper publishers' preferences among these special promotions. A complete list, including National Kraut and Frankfurter Week, was sent to publishers who were asked to check their preferences. The days or weeks most favored were New Year's Day, Clean Up–Fix Up–Paint Up Week, March of Dimes, Mother's Day, Boy Scout Week, and graduations.

This survey was conducted among nonmetropolitan newspapers, many of whom felt that if they were provided with more information about these special promotions they would be able to interest more of their advertisers in them. The gist of the replies was that special promotions glut the calendar. The best way to make them effective is to limit their numbers and direct the interests of the people of the area.

4. Can the promotion be strengthened by combining it with a related item?

Sometimes the promotion of one item can be combined with that of

another with benefit to both. The manufacturer of tablecloths, for example, developed a coordinated promotion that combined forces with manufacturers of china, glass, pottery, and silverware. Manufacturers of all these related products used national advertising to the advantage of each product's sales. Dealers were far more willing to participate in the related-item promotion than they would have been for any item alone. "Tables on Show" displays were featured by stores throughout the country.[3]

The team-up idea makes good sense to the consumer. It also provides an advertising theme. It supplies strong leverage at the retail level to get floor, counter, and window displays.

The Wine Advisory Board of California decided to find out how meat dealers would respond to joint promotion of the products. It had long been the wine industry's strategy to associate wine drinking with good eating. In the wine-meat program almost all the initial work and expenses were assumed by the wine industry. Color advertisements were run in eight national magazines. A similar series of advertisements was run in newspapers of 138 large cities. Point-of-purchase displays were utilized and recipe booklets were given out to housewives. The idea was presold to key executives in the meat distribution business through regional meetings. A brochure was prepared for retailers giving ideas and instructions on carrying out the campaign. That results were good is indicated by the fact that the campaign was repeated on a larger scale with more promotional material and a stronger advertising program.

Related-item promotions are on the increase in marketing for the simple reason that many pay off. But such promotions should not be gone into blindly. Two products which do not satisfy a real consumer need will not sell even if a great deal of sales effort is expended. It is well, also, to tie in with a product that has a strong selling field force. In any case it is a good idea to try out the plan on a small scale. If the idea stands up in a market test, it can then be built up to a national basis. The best items for joint promotions are those which naturally go together in the mind of the consumer, like bacon and eggs. Products should be those which the retailer can display together. Ideally, only two products should be promoted together and only occasionally can more than three products be handled successfully.

The big advantage of this type of promotion is that it usually takes the form of a very thorough campaign which first strikes the consumer in national advertising and then continues to bring itself to her attention in point-of-purchase displays. There are, of course, some disadvantages too. Among these are the possibility of overemphasizing the combination of

[3] Etna M. Kelley, "Related Item Merchandising—It's Caught On in Table Settings," *Sales Management*, June 15, 1952.

items and neglecting the individual product. Brand identification should not be sacrificed by a too complete merging with another manufacturer's product.

Nonrelated-item promotions have, however, been used such as the one carried out by Thor Corp., manufacturer of washing machines. Thor's sales manager felt that one way to increase sales was to increase store traffic. So he offered a $2.25 package of Lilt free to any woman who would come in and watch a 10-minute demonstration of the Thor washer. Furthermore, any woman who bought a washer was given a "week-ender kit" plus a set of beauty aids, with a total value of $39.50. Thor distributors and dealers experienced a 20 per cent sales increase as a result of this campaign.[4]

Libbey Glass, a division of the Owens-Illinois Glass Co., worked out a joint promotion with Cecil B. De Mille, the motion picture producer. The theme was *The Greatest Show on Earth,* a De Mille motion picture. Libbey Glass introduced their Circus Hostess Sets of party glasses at the same time that the picture was shown. Eventually, *The Greatest Show on Earth* film attracted other manufacturers and was tied in with 44 other national manufacturers and 40 local ones.

5. How can the promotion be planned for the dealer's locality?

An example of the great need that small retailers have for promotional assistance is indicated by the status of the local drugstore. The big drugstore chains have made it difficult for the small druggist to compete with them. To aid independent druggists, McKesson & Robbins, Inc., set up a gigantic promotion that involved 15 national advertisers, using 45 pages of advertising in three Crowell-Collier publications, costing $440,375, designed to promote the local drugstore as a place to buy. The whole promotion was tied together by stressing the purchase of the large economy size, thrift through the local druggist.[5]

Most manufacturers and wholesalers who wish to help the retailer on the local level cannot use a gigantic cooperative campaign. Many turn to some form of direct-mail promotion.

DIRECT MAIL

This type of campaign generally consists of a series of mailings at timed intervals which are imprinted with the name of the local dealer. The usual aim of such a campaign is to gain new customers. Hence a mailing list is carefully chosen and an effort is made to reach as many potential buyers as possible.

[4] Robert M. Wilson, "How Much Sales Power in Unrelated Item Promotions?" *Sales Management,* Aug. 1, 1952.

[5] "McKesson & Robbins' New Concept of Marketing Builds Sales for Retailing from a Different Point of View." *Tide.* Feb. 1, 1952.

There are several fairly well tested techniques for eliciting responses from the recipients of a dealer mailing. Among these are *timing*, which places the promotional material in the hands of a reader at a time when he is most likely to be interested in the product. A promotion for the sale of TV sets might, for example, be sent out just before the world series. *Special offers* of bargains or "deals" are often made because they give the customer a reason for buying immediately, "while the supply lasts." Premiums and giveaways are so useful for bringing customers to the store where salesmen can make the sale that this form of promotion is given further treatment in the next chapter.

Direct-mail campaigns to aid local dealers are so numerous as to require the services of specialists in direct mail. To indicate the magnitude to which these campaigns grow, one of the larger direct-mail services organizations ships more than 4 million mailing pieces to retailers in an average month.

Dealer-identified mail campaigns of various types are conducted by numerous manufacturers. Usually, a campaign of this type consists of a series of mailings at intervals of 3 to 6 weeks. Each mailing piece bears the imprint of the manufacturer's local dealer. If possible, every name on the mailing list should represent a potentially good customer so that expensive mailing pieces are not wasted.[6]

The individual dealer of a manufacturer may have only 500 names on his list, but when 5,000 dealers want to make mailings six times a year, the campaign runs into millions of pieces. One of the leading service firms to manufacturers in this field is the Reuben H. Donnelley Corporation. This company is one of several organizations that will plan coupon promotions for the manufacturer and provide a complete service in carrying out the entire campaign. Donnelley specializes in "round-up" campaigns in which one campaign is built up for a number of noncompetitive manufacturers of grocery products. Grocers are told about the "round-up" and they are lined up by means of tie-in advertising and special store displays. The grocers are sent special newspaper mats to use in their advertising. Coupons for the groups of products are mailed to a selected list of homemakers. The redeemed coupons are mailed to Donnelley, who takes care of all money matters.

DISPLAY MATERIALS

The importance of display materials in modern marketing is indicated by the percentages of advertising appropriations that are spent for them. One investigation of 80 leading advertisers found that 14 per cent of

[6] A. M. Andersen, "The ABC's of Direct Mail through Dealers," *Sales Management*, Oct. 1, 1952.

their combined advertising budgets went to "p.o.p.," point-of-purchase advertising. The percentages for individual companies ranged from 2 to 50.[7] These estimates included the costs of preparing, distributing, and installing all types of window and in-store displays and dispensers. Various estimates for annual expenditures of this kind vary from a half billion to a billion dollars, depending upon the items included in the estimate. The self-service trend and the failure of stores to merchandise over-the-counter products effectively have caused manufacturers to supply more and more display materials.[8]

TESTS OF THE EFFECTS ON SALES OF POINT-OF-PURCHASE DISPLAYS

Numerous studies have been made by marketers of the effects on sales of displays in various types of stores. Most of these studies have been sponsored by manufacturers who, of course, were especially interested in the sales of their own products.

A. C. Nielsen Company conducted a special cooperative research study in drugstores on the value of point-of-purchase display. The main finding was that display increases sales as much as 41 per cent; nondisplay decreases sales as much as 24 per cent.

> Sales in the stores properly displaying a typical, nationally advertised brand increased 41 per cent. Sales in the non-display stores went down 24 per cent on the particular brands featured in the display stores. In other words, the display stores divert business from the non-display stores.
>
> The net effect of increased display effort is frequently a gain in sales—an average 8½ per cent sales gain in the particular cases studied. Only by knowing this can the manufacturer judge how much dollar effort to spend on display. The druggist who doesn't tie in with national advertising campaigns on leading sellers risks greater individual loss—or stands to gain 41 per cent in his sales.

The figures given above apply to a product in a declining market and indicate the importance of point-of-purchase displays in holding the market.

In the case of another product, the market was just about static, with switches from one brand to another providing the only possible way of increasing sales. The product was carried by about 90 per cent of all stores in the country and the study evaluated the performance of a cabinet display. The Nielsen analysis showed the following:

1. In drugstores where the *carton display* was used, the brand being studied just about maintained its position in dollar sales per average drugstore.

[7] "Point-of-purchase Preview," *Sales Management*, Mar. 15, 1953, p. 17.

[8] "P.O.P. Plays 40% Larger Part in Major Advertisers' Plans," *Sales Management*, Apr. 15, 1953.

2. In stores where *no display* was used, the brand lost approximately 18 per cent in dollar sales per average store.

3. In stores where the *cabinet display* was used, the brand increased its dollar sales per average store by approximately 17 per cent.

4. There was a swing of 43 per cent in dollar sales per average drugstore between the stores using *no display* and those using the *cabinet display*.

From this study it appears that in this static market the particular brand which we studied must have carton display in order to maintain its position in the market. It appears further that the use of the cabinet display gains a good portion of this static market for the particular brand under study; and further, that no display at all for the brand loses dollar sales per average drugstore to competing brands.

The Nielsen research study also analyzed the effects of display on sales of a drugstore product that was in an expanding market. The manufacturer of this product had distributed 20,000 displays. In a given comparable two-month period, the sales of the stores that used the displays averaged $30.09; the sales of the nondisplay stores averaged $21.87 in this commodity class.

Furthermore, analysis of store records showed another important fact—that the stores which used the display tended to be better-than-average outlets for this type of item and that they had a better-than-average sales record for the particular brand studied.[9]

Another test made on a food product proved that the proper display of dried fruit increased dollar sales by 159 per cent per square foot. California Dried Fruit Research Institute made their first controlled test at the First National Stores in Massachusetts. In 10 of these stores sales of dried fruits were checked over a 4-week period to determine the normal weekly sales volume. Stores were divided into two balanced groups according to total food sales, dried fruit sales volume, and location. Five stores were control stores and five were test stores. Control stores made no changes in merchandising methods. Test stores did as follows:

1. Displayed dried fruits in a heavy traffic area in the fresh fruit department.

2. Stocked and displayed all available fruits and nuts in such a way as to take advantage of all possible eye appeal.

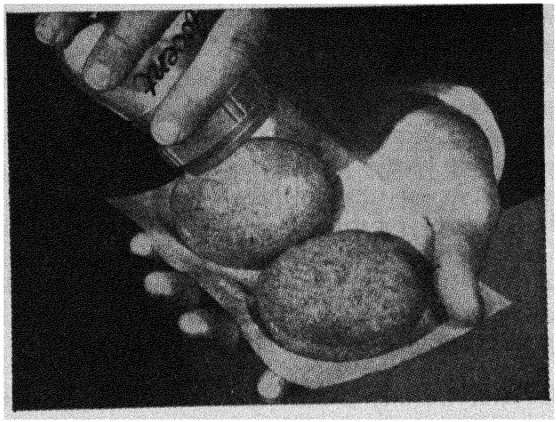
3. Kept the display area clean and attractive.

Control stores sold $4.44 worth of dried fruits per square foot of display space per week during the test period; test stores sold $11.49 per square foot per week or 159 per cent more dollar sales per square foot.[10]

The consensus of manufacturers is definitely favorable to the idea that

[9] "Nielsen Cases Prove $ Value of Displays," *Advertising Age*, Apr. 3, 1950, p. 1.

[10] "Store Tests Prove Proper Display Key to Double Sales on Dried Fruit," *Sales Management*, Sept. 1, 1951.



How 2 slices of sausage upped *Ac'cent*® distribution 550%

Ac'cent, then a new product, was ready to break its advertising in Chicago. But distribution was spotty—about 10%. *How to expand distribution—fast?*

Like scores of others, Ac'cent found the answer in the Store Detailing Service of the Donnelley Merchandising Division.

Because Ac'cent was totally unlike anything on the market, Donnelley's problem was not the usual one of building brand preference, but rather of creating an entirely new want.

To get grocers *personally* sold on this unique product, Donnelley devised this simple demonstration:

Donnelley's detail salesmen purchased two slices of sausage at the meat counter. On one they sprinkled Ac'cent, the other was left plain. Grocers were then invited to taste the two pieces of sausage—and to compare the flavor . . .

Result: grocers were convinced that Ac'cent does "make flavors sing"—and Ac'cent's distribution zoomed from 10% to 55% within six weeks!

Need a highly skilled sales force to do a store detailing job like this for you? To supplement your own sales organization for a special promotion? To help you speed up several months of selling into as many weeks—or even days? *Call in the Donnelley Merchandising Division!*

Contact your nearest Donnelley office Phone . . . or mail this coupon today

THE REUBEN H. DONNELLEY CORPORATION
Merchandising Division, Dept. A1

407 E. 25th St.	50-22 23rd Street	401 N. Broad St.	110 Arlington St.
CHICAGO 16	LONG ISLAND CITY 1, N.Y.	PHILADELPHIA 8	BOSTON 16
Victory 2-3232	RAvenswood 9-0500	WAlnut 2-2434	Liberty 2-1737

Please send additional information about—

☐ Store detailing ☐ Manual house-to-house sampling or couponing ☐ Installation of point of purchase displays ☐ Store checks

Name.....

Company.....

Address.....

City.....Zone.....State.....

displays increase sales. Some marketers have even claimed that the main function of the salesman for the wholesaler and the manufacturer is that of getting better displays and better location for displays in stores. Accordingly, these men have suggested that an appropriate title for their salesmen would be "display engineer."

BEHAVIOR OF CONSUMERS IN RELATION TO DISPLAYS

The problem of consumer choice in heterogeneous markets is being studied by Alderson and Sessions and is being guided by a committee of the American Marketing Association. Material is being gathered which will throw some light on shopping behavior.

The reports indicate that the consumer at the market place does searching and sorting. In the course of a shopping trip, she may at one time be looking for an article with certain specifications in mind. At another time she is performing a mental sorting operation of the goods offered in the market. Sorting may be regarded as the more fundamental process and searching as incidental to sorting. Efficiency in searching is a function of the way in which the facilities of the market are organized and the way in which the consumer organizes the effort spent in searching. Sorting involves more fundamental issues as to the consumer's whole pattern of life. Sorting is carried on in respect to other possessions at home, and decisions are based on kind and quality of items she desires. Aspirations enter into the process also.

Searching by shoppers amounts to buying a particular prescribed article for which no other will do, as reported by an observer of a shopper who needed a particular brand, color, and dye lot of yarn. The problems of choice vary. There is wide contrast in consumer behavior between the purchase of food and the purchase of clothing. In buying food, consideration of alternatives is rare. In buying clothing, consideration of alternatives is almost universal.

Sorting is of various types, which are being studied. A knowledge of the sorting process may eventually provide an objective behavioristic approach to the analysis of consumer choice and value judgments.[11] The contributions of this study are likely to be especially significant for the researcher. Eventually, this and related studies may provide new bases for measuring consumer reactions to displays.

HOW RETAILERS REACT TO DISPLAY MATERIALS

In spite of the fact that many retailers belittle the value of manufacturers' display materials, the great majority of them recognize the

[11] See "Searching and Sorting in the Market Place," *Cost and Profit Outlook*, Alderson and Sessions, June, 1951.

selling values of display, especially for impulse items in mass selling. The fact that much of the display material sent them by manufacturers is wasted does not mean that display is ineffective.

A survey, for example, of 300 food, drug, appliance, hardware, furniture, and department stores found that 67 per cent were using less than half of the window display material and 76 per cent were using less than half of the counter display material received from national advertisers. These retailers said that the bulk of this material was wasted. These findings do not distract from the importance of the medium; rather, they emphasize how badly, in many cases, point-of-purchase materials are being planned and used.

Manufacturers' salesmen, too, fail to appreciate the importance of tie-ins such as proofs of advertising. When the Association of National Advertisers made a survey of point-of-purchase advertising, only 3 per cent of 676 salesmen of 12 industry groups said that they request such aids as blow-ups or reproductions of their company's national or local advertisements.[12]

WINDOW DISPLAYS IN SELF-SERVICE STORES

The usefulness of display windows for small stores and specialty shops is still as important as ever, but their importance in the mass selling methods of the big self-service stores has declined. The typical modern supermarket does not have display windows with backs. Instead, the front of the store has windows without backs so that the person on the outside can see the entire interior filled with displays of the products. The whole interior, in a sense, becomes a display to the passer-by. This type of full display stimulates the passer-by to come in and shop far more than the old-fashioned window with its partitions that hid the stock on display in the interior of the store. It will be interesting to see how rapidly variety chains and specialty stores copy the open front of the modern supermarket.

This does not mean that display is less important than formerly; the opposite is true. But it does mean that attractively arranged full lines of products have more "sell" in them than the old type of display, "You can see it but you may not touch!" The easier it is to see and grasp the product, the better the sell.

AIDS ARE AS VARIED AS THE IMAGINATIONS OF MARKETERS

An unusual promotion on the local level was developed by F. C. Russell Co., maker of Rusco self-storing combination windows and doors. The

[12] Lawrence M. Hughes, "What Do Your Salesmen Think of Your P.O.P. Advertising?" *Sales Management*, Mar. 15, 1952.

company printed 500,000 "National Sandlot Baseball-Football Window Repair Guarantee" cards. The card certified that the F. C. Russell Co. would replace any window broken by a sand-lot ballplayer. The combined advertising and publicity obtained from this repair assurance cost the company about $26,000 a year for window replacements but also brought increases in sales of 25 per cent in some areas. The company's 10-millionth window was installed in the Baseball Hall of Fame at Cooperstown, New York. In addition to the publicity developed by the plan, the company has also launched a "Junior Salesmen Training Program" that enables boys and girls between 12 and 16 years of age to earn pocket money by helping sell Rusco products.[13]

A description of all the promotional plans and services of any one year would not necessarily forecast the campaigns of future years. Marketers are constantly developing "bright ideas," many of them effective. The alert marketer studies the plans that he can see currently in the trade journals, magazines, TV shows, newspapers, direct mailings, stores, and other media. He senses their spirit and effectiveness and then develops plans of his own, appropriate to the marketing conditions of his product.

The need for creative thinking in marketing is so great that a business leader, one who has spent a lifetime in marketing, is devoting every possible resource to training of marketing men and others in the development of their imagination. He has formulated practical techniques by which creative imagination [14] can be more productively utilized. His techniques have been especially productive for those who develop merchandising aids.

SOURCES

The Point-of-Purchase Advertising Institute, Inc., 11 W. 42d St., New York. This association is made up of the nation's leading producers of all types of window and store displays. It includes producers in allied industries, such as lithographers, window-installing companies, makers of plastics, metals, plywood, glass, Plexiglas, corrugated board, wire, paper, inks, varnish, adhesives, and other major suppliers of the industry. Eight of the nation's largest national advertisers, companies that are heavy users of window displays and store displays, are represented on the board of directors and on important committees.

Information is furnished to members and users of point-of-purchase advertising which illustrates the successful use of point-of-purchase adver-

[13] "Rusco, Fixer of Broken Windows for Sandlotters, Now Pays Them to Sell," *Advertising Age*, Sept. 14, 1953, p. 2.

[14] Alex F. Osborn, *Applied Imagination: Principles and Procedures of Creative Thinking*, New York: Charles Scribner's Sons, 1953.

tising. The Institute maintains a library of books which give information on recent surveys and articles published in the field. The organization is in a position to obtain considerable free publicity for its members and their products. The Institute also acts as public relations counsel for the entire industry. New bulletins are issued monthly which help members keep informed on all activities in the organization, coming events, and new developments in the industry. Slide films on window display and store display advertising are available to members. An annual symposium and exhibits are held which introduce the newest and best in display advertising and techniques by the nation's leading producers.

COLLATERAL READINGS

Aspley, J. C., *Sales Promotion Handbook,* Chicago: The Dartnell Corporation, 1954.

Frey, George F., and Raymond D. Buteux, *Current Readings in Marketing,* New York: Printers' Ink Publishing Company, 1954.

Hepner, H. W., *Effective Advertising,* New York: McGraw-Hill Book Company, Inc., 1949, Chaps. 24–26.

QUESTIONS AND EXERCISES

1. Define merchandising. How is merchandising distinguished from advertising and selling?

2. What types of themes are frequently used for successful merchandising aids?

3. What are the major shortcomings of manufacturer-prepared merchandising aids? How can these shortcomings be avoided?

4. What are the relative merits of merchandising plans involving related items as contrasted with those plans involving nonrelated items?

5. From the standpoint of dollar expenditures, how important are merchandising aids as part of the advertising budget?

6. How can direct mail be used as an effective merchandising aid?

7. Is there any evidence that retail display will increase the sale of a product? What types of products are most likely to be affected? Explain.

8. What information does the alert marketer need to know in order to understand consumer shopping behavior?

9. Have the function and concept of window displays changed with the growth of self-service? Explain.

10. Examine the classified section of your local telephone directory. Can you find lists of firms that provide display installation services? How many firms? If you are really interested in displays, visit one of the firms and interview a member of the firm. "Pump" him for information about the services given.

24 Promotion by Means of Premiums

THE ALERT MARKETER

1. **Notices the premium offers that appear and studies their probable objectives and results.**
2. **Watches the various types of coupon offers and the kinds of merchandise offered for redemption of the coupons, and wonders whether the products he markets might be sold as coupon-redemption items.**
3. **Studies methods of pretesting the effects of premium offers.**
4. **Looks for postpremium promotional efforts by the manufacturers who have used a premium offer for a definite period of time.**

To promote sales, United States manufacturers and merchants annually bait their sales hooks with approximately $1.5 billion worth of premiums.

The premium idea was born in 1851 when Benjamin T. Babbitt of New York conceived the idea of giving something away free to purchasers of his soap. Previously soap was sold in bulk by the pound. Babbitt was the first soap manufacturer who wrapped up his cakes of soap and sold them as packaged goods. The idea did not catch on because consumers assumed that wrappers merely added to the cost. Babbitt printed the word *coupon* on the wrapper to indicate that it had value. His first premiums were lithographed reproductions of colorful paintings and these, rather than the soap, made his business successful. Actually, his lithographs featured his products to such an extent that they were advertisements rather than works of art. But they made his business prosper and other soap companies started to use premiums.

In 1882, the Larkin Soap Co. of Buffalo extended the premium offer to include silver, perfume, and household articles that could be obtained by purchasing certain assortments of soaps and washing compounds. A

Larkin premium was given with the first large order, the customer being obligated to continue to purchase Larkin products until the specified value of the premium had been earned.

In time, so many companies used the wrapper-saving or coupon idea that the premium store was developed. People who saved certain wrappers of coupons could go to the store to cash them for a choice of merchandise items.[1]

Premiums were a trade magnet for certain manufacturers for several decades before their counterpart began for dealers. In the 1890's, retailers began to use the "trading stamp" or "discount stamp." The main purpose of these stamps was to encourage customers to pay cash rather than charge their purchases. The Sperry & Hutchinson Co. Green Stamps, one of the first stamp plans, are still used by some 20,000 retailers.

Discount stamps are issued at the rate of one for each 10 cents represented in cash purchases. The stamps are pasted in books that hold 1,200 stamps, the evidence of $120 in aggregate cash purchases. It has been estimated that some 15 million families consistently save discount stamps today.

Of course the retailer who supports such a plan does so because it increases the customer's loyalty to his store. The customer who has a partially filled stamp book tends to return again and again to the stores that issue the stamps. To the customer, usually a housewife, the stamp book is evidence of her thrift. In the case of the S & H Green Stamps merchandise which the housewife can obtain for her stamp-book collections is on display in about 300 cities and towns. Catalogs of available premiums are distributed in the other towns and there the housewife can make her filled-book redemptions by mail.[2]

Currently, the trading or discount stamp is gaining ground as a sales and advertising promotional medium of the independent retailers. Its growth, however, is being checked by court actions or threats of court action by those who object to stamps on the ground that they violate state resale-price-maintenance laws. Some states also levy high sales taxes on premium merchandise and on stamp merchandise. The marketer will have to watch the various legal interpretations that are placed on trading stamps from time to time as to whether they are to be considered as a "discount for cash" or a "cash discount." Of course the trading-stamp companies insist that they are a discount for cash.[3]

[1] Carroll J. Swan and Robert Brenner, "Why Babbitt Is as Firmly Wedded to Premiums Today as It Was in 1851," *Printers' Ink*, June 29, 1951.

[2] See Frank Waggoner, "Discount Stamps: Half a Century Old and Still Going Strong," *Sales Management*, Mar. 15, 1949.

[3] See *Business Week*, June 12, 1954, p. 58 f.

COMPANIES THAT USE PREMIUM OFFERS

Topping the list of premium users in recent years are breakfast cereal companies, with soaps and detergents following close by. Confection, dessert, soft drink, home appliance, drug, and toiletry companies have lessened their use of the premium at times. On the other hand, petroleum products and wearing apparel concerns have increased theirs recently. The extensive use of premiums is indicated by the fact that companies such as insurance, insecticide, brush, light bulb, paint, tobacco, and watch have used them. In general, the use of premiums fluctuates somewhat with the degree of competitiveness in markets.

Companies of all kinds and sizes use or have used the premium idea to stimulate sales but the largest share of the distribution of premiums still remains with the larger firms, particularly Quaker Oats, General Mills, Procter & Gamble, General Foods, Kellogg Co., and Lever Brothers. Some of these companies have reported expenditures of several million dollars a year for premium giving.

Fuller Brush and Real Silk Hosiery have opened millions of doors with premiums. Several direct-selling companies have "hostesses" who give parties or conduct beauty clinics for women, attracting them by means of premiums that lead to sales.

Three "wagon-route" companies—Jewel Tea Co., Inc., Grand Union Tea Co., and Great American Tea Co.—have courted housewives for several decades by giving them the premium first and then having them save coupons to pay for it. These hundreds of route men, in their delivery trucks, call on several millions of customers each year. They deliver the goods ordered on the previous stop and take orders for delivery two weeks later. Most of this business is done in small-town and rural areas.

The clever use of a premium can certainly promote sales and enhance public relations. If properly employed, a good and useful premium can reap millions of returns. In one company, General Mills, an "atomic ring" was offered in return for 15 cents and a Kix box top. The number of responses from children was 3 million. Lever Brothers received a response from 1.4 million women in answer to a locket premium offer that called for a Rinso box top plus 15 cents.

Along with actual premium giving, heavy advertising is an essential part of any drive of this kind. The advertising of the premium should not, however, use up money that might better be spent on brand preference advertising. Premium advertising puts the emphasis on the free goods rather than the quality of the product. If a premium, however, is made, it is necessary for the consumer to know about the offer in order to want it. To cite an example, B. T. Babbitt, Inc., utilizes radio, TV, magazines

The morning mail at General Foods' Battle Creek offices contains thousands of requests for sun-watch compasses and other fancy prizes. First job is to sort the orders according to the type of premium wanted. As fast as the clerk can handle this mountain of letters, a new batch will pile up.

SOURCE: Acme Photo Service. See also *Business Week*, Mar. 26, 1949.

and newspapers, as well as their typical device of a wrap-around banner to describe their premium offers. A premium drive of this national kind is terminated after two or more weeks, resulting in the company distributing between a quarter million and two million premiums.

THE FIVE BASIC PREMIUM PLANS

Frank Waggoner, a widely known expert on premium use in marketing, has described the five basic types: [4]

1. Coupon plan
2. Direct premium plan
3. Self-liquidating plan
4. Container premium plan
5. Enclosure premium plan

The coupon plan. This plan, devised by B. T. Babbitt, is designed with the objective of getting customers who will continue to buy the product.

[4] Frank H. Waggoner, "The ABC's of Premiums," *Sales Management*, Nov. 1, 1949, p. 91.

Coupons are given with each product purchase. The customer saves them in order to collect enough to get a desired premium. This desire for a specific article causes the customer to forgo the purchase of competitive products because such lack of loyalty would prolong the receipt of the desired premium. Manufacturers who dispense coupons usually offer a large assortment of premiums so that the desire of the customer for a definite article may be satisfied by continuous purchase of the couponed item. A great many coupons are usually necessary to get a worthwhile premium, and some manufacturers therefore offer premiums for all the products they sell, thus increasing the customer's loyalty to a specific company or brand.

The premium catalog in the hands of the customer is an advertising medium for the company. Every time the housewife looks over the catalog to study the premiums offered, she also sees the company's products extensively described and praised. Hence, many companies charge the cost of premium catalogs to advertising rather than to the premium plan.

There are two methods of handling the details when customers send in their coupons for redemption: (1) the company can operate the service independently or (2) the company can employ a premium service company, which will take care of all the arrangements from the printing of the catalogs to the shipping out of premiums.

Of course, not all the coupons distributed by a company are ever redeemed. The percentages redeemed each year build up to about the fifth year when the percentage usually stabilizes. A study of redemption of 17 food manufacturers' coupon plans showed the following build-up: first year, 13 per cent; second, 21 per cent; third, 35 per cent; fourth, 45 per cent; and for the fifth and later years, 58 per cent.[5] Coupons issued to dealers and clerks, however, have a different rate of redemption, often rising to 75 or 80 per cent as early as the first year.

The direct premium plan. This includes premiums given directly with a single purchase and does not involve a coupon, wrapper, or box top. Container and enclosure premiums are in this class. They have the purpose of instigating the immediate purchase of the product. The premiums are delivered by the dealers at the time of purchase. Sometimes they take the form of the 1-cent sales, the premium being given for an extra cent or dime, always kept by the dealer as compensation for handling the premium.

The direct plan is also used in the sale of appliances and other large-ticket items in order to increase sales rapidly within a definite period of time. With these high-priced items, expensive and well-known products

[5] Frank H. Waggoner, from Marketing Pictograph by *Sales Management*, June 1, 1938.

are given. Such articles as china, glassware, silverware, cutlery sets, and stainless steel cooking equipment that carry good brand names are given as premiums. The premium often costs the issuer as much as $25 per item. The theory underlying the use of expensive premiums in selling durable goods is that the premium has more appeal to the customer than a price reduction of double the actual cost of the premium to the manufacturer.

The self-liquidating plan. This widely used plan involves the doling out of a premium in return for a box top, wrapper, or other evidence of purchase plus a sum of money which covers the delivered cost of the premium. The benefits to the consumer are that usually the premium would cost him much more. This plan also enables the manufacturer to offer a premium of greater value than he could afford to give outright.

The self-liquidating offer is often used to introduce new products. The plan's emphasis is on a single sale, but, like the coupon-redemption plan, it does supply the sponsoring company with the names and addresses of purchasers. The most popular items offered are those directed to the housewife or to children, the added cash required generally ranging from a few cents to a dollar. In recent years, the percentage of offers in the 50-cent to $1 and over class has increased and the 10- to 24-cent offers have decreased.[6]

The container premium plan. This plan involves the packing of the product in a reusable container. Usually the price of the initial item is not increased. Such inexpensive containers as iced-tea glasses, jars, and goblets are offered to consumers, but containers are also used as premiums to dealers. Kraft, for example, packed 60 pounds of roasted coffee beans in galvanized ash cans and told the dealer to sell them at $1.75 each. One manufacturer of lollipops packs them in sand pails for children and sells thousands of them each year. One interesting development of the plan is that the antique white glass chicken-shaped dishes and sugar bowls that now sell at high prices to collectors were originally sold as containers of mustard to housewives.

The enclosure premium plan. This plan is economical and widely used because it keeps at a minimum the cost of handling and eliminates any inconvenience to the dealer. No coupons or box tops are involved. The customer receives the premium with the package. Its most effective employment is where the premium is one of a series of articles that will induce the consumer to buy the product again. Such articles as dish towels, silverware, chinaware, jewelry for children, picture series of birds, dogs, and so forth are particularly effective. The drawback of this kind of offer is that it does not interest the whole family as do couponed premiums. Furthermore, the choice of the premium is limited since it must weigh

[6] See *Printers' Ink*, Apr. 30, 1954, p. 54.

below a certain amount to avoid bringing the product into a higher transportation weight rate.

In general, each of these plans is effective—in its rightful place. When it serves its proper function, the sales volume increase proves its effective-

ness. Usually, the employment of a premium of some sort will at least distinguish the product from others, the extent of distinctiveness depending upon the ingenuity of the premium giver.

PURPOSES OF THE PREMIUM OFFER

Manufacturers use premiums for many different marketing purposes. The main ones are giving sales an extra stimulus, introducing new products, and getting hesitant buyers to stop vacillating and buy. Additional reasons are to meet price competition without cutting the price, to get names of prospects, to help salesmen get into the home or office of prospects, to clear stock rooms of old stock when new products are coming, to test advertising pull, and to give copy writers and salesmen something new to talk about. The premium offer should have definite purposes before the premium itself or the plan is selected. In too many cases, however, the marketer picks the premium first and the sales objective second.

Many manufacturers find fault with those premium suppliers who are

more interested in selling their premiums to the manufacturer than in showing him how the premium will help him sell his product. The supplier should be able to furnish objective data that prove the extent to which the proffered premium does or does not increase sales.

Increased floor display is an important purpose of the premium plan for frequently purchased consumer products. For products that are sold in self-service stores, the manufacturer wants more than prominent shelf displays. He wants easy-to-see, self-selling floor or island displays in the store and extra space in the dealer's windows. Point-of-purchase displays of this kind give the product a prominence that activates sales through unusual impact. Usually the premium involved in a floor display is attached to the display or featured so that the purchaser can see where and how the product and the premium can be easily obtained.[7]

In order to achieve this amount of attention for the premium, it is necessary to gain the support of all those who must finally put it before the public: the dealers, the wholesalers, and the company's salesmen. Furthermore, the premium distributor must be concerned with the appeal of the premium itself, since a faulty or uninteresting one may easily become connected with the manufacturer's product in the consumer's mind.

In addition to being a sales stimulus, premiums have many secondary values, which may be more valuable than the momentary sales stimulus. The ultimate worth of a premium offer is not only the number distributed but also the effect on dealer good will for better retail store promotion in the future, greater reading of advertising, and the long-term influence on the consumer. The secondary benefits of the premium can assume primary importance and these sought-for effects often test the ingenuity and skillful planning of the premium sponsor more than the attainment of the primary benefits.

PRINCIPLES OFTEN CONSIDERED WHEN A PREMIUM IS CHOSEN

In the use of premiums, many marketers feel that the premium should have some obvious relation to the product. Others think that a premium should offer a bargain, while still others believe that the glamour premiums are most effective. All these characteristics have their place but the effectiveness of the premium depends upon its proper employment at the right time toward a definite objective.

Those premiums which are definitely related to the use of the product combine related-item merchandising and bargain incentive in the purchase of staple goods, as in the case of a coffee canister given with a specific purchase of coffee. The use of the related-to-the-product premium is

[7] See Thomas M. Jones, "Does Your Premium Offer Have a Purpose?" *Printers' Ink*, Apr. 24, 1953.

especially effective in the selling of those staple goods in which the customer considers one brand as good as another. She is most likely to choose the brand that offers a premium. This kind of premium often also suggests new or additional uses for the product while at the same time offering the "something for nothing" appeal to the customer.

This suggestion of "something for nothing" or the bargain idea is the primary lure of the premium. Usually marketers find that to offer a premium that is inexpensive, yet appealing, they must choose items unrelated to the product. This, of course, results in the lack of a strong psychological tie-in between the product and the premium.

Another type of appeal of a premium may be its use as a gift. This broadens its utility. In some cases, the customer does not think it is valuable for himself but as a gift for someone else. Sometimes, too, the manufacturer can capitalize on the seasonal aspects of his premiums such as Christmas, June, or Easter. In addition, the gift idea has a double advertising value, one for the giver and one for the recipient.

In many cases, the most influential premium customers of a manufacturer are children. When a premium is offered that is cleverly designed to appeal to children, the sale of the product is sure to be increased. An area in marketing where this is frequently used is in the cereal market. Children are especially susceptible to the effects of premiums that involve the use of the trade-mark of the product itself. Such companies as the Quaker Oats Co. have utilized the idea in items like Quaker Oats salt and pepper shakers in the images of the trade characters of Aunt Jemima and Uncle Mose. The Ken-L-Ration salt and pepper set of the puppy and kitten featured in Ken-L-Ration advertising created much good will for the product on the part of child customers.

A modern trend in premiums is the glamour appeal. A few women, of course, prefer to add to their stock of cooking equipment, but today's modern woman is likely to be more interested in receiving a beauty aid. The wise marketer finds a way to combine her desire for glamour with his product.

> A product that is associated with glamour gets a high product interest rating with her. American women are more interested in cream puffs and lace than in flour and flannel.
>
> The wise advertiser of flour finds a way to associate his product with cream puffs at a fashionable table, and the flannel advertiser shows how to add a bit of lacy glamour to a flannel night gown. Product interest jumps.
>
> Product interest jumps even higher—and for the same reason—when the advertisers offer a glamour premium to go with the flour and flannel. Almost any product can be associated with glamour via a premium.[8]

[8] "16 Basic Premium Offers and When to Use Them," *Printers' Ink*, May 12, 1950.

WHAT KINDS OF CONSUMERS RECEIVE PREMIUMS?

In a recent survey, National Family Opinion, Inc., reported that in a 3-month period, 25 per cent of American families received premiums. The wide variety of items used as premiums is shown in Table 24–1.

Table 24–1. *Types of Consumer Promotions*

Type of premium	Percentage of number counted	Offers of the type
Self-liquidating premiums	43	73
Coupons	25	42
Contests	20	33
One-cent or combination offers	6	10
Package premiums	5	9
Premiums distributed at store	1	2

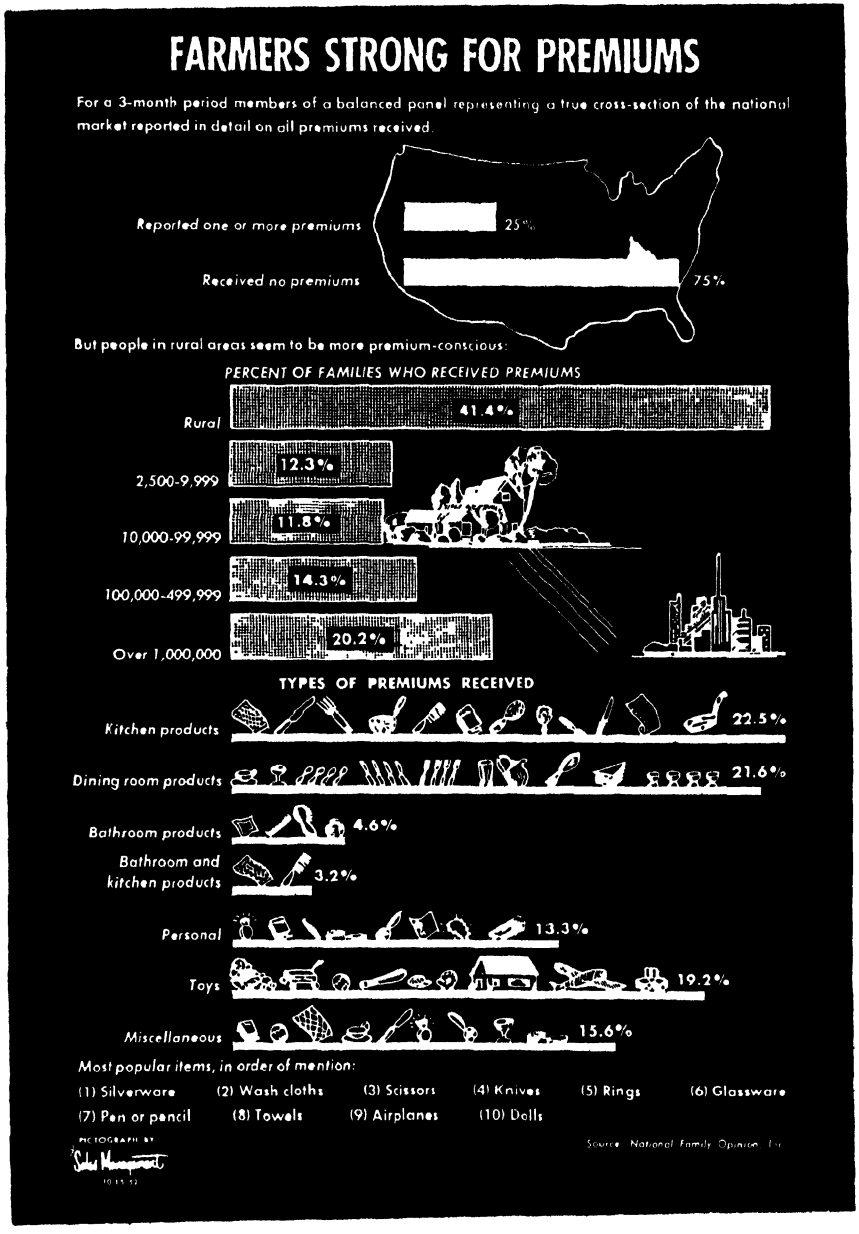
A compilation of national or strong sectional consumer promotions for the first six months of a recent year resulted in a total of 169 such offers in the grocery field alone, classified as shown in the above table.

It is apparent here that self-liquidating premiums are in first place by a rather wide margin, with a total of 73 offers of this type representing 43% of the total number counted. This, of course, is not surprising when we consider that self-liquidating offers are generally just what their name implies—they cost the manufacturer little or nothing while still giving the consumer a bargain due to the manufacturer's mass purchasing power. Coupons are next in popularity with 25% of the total; consumer contests of one sort or another come next with 20%; then one-cent combination offers with 6% of the total; package premiums, and this refers to premium merchandise distributed in the package and not to cutouts which can be formed from the package itself, 5%; and, finally, premiums distributed at the store only, 1%.

SOURCE: Table and comments from "One Billion Box Tops!—the Midas Touch?" *The Nielsen Researcher,* publication of A. C. Nielsen Company, September, 1948, p. 9.

Farmers were found to be somewhat stronger for premiums, as indicated by the finding that 41.4 per cent of all families that received premiums lived in rural sections at a time when the percentage of Americans living in rural areas was 39.

Children play an important part in the premium market. Two-thirds of those receiving premiums are housewives with children under 10 years of age. These take 21.4 per cent of the premium market. A large share of premiums offered are directed toward children in the forms of articles such as airplanes, rings, dolls, comic books, and badges.



The premium market is not often directed toward older people. Those in the 65-years-and-up population comprise 9.3 per cent of the total population, but this group comprised only 3.2 per cent of the premium recipients. According to the survey, the largest percentage of premiums, 29.5 per cent, were received by those families that included a housewife be-

tween the ages of 25 and 34. This is the type of family that is likely to have children in the "premium age." [9]

PREMIUMS FOR DEALER USE IN SELLING

Premiums for the dealer can be an important part of a sales promotion program. It can encourage him to help "push" the manufacturer's product by means of displays and traffic builders. It may help both the manufacturer and the dealer get rid of excess stock and keep stock moving.

The Staffin-Johns Co., Chicago, tripled sales of their baby mattresses by means of a premium plan designed to get dealer cooperation. The company offered as a premium a 24-can case of Gerber's baby food. A case of the baby food was given with the purchase of a high-priced mattress, the baby food to be used as a giveaway. The baby food was sent to the dealer free of charge, but he had to purchase 10 mattresses for the event. Furthermore, the dealer had to run advertising supplied by the manufacturer and furnish proof that the advertising was done. The understanding was clear that if the dealer did not live up to his end of the bargain, that is, advertise properly, he would be billed for the baby food. The promotion was a success, largely because of the dealers' cooperation.

PRETESTING THE PREMIUM PLAN

The selection of the right premium is a major problem and the big users of premiums pretest the value of their premium offers. One procedure is that of testing possible premiums against each other. The use of a field test will often save considerable money. One good method of pretesting is that of advertising the premium offer on a local radio program. The findings of such a local test will often have nationwide significance.

A pretest of a premium does not always produce an accurate estimate of the number of premiums that should be stocked in advance of the offer. It should, however, indicate the percentage of those accepting the offer who are old customers and the percentage of new customers who buy the product after the premium offer expires. In the case of frequently purchased household staples, such as soaps and cereals, the hoped-for projections of the figures would be such as the following:

Number of premium items sold	1,000,000
Number of new or first-purchase customers	500,000
Number of new customers who buy again	250,000

[9] See *Advertising Age*, Feb. 25, 1952, p. 60, and Marketing Pictograph, *Sales Management*, Oct. 15, 1952, for summaries of this study by National Family Opinion, Inc.

Of course, a company's premium offer may result in obtaining 250,000 new customers but fail to produce an increase in total sales volume. At the same time that one company conducts a successful premium offer, the competitors may also be conducting special offers that lure away some of the first company's regular customers. The end result of several offers may be that all the companies wind up with their original shares of the market.

If the premium plan does not hold old customers as well as repeat customers, the plan merely adds expense to the cost of selling. A. C. Nielsen reported one study that points up the importance of this principle.

FOUR COMPANIES ponder a costly lesson in merchandise give-aways.

They make hair preparations. The biggest company started to offer "one package free with every one you buy"—and the others followed. Altogether they gave away $750,000 of their products during the sale with these results:

Turnover, which increased at the start of the sale, slipped as customers stocked up; dollar income sagged badly under what amounted to 50% price cuts. Afterwards, it took many weeks for sales to recover. Finally, all manufacturers wound up with almost exactly the same shares of the market as before the give-aways.

A fifth manufacturer never joined the parade. During his rivals' cut-rate campaign his business actually improved slightly at one point. He now has as much of the market as before—about 11%.[10]

Another summary of experience with the Nielsen Food and Drug Index Service in regard to consumer promotions is the following:

Consumer promotions will result in temporary sales gain, but fail to change long-term trends of established widely distributed products. Promotions almost without exception result in brand position settling back to the pre-deal level and on a successive and frequent basis they generally produce smaller and smaller sales results.

These promotions may, however, be highly successful on new products if they are good or on products of limited distribution and use. It may be advisable or even necessary for an established product to use a promotion as a defensive measure against an aggressive competitor. However, such pressure selling is no substitute for advertising in the building of a consumer franchise.[11]

PROMOTION IS ESSENTIAL FOR THE POSTPREMIUM OFFER PERIOD

When a new premium offer is planned by a company, considerable executive, merchandising, and advertising talent is concentrated on the

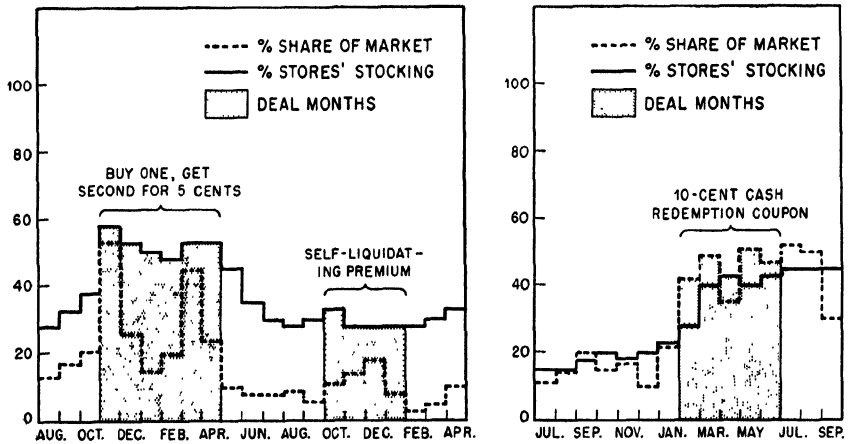
[10] "A. C. Nielsen, Market Pollster, Learned These Facts from Surveying 3,000 Drug Stores," *Wall Street Journal*, June 22, 1950.

[11] Part of a talk by J. P. Napier, A. C. Nielsen Company, before the Southeastern Chapter of the American Association of Advertising Agencies, Nov. 13, 1953, reported in *Advertising Age*, Nov. 16, 1953, p. 20.

development and execution of the plan. Unfortunately, the high-powered thinking usually stops when the premium offer has run its course; the postpremium period is given little thought. Hence, the sales curve for the product usually starts on a downward curve and levels off at a point at or below the prepremium period. Several investigators have found this effect to be typical.

One source of a series of studies along this line is the Monthly Grocery Inventory Bureau of Advertising, American Newspaper Publishers Association. The inventory's data for grocery products report each month, by brand, average sales per store, per cent of stores stocking, as well as other figures of value in tracing the effects of premium offers or other deals. The reports show sales increases or decreases before, during, and beyond the deal.

Generally, the promotions are well-planned and executed, particularly by the larger companies who normally pretest such projects. In too many cases, however, the spurt engendered by the premium is not maintained.



When this study was started the sales of this baking ingredient product were on the rise. The manufacturer carried on a 5-cent sale for 6 months. The consumer was urged to buy one package at the regular price and a second package for 5 cents. Sales increased for about 4 months, and then dropped. Apparently, the drive was intensified and sales rose. The sales level then dropped again.

Later, a self-liquidating premium offer lifted the percentage of stores stocking and the percentage share of the market but both percentages dropped below the pre-deal offers.

The data for this chart show that the sales were more or less even when the study was started. After several months, the manufacturer developed a cash-redemption coupon offer having a value of 10 cents toward the purchase of a package. Sales rose.

The curves for percentages of stores stocking and percentage share of the market rose and maintained at levels higher than the pre-coupon period. In this case, the manufacturer supported his product with continued local selling and advertising.

SOURCE: Wayne Mooney, "Are Deals Worthwhile?" *Printers' Ink*, Oct. 30, 1953.

The reason appears to be that the advertising and selling efforts put forth before and during the offer are not maintained. The marketing men tend to imagine that the job was completed when the deal period ended. On the other hand, those companies that support the offer with continued promotional effort and advertising in the postoffer period retain a good share of the gains brought about by that offer. Compare the two charts on page 384 for the share of market curves. The product for the charts was a baking ingredient in both cases. In the one, the downward curve continued after the offer. In the other, the curve rose above the predeal period. In the latter case, the manufacturer supported his product with continued local selling and advertising in the postdeal period.

THE LEGAL ASPECTS OF THE PREMIUM OFFER

Every premium offer involves the possibility of legal pitfalls. Certain states have laws that regulate or prohibit specific kinds of offers, especially those of a trading-stamp and coupon nature. The Federal postal laws and regulations make unmailable any scheme where value is awarded by lot or chance. The saving of coupons, solving puzzles, writing letters, completing limericks, and all other requirements that involve skill or special effort are held to be free of offense.

Certain governmental bureaus also object to exaggerated claims concerning the claimed monetary value of a premium. To avoid difficulty, experienced companies shop for each article offered as a premium and keep the sales slip, attached to the merchandise, as evidence of the value assigned to the premium.

Certainly, the development and carrying out of a premium type of promotion involve considerable judgment and planning. The legal difficulties are incidental. The important difficulties are selecting the time when a premium offer should be made, developing a plan that stimulates salesmen and dealers, coordinating the plan with the advertising and store displays, servicing the plan, and developing beneficial long-term effects.

Although premiums supply considerable promotional stimulation, the values of sampling, couponing, and contests should also be considered. To define these areas simply: Premiums are products offered as well as the manufacturer's own; sampling is the trial of the manufacturer's product on a free basis; coupons are redeemable for either samples, premiums, or some kind of cash award; contests involve the awarding of products (usually not the purchased product) or of cash prizes as a result of a demonstration of skill. Sampling does not require the purchase of the manufacturer's product but premiums, contests, and coupons do. Each of these common forms of promotion has its appropriate uses in marketing.

SOURCES

Printers' Ink, 205 E. 42d St., New York. An analysis of premium offers made throughout the year by national and sectional advertisers is conducted annually by *Printers' Ink*. During the year *Printers' Ink* checks all the premium offers which appear in various types of advertising and collects facts such as what company made the offer, with what product the offer is associated, a description of the premium, how the consumer can obtain the premium, and the method used to distribute it.

Data are collected in the following areas: What companies in various fields are using premiums, kinds of premiums offered, relationship between the merchandise and the premium offered, the extent of free offers as opposed to those that are self-liquidating, the amount of cash the consumer must send in to obtain the premium, etc.

Premium Advertising Association of America, 608 Fifth Ave., New York 20. Publishes helpful materials such as a small book, *How to Use Premiums in Your Business to Increase Your Sales and Profits.*

Premium Practice, 386 Fourth Ave., New York.

COLLATERAL READINGS

Agnew, Hugh E., and Dale Houghton, *Marketing Policies*, New York: McGraw-Hill Book Company, Inc., 1951, Chap. 16.

Aspley, J. C., *Sales Promotion Handbook*, Chicago: The Dartnell Corporation, 1954.

Hepner, H. W., *Effective Advertising*, New York: McGraw-Hill Book Company, Inc., 1949, Chap. 27.

Waggoner, Frank H., *Premium Advertising as a Selling Force*, New York: Harper & Brothers, 1939.

QUESTIONS AND EXERCISES

1. Are premium offers a modern development? Explain.
2. What is the usual basis of operation for plans involving the use of discount stamps? Why does the retail dealer use such a plan?
3. Describe the role of advertising when premiums are used. How may advertising be misused in this situation?
4. What are the specific advantages to a manufacturer of each of the following premium plans? (*a*) direct premium plan, (*b*) self-liquidating plan, (*c*) container premium plan, (*d*) enclosure premium plan, (*e*) coupon plan.
5. What are some of the conditions under which each of the basic premium plans can be used most effectively?
6. How can premium offers be pretested? Should they be pretested?

7. Do consumer promotions on established products generally change the long-run brand position of the manufacturer using the promotion? Explain.

8. Can the use of a premium as a defensive measure be justified?

9. Some food retailers have claimed that they lose money every time they handle a manufacturer's promotion coupon for 1 cent. They think that they should not be asked to underwrite a portion of the manufacturer's couponing costs. Interview some local retailers regarding their attitudes toward manufacturers' 1-cent coupon promotions.

10. One of the hazards of certain cash offers is the swindle. Here, for example, is a news item that illustrates how a manufacturer may be swindled:

> One of the hazards very few ad planners would think of proved a real headache last week to Seeman Brothers (New York) wholesale distributor of White Rose coffee and tea. Last month, Seeman sent out about 4,500,000 post cards offering the housewife free tea bags if she would purchase a pound of White Rose coffee at her local grocer. The card also told the dealer that Seeman would redeem the coupon for 21¢ to cover the cost of merchandising and handling, providing "you have received it from a customer purchasing this combination. . . ."
>
> Seeman soon had plenty of cards to redeem, but also noticed that its coffee was not moving off the shelves as fast as it should. A check with postal inspectors found the reason. A Brooklyn mail carrier had been stealing the coupons, selling them (at 8¢) to a newspaper distributor. The latter sold them (for 9¢ apiece) to a grocery dealer, who in turn sold them to other dealers for 13¢. At the tail-end, of course, Seeman was shelling out 21¢ each on the turn-ins.
>
> Postal authorities said they found about 10,000 cards in the newsdealer's possession, added that the total swindle might reach more than $100,000 when the inspection is completed. (Coupons for soap and other products have been disappearing too.)
>
> Seeman Brothers says it is under obligation to redeem all of the cards and will continue to do so. As for the total effect on the coupon program, the firm says it will take approximately a month more before final sales figures are in.[12]

a. Assume that you are planning to make a similar kind of offer to dealers. How would you set up the plan to prevent being swindled?

b. Is this kind of experience so unusual that its possibility should be disregarded?

[12] *Tide*, May 25, 1951, p. 17.

PART SEVEN

PERSONAL SELLING OF OUR PRODUCT

25 Managing the Sales Force

THE ALERT MARKETER

1. **Notes the status of the sales manager in the top management of his company in order that his efforts in marketing may coordinate with the efforts of other responsible executives of the company.**
2. **Considers the problems and responsibilities of the sales manager, the methods by which he deals with them, and the effects of his methods on costs.**
3. **Observes especially the compensation and training methods for directing the efforts of salesmen.**
4. **Watches the extent to which the salesmen are constantly stimulated to sell through the use of contests or other activating devices.**

In the second half of the twentieth century, we find that we have largely overcome the problems of production but not those of distribution. As explained in Chapter 1, we have to increase our selling effectiveness so that we can improve our living standards in line with our production facilities. Our marketing problems are more difficult than at any time in our history. In recognition of this in many companies the sales manager has become one of the most important members of top management.

Selling and sales management are far more important than most people realize. About 8 per cent of our national bill for goods and services, except during wartime, covers the costs of salesmen and advertising. The importance of selling is also indicated by the relative amounts of money spent in the United States on personal selling and advertising. Most people imagine that the amount spent for advertising is greater than for personal selling. In a typical year, the total annual expenditure for selling, $12.25 billion, is about twice that for advertising, $6.5 billion.

THE SALES MANAGER'S PLACE IN TOP MANAGEMENT

The importance of sales management in modern business management is indicated to some extent by the percentage of sales executives who are accorded a place in top management. *Fortune Magazine* analyzed the backgrounds of the three top executives of 300 companies: 250 industrial firms who were biggest on the basis of sales, the 25 biggest railroads, and the 25 biggest utilities. As would be expected, their backgrounds varied with the type of industry (see Table 25–1).

According to the table, sales led the list as the last step to the top rung of the ladder. Apparently, the qualities of leadership sought by boards of directors are likely to be found in a sales executive when he is moved to one of the three highest paid jobs. As stated by *Fortune Magazine*,

> Many of the big companies have become too vast for the true specialist in law or finance or engineering to manage. Men in these fields have indeed reached top positions, but they have done so probably because they possessed two qualities that come more easily to alert sales executives and to other non-specialists: a capacity for taking a broad view of company activities, and an ability to get along with people. The new manager was not, after all, expected to run the show; he was expected to fuse the judgments of other managers and keep the parts of the company in balance. He was expected to be receptive. The transition from first-generation to second-generation management was essentially a salesman's job.[1]

Obviously, as production becomes easier and marketing more difficult for boards of directors, sales management tends to gain stature. Our economy is constantly getting bigger and selling is becoming more complex. The complexity is indicated by the trend in marketing toward the use of more marketing research, scientifically evaluated advertising, and product planning that integrates production schedules as well as consumers' wants. The modern sales manager is more than a pepper-up of lethargic salesmen—he has been forced to become a "Vice-President in Charge of Marketing" who works with his company's experts in finance, purchasing, and production. As expressed by a consultant on sales manpower problems,

> One observer of the sales management field, who has carefully documented his analysis of this development, wrote me this not long ago:
>
> "Because of the elevation of the sales function in the management hierarchy, the Sales Manager (or General Sales Manager), depending on his personal ability, now has the opportunity to be a key man in top management. Where he does not have the potential, the President has brought a new man in at the

[1] "The Nine Hundred," *Fortune Magazine*, November, 1952. Copyright, 1952, Time, Inc.

Table 25–1. *The Job before the Top Job*

	Number of top executives	Percentage				
		Top executives	Oil executives	Steel executives	Utility executives	Top executives under 50
Law	63	8.2	13.1	3.0	15.4	12.6
Sales	192	24.9	23.0	24.2	4.6	34.7
Finance	127	16.5	8.2	12.1	16.9	10.5
General management	123	15.9	8.2	27.3	33.8	12.6
Production and operations	176	22.8	41.0	24.0	9.2	18.9
Engineering and research	84	10.8	4.9	6.1	20.0	9.5
Other	7	0.9	1.6	3.0	....	1.1

SOURCE: "The Nine Hundred," *Fortune Magazine*, November, 1952. Copyright, 1952, Time, Inc. See also *Sales Management*, Nov. 20, 1952, p. 15. (The total omits men imported directly into big companies as executives.)

top. Frequently this shift has been a gradual evolution of the job, but several years ago at General Electric, it was rather sudden. Now the Manager of Marketing in each GE department has far more responsibility than was ever given to the General Sales Manager or Vice-President in Charge of Sales."

Such a man may or may not have extensive selling experience in the field. But you may be sure of this: He has both the skills and personal qualities that mark the man who can initiate rather than imitate. His resources are intellectual, rather than personal.

You're more likely to find him attending seminars of professional groups engaged in serious discussion of technical know-how in marketing and distribution than playing hail-fellow-well-met over three hours of lunch and cocktails at "21," or joining the convention get-togethers. And it's an equally sure bet that while he may not know the latest joke that's going the rounds, he has understanding of what's happening in the world and how it affects his company and its product.

As the job has grown, so has the stature of the man who can fill it. Sales is now a job of many parts and the man who hopes to run the job–rather than have it run him–must himself be many-sided. Not only must he meet the requirements for wider technical knowledge, there are certain other qualifications this new look in sales now demands of the sales executive:

1. Ability to identify and use relationships between things or events which others usually overlook or ignore.
2. Capacity for dealing simultaneously with many different tasks and for keeping an appropriate balance between them.
3. Intuitive skill for absorbing, digesting, and evaluating information and coming up with the right answer.

The company that hopes to keep its head above the crowd depends upon executives who can function in this way.

If he does an effective job of his responsibility, his company's sales, its sales organization, and its competitive position will tower over the accomplishments of supersalesmen and memory experts.[2]

RESPONSIBILITIES AND PROBLEMS OF SALES MANAGERS

A sales manager has, in addition to his relations with other members of management and the development of profit-making plans, many other problems and functions. Relatively few function in the idealistic manner described in the above quotation. They do have a wide variety of problems on their minds, however, as indicated by the data of Table 25–2.

The three biggest problem areas in sales management, according to a writer[3] of the consultant organization McKinsey & Co., are in managing the sales force in regard to job definition, compensation, and sales training. It is probable that no sales manager ever achieves what he would like to accomplish in these three areas. The job is too big for complete mastery of all the problems, but much improvement can be made in most companies.

JOB DEFINITION

The typical salesman does not have a clear definition of his job: "Who sells what, where, and to whom?" He does not understand his responsibilities. It is in this area that the specialist in marketing research can be especially helpful to the sales manager and the salesman.

The salesman usually does not know how to do his job as management expects. If he does know what the company expects of him, he may not know how to accomplish it. Investigations indicate that all too often the salesman does not know just how much authority over his territory goes with his job. He does not clearly understand his relationships to the sales manager's and the home office staff.

As a first step toward improvement in this area, territories should be laid out in a realistic manner with due consideration given to the amount of work required and the men available to do it. Salesmen will not feel that their authority is being challenged if, before changes are put into effect, questions concerning their territories are first discussed with them and their suggestions considered.

[2] Bernard Davis, "Are You Really a Sales Executive?" *Sales Management*, May 1, 1954.

[3] J. O. Vance, "The Three Biggest 'Problem Areas' in Sales Management," *Sales Management*, Mar. 15, 1953.

Table 25–2. *What's on Sales Managers' Minds?*

Training and selection of salesmen is the uppermost problem on sales managers' minds, while such matters as unionization of salesmen, packaging, and selection of trade names rate low.

This was revealed in a recent study of 2,400 members of the New York Sales Executives Club, made at the request of New York University's School of Business Administration. SEC asked sales brass which subjects they considered most important for junior sales executives to study.

The list—in order of importance indicated by the respondents—follows.

1. Training and supervising salesmen
2. Effective selection system
3. Duties of a sales manager
4. Customer relations
5. Compensation of salesmen
6. Measuring effectiveness of salesmen
7. Coordination of ad and sales effort
8. Sales supervisors: duties and compensation
9. Sales quotas and budgets
10. Sales territories: how to set up
11. Establishing market potentials
12. Field sales organization
13. Buying motivations
14. Sales costs and operation methods
15. Executive development
16. Sales control through marketing research
17. How to measure profitable sales
18. Pricing and discounts
19. Point-of-purchase promotion
20. Selection of trade channels
21. Projecting sales expectancy
22. Trade-promotion methods
23. Consumer advertising
24. Significance of the competitive (free-enterprise) system
25. Trade advertising
26. Sales conventions
27. Public relations as a sales tool
28. Sales contests
29. Premiums and trade deals
30. Liaison with production
31. Communication systems
32. How to select good packages
33. How to evaluate general economic conditions.
34. Government regulations
35. Unionization of salesmen
36. How to select trade names

SOURCE: *Sales Management*, Aug. 15, 1952, p. 99.

The company should also provide written customer sales policies so that each salesman will know the company's obligations to customers as well as the types and sizes of customers the company wants.

Finally, a wise company will encourage the salesman to make reports of the activities of competition in his area. This will help the salesman feel and act like a territorial manager as well as provide the company with valuable information.

COMPENSATION OF SALESMEN

Quite often, the salesman does not understand the method of compensation he receives. He often does not have a clear answer in his own mind to the old question, "What's in it for me?"

Salesmen should be compensated at fair rates which take into account all the important sales activities they are expected to perform. In cases where only volume is rewarded, salesmen tend to concentrate on potential large-volume accounts and neglect merchandising and technical services. Plans which do not overemphasize volume are likely to be more profitable to the company in the long run.

The Dartnell Corporation made a study of the methods of paying sales forces, employed by more than 1,800 companies in various lines. This study indicated certain portents for the future which should be of interest to the student of marketing.

The average annual earnings of experienced salesmen employed by companies covered in the survey, rose from a low of $2,986 in 1933 to $7,242 as of October 1, 1952.

Results of the survey show a trend toward angling the compensation plan to give salesmen a "tax break." Considerable attention is being given to deferred compensation—such as stock purchase plans, negotiable employment contracts, pension plans, etc.—which give the salesman what he needs to take care of his day-to-day expenses, accumulating part of his earnings in a reserve for distribution when taxes are lower.

Study of the most successful compensation plans shows that today's salesmen are being paid in five kinds of money:

1. Security money in the form of a basic salary or a draw against commissions.
2. Incentive money, over and above base pay, which the salesman earns by putting forth extra effort.
3. Opportunity money, which he can earn by promotion to more profitable territories, branch managerships, etc.
4. Loyalty money, which might take the form of adjustments in base pay resulting from the length of service or specific contributions to the welfare of the business.
5. Practice money paid to salesmen to encourage them to test out new sales ideas which might for a time adversely affect their regular source of income.

The shortage of good salesmen, besides increasing the need for better recruiting and training procedures, has upped the placement cost. One company which carefully analyzes its sales costs reported that the *direct* expense of putting a new salesman into production is, at present, $2,050. Indirect expenses often add as much as 50 per cent more.

The restlessness of college men today is turning some companies away from this source of sales recruits. More and more companies are finding sales replacements in the office, the service department, and even the production department.

The study shows a trend away from quota plans. Where quotas are being used they are set low enough so that they can be easily made. Typical of this trend is the practice of letting salesmen set their own quotas or goals in consultation with their sales managers.

Increasingly, bonus plans are being kept simple, so that they will be readily understood by the salesman who wants to know his day-to-day earnings. Bonus plans are widely geared to territorial profits, when this is feasible, but there is a trend toward rating salesmen periodically to determine how much of the over-all bonus "pot" they will receive. In such cases, a fixed percentage of the "excess" earnings of the business are allocated to the sales department bonus. However, some sales managers have discontinued these so-called merit-rating plans because there are too many intangibles in measuring sales work.

Recently, nearly all reporting companies have tightened up on expense accounts. Some are limiting certain expenses or requiring flat reductions of 10 per cent over the previous year. Auto allowances, which went as high as 10 cents a mile in some cases, are being brought down to 7 cents and even 6 cents a mile under a graduated-use plan.[4]

A drawing account against commissions is the most common variation on the straight commission. The drawing account is supposed to give the salesman some security. At present, most of the companies that use the drawing account treat it as a salary. A drawing account is usually set up for two purposes. First of all, it enables the salesman to pay recurring bills without borrowing money or using other earnings. It also serves as a "stake" for a man who is developing a new territory. Actually, a base salary can achieve the same effects. Many companies now setting up compensation plans realize this and do not use the drawing account method.

The usual method of payment is to give the salesman a base salary plus compensation for his contributions to the achievement of the company's sales goals. The plan may, however, be called by several different names, such as salary plus bonus, salary plus commission, salary plus incentive, and so on. More and more companies are tending to use this type of payment plan, though, of course, their methods of making the extra payments and the specific aspects of salesmanship which they reward vary widely. Most often the company gives extra compensation to the salesman when his sales are above the quota established for him. In some companies, the quota is typically equal to ten to twelve times the salesman's salary plus his expenses. The figure chosen has a logical relation to the gross margin and selling expense which the company has budgeted. Commissions are paid on sales beyond that figure.

The most effective compensation plans usually follow several basic principles. First of all, they are designed to achieve company objectives. Too often compensation plans pay only on volume and overlook those other sales objectives of the company that could be advanced by paying bonuses for their achievement. For example, one company wanted to

[4] *Compensation of Salesmen: A Dartnell Survey*, The Dartnell Corporation, Chicago, 1953.

boost their volume, but they were particularly interested in gaining this volume among certain customers who would provide long-run orders. Therefore, they labeled these customers key accounts and paid an additional premium compensation on sales made to them.

Salesmen should be able to understand the method by which incentive payment is made. A plan which the salesman can compute for himself has a strong psychological appeal. The salesman can see how his rewards are related to his efforts and he no longer feels that incentives are the result of mysterious yearly computations made in the home office by accountants who have little knowledge of his actual job.

Incentive compensation should be paid promptly and at frequent intervals. This also has a good psychological effect in that the salesman can relate his efforts to the payments he receives soon after the effort has been put forth.

Morale and productivity are improved when incentive compensation begins at a point which most salesmen can attain, even though this point may be below their actual sales quota. The rate of compensation should rise when above-quota goals are reached. Also, salesmen will respond more favorably when they have had a part in determining their own quotas and volume goals.

Many methods are used as pay incentives, too many to list them here. Each company tries to develop an incentive plan that will encourage the salesmen to carry out the objectives chosen by the management.

Some companies, of course, believe that salesmen prefer the security of a regular salary to the fluctuations of some commission plan. One such firm is Piatt & Smillie Chemicals, Inc., St. Louis, manufacturer of sanitary cleaning products, who developed a salary method of payment which they have found to be better than their old system of commission payments. It all started in 1949 when Piatt & Smillie decided to expand. They improved their products, set up sales territories, and established a marketing plan.

Sales were excellent and Piatt & Smillie began to eye first place in the national market. There was only one drawback—turnover among salesmen was extremely high; out of more than 100 salesmen they had hired, 95 per cent left them within a few months. Management decided that the situation needed investigation. They talked with their salesmen, with salesmen from other firms, and with former salesmen who had quit. They discovered that the most important complaint among the men was the payment plan.

So they put their men on a salary basis and thereby eliminated their problem of salesmen turnover. The reasoning behind the new plan was that in previous years a beginner salesman would be willing to take certain risks, work hard, and eventually achieve satisfactory results on a

commission payment plan. Nowadays, however, taxes, business uncertainties, and so forth, when balanced against possible rewards, do not make the effort seem worthwhile to the young salesmen. So Piatt & Smillie gave their men salaries plus such fringe benefits as retirement funds, insurance policies, hospitalization, and so forth. Two years after the plan had been adopted, Piatt & Smillie led the nation in sales in their field.[5]

One of the most outstanding advantages of their plan is that management feels free to shift the men from one territory to another in times of need. Since most territories differ in their potential, salesmen under the old system would have complained about shifts that might cause losses in commissions. Now, on a salary basis, good salesmen are not penalized when they are asked to build up a new or rebuild an old territory.

The student of marketing will see that many points can be made in favor of both commission and salary plans. Each intelligent management will endeavor to develop a plan to fit its needs. There can be no final answer to the question of the best form of compensation for a specific sales force. Each management must decide for itself which method will produce the best results in its particular situation.

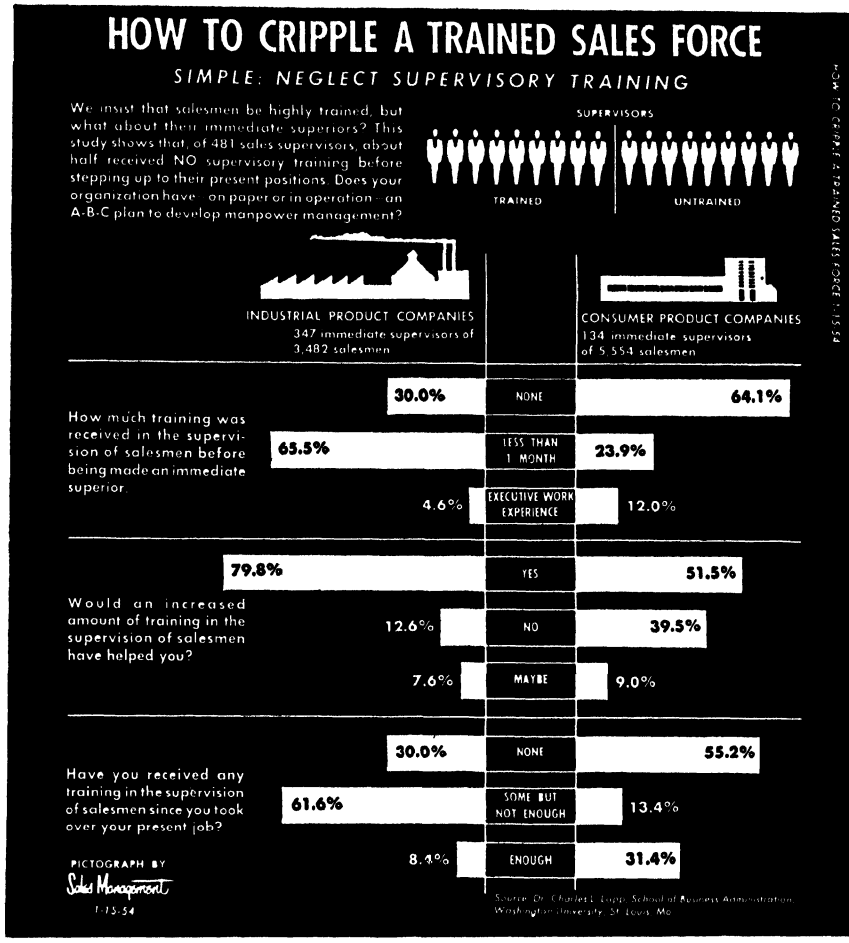
TRAINING SALESMEN

"Here's a catalog, some photographs, and there is your territory—go to it!" This was the way in which traditional sales management regarded its responsibility to salesmen. The old-time managements did not know how nor care to train salesmen.

Modern management, in contrast, knows that it is exceedingly costly *not* to train salesmen. The costs that result from allowing an untrained salesman to go into the field are difficult to compute because they are seldom segregated. Recognized factors in the cost are (1) the added length of time which the untrained man requires to become self-supporting, during which time salary and expenses must be paid, (2) sales opportunities wholly lost, or lost to competitors, because of the untrained salesman's inability to handle difficult situations, and (3) increased cost of field supervision during the "fumbling" period. To avoid these losses, modern management offers salesmen training of a fairly broad scope; the subjects usually include topics such as

Markets: prospective purchasers
Company: history and policies

[5] See Winston B. Smillie, "We Licked Turnover, Boosted Sales, When We Dropped Commission Pay," *Sales Management*, Sept. 1, 1952.



Products: conception, invention or discovery, raw materials and manufacturing processes

Product-in-use applications

Product-in-use results

Competition

Sales methods: dealing with the conventional treatment of the selling process such as preparation, approach, presentation, demonstration, objections, closing, aftersale service, and complaints and adjustments.[6]

The sales management executives who carefully study their practices in the three areas of job definition, compensation, and training and follow the most up-to-date procedures in these fields will find that the over-all sales productivity of their salesmen will improve considerably.

[6] For a complete treatment, see Burton Bigelow, "The Modern Manager's Job," *Personnel*, vol. 13, no. 3, American Management Association, New York.

Some companies will need to concentrate more on one aspect than on the other two, but none can be neglected. Most managements realize that the problems of sales management are never completely solved. Hence, they try to avoid some problems by hiring only men who are capable of becoming good salesmen.

HIRING SALESMEN

While sales training is often spotlighted these days, all too often the selection and hiring of men on a scientific basis is overlooked. This neglect can be expensive, as the Sunset-McKee Company of Oakland, California, discovered. The annual turnover among their salesmen was running as high as 40 per cent. This represented a great waste in both time and effort on the part of management as well as money losses.

Few companies realize the actual costs of high turnover. One sales manager estimated that for his company, the cost of recruiting, interviewing, and training a new salesman is about $6,550. At this rate a company with a 500-man sales force and a 25 per cent turnover will lay out $818,750 a year. This does not include loss of good will and actual business, which in many companies would add another $1,875,000 to the $818,750.[7]

When the management of Sunset-McKee reviewed their situation, they decided that the flaw did not lie in their training program itself, which they believed to be good, but rather in the way they chose men for the training. Accordingly, management developed a scientific hiring program that eliminated the reliance on "hunches" in choosing salesmen. In the short time that the program has been in effect, the company has found that their turnover has been reduced to between 10 and 15 per cent.

The program has a number of steps. First, the applicant is given the "preliminary test." This measures various fundamental skills and physical qualities which the company believes their salesmen need in order to function adequately. Among these are arithmetical facility, good eyesight, knowledge of printing, accuracy in recognizing color, and familiarity with office equipment. Men who attain a high rating on this first group of tests are considered good material for further screening.

The applicant is then interviewed by a hiring executive of the company. His abilities are appraised according to the company's "Interview Guide and Rating Sheet." This appraisal covers such areas as personal history, education, training, employment record, and so forth. The in-

[7] Figures presented by Robert Zinn, Standard Register Co., at a special marketing conference of American Management Association, New York. See *Printers' Ink*, May 14, 1954.

formation is systematically evaluated and the applicant is given a rating.

Next, a battery of aptitude tests is administered to those applicants whose first appraisal ratings are satisfactory. The battery includes tests of clerical ability, intelligence, and personality. The tests are administered in the company's offices, but the scoring and interpreting are done by an expert, who gives the company an individual sales profile chart for each applicant tested and makes a recommendation as to the desirability of hiring or rejecting the man.

The company realizes that aptitude testing is not infallible, but the tests are very valuable in borderline cases and as a cross check on the other tests, appraisals, and opinions of interviewers. The Sunset-McKee Company found after one year of use that this program had proved its worth to them. Of course, it is specifically designed to pick out those candidates who have the qualities necessary in their type of business.[8]

Each company must develop, through research, a scientific selection program of its own. Some sales managers of large firms hire an industrial psychologist to do this for them. Others, especially the smaller firms, arrange with a consultant to perform certain agreed-upon testing services on a fee basis.

ESTABLISHING QUOTAS FOR SALESMEN

In general, sales managers consider quotas as goals or tasks that serve as criteria of performance. Salesmen, on the other hand, often feel that these quotas represent an arbitrary volume purposely set just beyond the reach of the salesman. With such divergent opinions prevailing, it is a difficult task for a sales manager to explain to a salesman the true nature of quotas and the necessity for them. Discussions of this subject often end with both persons dissatisfied.

The sales quota has always been difficult to explain to the salesman for three reasons:

1. He does not understand the purpose of the quotas.
2. He thinks that they are not set up on an objective basis.
3. He often does not understand the method used to develop the quotas.

Such distrust of the quota system probably began in the era when quotas were often the reflection of the desires on the part of a fickle management. At that time, many quotas were set up purely for management's benefit and little rational consideration was given to the salesman. Though this is not the case today, most sales organizations could benefit from an educational program which would explain to their salesmen the

[8] W. H. Fischer and Wayne Young, "Sunset-McKee's Hiring Plan Cuts Salesmen's Turnover to 10–15%," *Sales Management*, June 15, 1948.

real purpose of a quota in a convincing manner. This purpose is to make it possible to plan, organize, and direct sales by standardized criteria. The methodology, whatever it is, for establishing these standards should be explained to the salesman and he should be assured of their objectivity.

To show how a quota method which won the cooperation of the salesmen can be developed, we will use the example of a punch press manufacturer. The director of sales of this organization recognized that there are three common ways to set up sales quotas: by setting a break-even point in terms of volume, by allocating proportions of plant production, and by determining market potentials.

The last of these three methods was chosen by the executives because they believed that it was the most objective. The company decided to find out what types of industries used punch presses and in what quantities. This information was gathered by the most simple and inexpensive research methods possible. Field representatives of the company were sent a questionnaire that asked for breakdowns of specific types of companies called on and the relative volume of punching activity found in each type of industry. This information was then checked against a customer analysis of all the company's accounts. These two surveys gave the company a definite pattern of industry buying that could be evaluated, industry by industry.

Leading magazines in the metal working field also furnished information which was of aid in the survey. A census of all metal working plants and a national inventory of metal working production equipment were furnished by this source. The company broke the data down according to geographic areas, and within each area the equipment inventory was further segregated according to types of machinery and operations. It was then a simple task to figure the number of punch presses in each state, county, and industrial area.

The company was then ready to go to work on their territory quotas. They first approached this on a state-by-state basis. A value of the punching machines and mechanical presses listed in the area was computed and assigned to each state. The numbers of metal working plants in each state were then counted. Next came an index of the fabricated metal products produced in each state, followed by a user's index. This last included the information they had gathered on industry and trade practices in buying punch presses. For example, they discovered that electrical equipment manufacturers use twice the number of punch presses that a manufacturer of aircraft parts will use.

The market potentials for each area were computed, and the company then knew what percentage of total sales volume each territory *should* account for. By comparing these ideal potentials with actual sales, the company could spot their strong and their weak areas. They could point

out underdeveloped areas to their salesmen and suggest increased selling efforts. The home office also increased their advertising and promotional efforts in the weak spots.

The only task remaining was to convert the territory potential figures into a dollar-volume sales quota. This was a fairly simple procedure. For example, if a territory had a potential of 27 per cent of total sales volume and the total sales forecast was $100,000, then this territory's quota was set at $27,000. The potential figure was not changed unless the territory was affected by some unanticipated influence.[9]

When explained to the men, this method of arriving at sales quotas was readily understood and accepted by them. Convinced of its objectivity, they were prepared to cooperate.

MEETINGS FOR SALESMEN

Almost every company that has a staff of salesmen conducts one or more sales conventions or meetings each year. Some of these meetings are a pleasure trip to the home office for many of the men rather than an educational opportunity. Even though some of these meetings appear to be a get-together to play poker and go to night clubs, many real benefits are obtained. The men get a chance to see new products, to hear about modifications in policies, and to meet their new executives and associates. Furthermore, most salesmen take their work seriously and want to learn about easier and more effective selling methods.

Many companies have found it difficult to interest their salesmen in the usual sales convention. They cannot keep their audiences interested, listening, and sufficiently enthusiastic to return to the field and carry out the principles advocated at the meetings. Even when well-known experts are invited to speak, many of the salesmen leave the convention with the feeling that they've gained very little practical knowledge. "After all," they say, "what can we learn from a man who has never sold our products?" Therefore, they do not try to adapt the consultant's suggestions to their own work.

Some sales managers overcome this reaction by getting their own sales champions to take leading parts in the sales meeting. Since these sales champions are the men whom the sales staff members admire and look up to, they will listen to them and try to follow their advice. The usual procedure for planning such participation is first to analyze the sales records and find out which salesmen lead the field. Then an executive of the company sits down with one of the top salesmen for an informal talk, in which he tries to find out the specific techniques that the salesman

[9] John O. Painter, "How to Estimate Sales Quotas Your Salesmen Will Go For," *Printers' Ink*, Nov. 14, 1952.

uses. The executive also convinces the salesman that he should pass along the benefits of his hard-earned experience to other members of the staff and offers help in working out the best way to transmit his sales know-how to his audience.

The champion salesman often does a trial run of his demonstration. In this tryout the salesman's supervisor, a sales presentation expert, an artist, and a market analyst usually are present to make suggestions for the next meeting of the salesmen.

When the champion makes his presentation before the group, another speaker summarizes his talk and highlights the main points for the benefit of the other salesmen. This repetition causes the sales message to be assimilated into the minds of the listeners. It also provides an opportunity for the summarizing speaker to apply the sales message to the main company objectives such as how to sell a specific new product, how to push an old one, and so forth.

Good salesmen are eager to get information on *how-to-sell.* When such information comes from a member of their own group whom they know to be successful, they accept and respect it. They will seek to apply the practical, tested ideas that may help them sell the product to their customers.

SALES CONTESTS

Even though the compensation plan may be excellent, each salesman tends to establish an income ceiling for himself. He does this unconsciously, but once he has set it, he seldom exceeds the limits he has set for himself. At least, this is the opinion of experienced sales executives. As an example, one executive cited the case of a salesman who was earning about $10,000 a year. The executive felt that his territory was worth more than that so he cut off a quarter of it. The salesman still earned $10,000. After successive cuts, when the salesman was left with only one-quarter of the original territory, he continued to earn the same amount. This salesman had established a definite ceiling for himself. He had a certain budget and standard of living and he had a basic inclination to maintain himself at that level—no more, no less.

One method used by managements to help salesmen overcome such mental fixations is the contest. The varieties of contests offered by sales managers are as numerous as the imaginations of sales managers. One type that has proved effective over a period of years is that used by Fairbanks, Morse & Co., who has been running an annual contest among its 16 branch houses in the United States and Mexico since 1933.[10] The trophy,

[10] Henry J. Barbour, "How Fairbanks, Morse Stimulates the Salesman's Will to Fight," *Sales Management,* Oct. 1, 1951.

known as the President's Cup, is awarded each year to the branch house which makes the largest percentage of its sales quota during the year. Besides the main award to the branch, the company has always given other rewards, over and above salary and commission, to salesmen who are outstanding. On an individual basis, each salesman receives a certain amount of merchandise points for each sale. When these points accumulate, he can select gifts from a catalog which the company distributes. The fact that Fairbanks, Morse & Co. has maintained a top place in its industry down through the years speaks for the effectiveness of their contests.

Salesmen, like all human beings, have their ups and downs, and contests are often just the thing to pull a man up when he is down. Contests relieve monotony, they give special recognition to men who put forth extra effort, and they help to center attention on a specific sales objective.

Before executives decide to run a contest, they should ask themselves a few questions. First of all, "Does the contest have definite objectives?" "Will the type of contest under consideration achieve the objectives?" "Will the contest sustain the salesmen's interest sufficiently to avoid pre- and postcontest slumps?" If these questions can be answered in the affirmative, plans can be developed further.

In setting up a contest, management must decide how long it will run, how many winners they will have, what kinds of awards they will give, and how much the contest will cost. Usually, a contest which runs two to three months is the most effective. Interest is maintained successfully for that length of time, and the period is long enough to get results.

Generally, contests should not remain the same from year to year; if they do, they are taken for granted and interest is lost. The theme should be revamped each year. The most popular awards are trips to pleasant vacation spots.

Most contests are introduced with a great deal of fanfare including teaser mailings, official announcements from the home office, mailings to boost interest in the prizes, and special mailings to wives to increase their interest in the contest. Progress reports are also sent to the home. The concentration of mailings to the salesman's home has developed as a result of the discovery that the wife can be a very persuasive "pusher" if she is interested in the prize offered, such as a vacation trip that includes her.

Of course, contests are not a panacea for all the sales problems a company may have, but they do give the salesmen a boost, especially those men who have fixed habits and standards of accomplishment for themselves.

NUMBER OF CALLS AND COSTS PER CALL

One sale executive, who is manager of sales personnel and control of the Chemical Division, General Electric Company, estimated that, for one type of industrial selling,

> The average salesman costs his company $10,000 a year to maintain in the field. . . . Such a salesman . . . works 250 days annually and averages three calls a day. On this basis . . . the average salesman costs his company, General Electric, $21 "each time he pushes open a door." The salesman must sell $210 of product on each call to justify his business existence. . . . A fourth call each day would reduce the average cost of each call to $16.[11]

A survey by the *Printers' Ink* Sales Executives Clinic [12] among 300 top sales executives revealed some interesting findings about the work habits of a wide variety of salesmen. Some of the executives in the group supervised salesmen who made few but very important calls on prospects each week. Other salesmen, such as milk delivery men, called briefly on many housewives each week. This accounts for the wide range of answers to the survey questions.

As reported in the survey, the least number of calls that any salesman makes in a week is three. These salesmen, however, are actually consulting engineers who call on large factories and help in planning the installation and maintenance of heavy machinery. Milk delivery men, at the other extreme, make an average of 750 calls a week. Typical bakery delivery men make as many as 438 calls a week. Salesmen calling on housewives do very little real selling because they are primarily interested in getting the products physically moved. The average salesman for *Printers' Ink* Clinic members works in competition with other salesmen and does a creative selling job in his dealings with the retail trade or industry. Such men make from 15 to 200 calls a week, with a median of 30.

Many factors influence the number of calls made per week. For example, in a thickly settled territory a salesman can see more prospects than in a territory that requires considerable travel between each visit. Exceptions to this do exist, however, as one company discovered. In the more populous Eastern markets, their salesmen could not get in to see the buyers as quickly as in the West. This resulted in an average of 42 calls a week in the West and only 23.5 a week in the East.

In a seasonal business, the number of calls will vary depending on the time of year. The size of the line carried will also affect the number of

[11] Statement by Howard L. Franks, *The New York Times,* Feb. 11, 1953.

[12] "How Many Calls Does a Salesman Make in a Week? What's the Cost Per Call?" *Printers' Ink,* Nov. 7, 1952.

calls made. The salesmen who sell only one item will be able to make more calls than those who have to give a sales talk on several items at each call. The type of customer dealt with also influences the number of calls made. Visits to wholesalers, retailers, and direct customers differ so much in their functions that they all cause variations in the length of time needed to make a sale. Differences in costs are further exaggerated in those businesses where salesmen must spend a long time with each client. Usually, the better and higher-priced salesman is needed where much time must be spent with each client or prospect.

The cost of each call ranges from a low of 30 cents to a high of $72. The median figure, as tabulated from the answers, is about $5. Many of the same factors which influence the length of time spent on the call also influence the cost of the call. For example, travel expenses are higher in a large territory or a sparsely settled one. One company, for example, has men calling on about 125 retailers each week, for which the cost per call is 80 cents. Another company has a cost per call of $72. But the salesmen for this company are actually sales counselors who receive a high salary and often spend two days with a customer.

A salesman who makes an average of 30 calls a week at a cost of $5 each costs the company $150 a week, or about $8,000 a year when all costs are taken into account. Obviously, the maintenance of such a sales staff can be very expensive for a company. As the number of calls the average salesman makes each week declines, his cost to the company rises. Discouraging news to company comptrollers is the fact that fewer calls are being made in recent years than formerly.

Many company executives are well aware of these trends. Some of them feel that more calls by salesmen is the answer to the high cost of distribution. They admit that increasing the number of calls, especially among producers of industrial products sold direct to industry, is a difficult job, but they believe that it can be done. Other executives take the opposite view. They have deliberately cut down on the number of calls their salesmen make in order to give the salesmen more time for educational training of high-volume dealer sales personnel (see Table 25–3).

Several sales managers have made the reports turned in by salesmen more effective and efficient by using IBM tabulating cards. These cards enable the manager to determine such facts as how many calls each salesman makes, how well his salesmen follow up their prospects, and how intensively they cover their territory. The use of IBM cards quickly gives the manager data which show how each salesman's accomplishments compare with those of his fellow salesmen.

The over-all trend reported by executives indicates that selective selling, calling on good prospects only, is pushing up the cost per contact and cutting down on the number of calls each salesman makes per week.

Table 25–3. *Number of Calls and Annual Volume Obtained by Wholesale Salesmen in One Survey*

	Average annual volume per man
Tobacco and grocery wholesale salesmen:	
32–35 calls per day	$ 79,000
21–30 calls per day	79,400
13–15 calls per day	122,500
Exclusive confectionery wholesale salesmen:	
21–25 calls per day	$ 41,600
13–15 calls per day	70,000

The practice of calling on fewer retail accounts in a day and servicing these accounts well results not only in a higher volume of sales per account, but produces a higher sales volume per man. . . . The salesmen who made the greatest number of calls per day produced only about one-half as much business as did the men who made fewer calls on retail accounts and serviced these intelligently and constructively. The Sample Survey showed the following results:

The salesman who spends on an average only a few minutes per call does not have the time to do any of the constructive things for the retailer that produce business. The Sample Survey showed that the salesmen who hurried their calls throughout the day ended up the year with the lowest sales volume per account and the lowest sales volume per man. The salesman who took time to follow a pattern of constructive, balanced selling produced the highest sales volume and, since a salesman's earning's are based on sales volume, made the most money.

SOURCE: Table and comments from *Balanced Selling*, published by The National Confectioners' Association of the United States, Chicago, in cooperation with the U.S. Office of Education, Business Education Service, 1947.

But the IBM information has also shown that most of the executives are aware of these trends and are trying to control them in ways that reduce costs of distribution. This is being accomplished by making an effort to produce more volume from fewer calls and securing not merely a maximum number of calls per salesman but also maximum sales per call.

SOURCES

Sales Management magazine, 386 Fourth Ave., New York. See also Chapter 24 for additional journals.

National Sales Executives, Inc., 136 E. 57th St., New York. The membership consists of 25,000 sales executives, responsible for the activities of more than 2 million salesmen. The organization has clubs throughout

the United States and in Canada, South America, Mexico, Europe, Australia, and other countries.

The clubs hold regular meetings and provide talks on topics of interest to the members. Salesmen's rallies, sales-training clinics, executive clinics, and informal discussions are also held. An Annual Distribution Congress sponsored by The National Sales Executives Clubs brings together thousands of sales executives from all over the world. Another project which NSE sponsors is "Operation Enterprise." Teams of American sales executives and business leaders visit Europe where they meet and consult with their counterparts abroad regarding selling methods and mutual sales problems.

The *NSE News* serves as a means of communication throughout the industry for an exchange of ideas and information about sales management and marketing. NSE also sponsors articles in other publications which serve to bring news about selling to the general public.

The National Sales Executives, Inc., is the only international nonprofit organization concerned with the advancement of all phases of sales management and distribution. As such, it is a valuable source of information both for students of marketing and for individuals in any way connected with sales management and distribution.

The Dartnell Corporation, 4660 Ravenswood Ave., Chicago. Business research publishers of *American Business* (monthly magazine of management); monthly services on personnel administration and sales management; handbooks on employee relations, sales promotion, sales management, and foreign trade; and various job application forms. They also publish a wide variety of sales-training booklets, memo books, and training bulletins for salesmen and supervisors. Products include motion pictures and sound slide films for training salesmen.

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QUESTIONS AND EXERCISES

1. Is the marketing function gaining or losing importance in major company managements? Explain.

2. Discuss the value of different types of experience in nonmarketing areas and in marketing operations as a training ground for a general management position.

3. What are the three major problem areas in sales management? Why is each of these problems so important?

4. What are the major methods of compensating salesmen? Under what conditions would you recommend one method over the others?

5. Is it advisable to use quotas primarily as stimulation devices so that only a few superior salesmen are able to obtain their quota? Explain.

6. What devices are used by sales managers to aid them in making a wise selection of salesmen? What role should tests of intelligence and personality play in the selection of salesmen?

7. How can the sales manager overcome the common dissatisfaction which many salesmen have for quotas?

8. Give a critical evaluation of the method of setting sales quotas used by the punch press manufacturer cited in the text.

9. Should a sales manager make contests a regular part of his sales program? Explain.

10. As mentioned in Chapter 7, a great deal of industrial selling is "team selling." The salesmen must call on several members of the prospect company's staff, and different members of his company participate in making the sale. An order from a steel mill, for example, may require as many as 20 years of making presentations. What influence would such a condition have on the compensation plan for the salesmen?

26 The Salesman in Modern Marketing

THE ALERT MARKETER

1. **Considers the place of the salesman in marketing—is his importance increasing or decreasing?**
2. **Watches the trend in the costs of personal selling and studies the reasons for the changes.**
3. **Is interested in the attitudes of college students toward selling as a career and contributes to the development of more favorable attitudes where needed.**

Whenever the place of the salesman in modern marketing is discussed, some marketers take the following view:

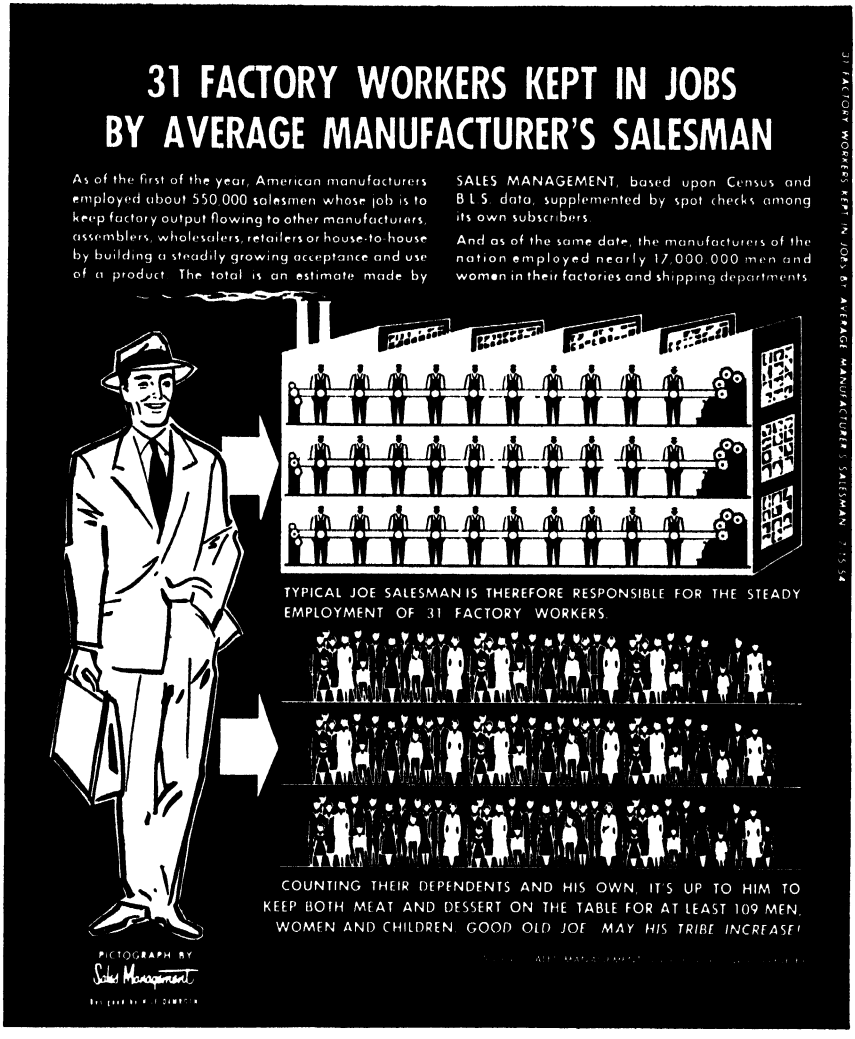
The era of the Great Salesman is on the wane. It was in America that this creature grew to his highest stature but sales forces in the United States have not grown as production has grown. The relative decline of salesmen in modern marketing is indicated by the estimate that there was one salesman for every 14 non-selling workers in 1940, but four years after World War II, there was only one salesman for 28 workers in other lines.[1]

Those marketers who take a more balanced view recognize that the place of the salesman in certain phases of marketing has changed, but they also realize that he still has a very important place. There are some rather obvious reasons for the change in his numbers and functions.

REASONS FOR CHANGE IN THE SALESMAN'S PLACE IN MARKETING

Recent economic history partly explains the shifts in the place of the salesman. The Second World War, for example, caused so many shortages in goods that some companies could sell their output without the aid of

[1] Data by Walter Ayres, sales director of the Ford Motor Company, in Ray C. Brewster, "More Psychology in Selling," *Harvard Business Review*, July–August, 1953.



personal selling. After the war, salesmen appeared to be of less value to them.

Another influence on the place of the salesman was management's recognition of the need for preselling the customer. Advertising took over this function and presold so effectively that the need for personal selling declined even more. Merchandising, it has been said, is replacing salesmanship; according to one line of thought it would be more profitable to invest the sales dollar in merchandising aids than in salesmanship improvement.

As in most cases, there are those who disagree with this. They point out that merchandising and salesmanship serve different functions. Mer-

chandising is the process of moving goods for which the customer has recognized the need. Salesmanship, on the other hand, is a process whereby goods are moved by persuading another person that he has a need for them. If this distinction is kept in mind, it is obvious that both these areas of marketing need attention but neither one should be neglected.

Some managements fail to realize this. One top executive explains this failure by saying that "too many accounting and comptroller-minded people are running the show; and they completely fail to understand the relationship between sales investment and volume. They don't mind putting hundreds of thousands into a new plant—that shows upon the balance sheet. But the minute earnings drop off, they start cutting down the sales budget." [2]

Many sales managers feel that it is necessary to sell selling to management. Modern managements are exceedingly cost-conscious; they have to be in order to meet competition. Executives study the increases in the costs of personal selling over the years. In 1942, for example, the cost per salesman's call in 37 industrial companies was $9.02 (mean average). Ten years later, it was $16.31. The highest cost per 1952 call reported in this study was $140 by a maker of pipes, fittings, tubes, and pumps; the lowest was 57 cents by a maker of microwave fittings. The average number of salesmen employed by the responding companies was 43. See Table 26–1 for the 10-year comparisons.

Not too many years ago the salesman was thought of as an individualist who would probably do a better job if left alone to work in his own fashion. Now, most of a salesman's training consists of giving him a knowledge of the product, its engineering, and the company organization and policies rather than training in salesmanship per se. He must become something of a specialist and he is under fairly strict home-office rule. He is, in other words, a company man.

Managements of business firms realize that to the customer the salesman represents and, in a sense, is the company. As such, he is given considerable training for his work. The best salesmen of a company are given the same level of respect that is accorded to engineers, researchers, and administrators. Salesmen have valuable knowledge that can help solve problems of the salesmen's employers as well as the company's customers. The old-time peddler and high-pressure drummer have gradually given way to the customer-centered salesmaker. The modern salesman is less likely to be a go-getter or a smoothie than a sincere, trained man whose interest is in serving the customer rather than in applying the sharp tricks of trimming the gullible.

[2] "Help Wanted: Sales," *Fortune Magazine*, May, 1952. Copyright, 1952, Time, Inc.

Table 26–1. *Costs of Industrial Salesmen's Calls*

Rising costs of personal calls have emphasized the importance in today's selling of backing up the salesmen with business paper advertising, catalogs, direct mail, visual sales tools—to the end that they can spend more of their precious time in presenting product specifics and closing orders.

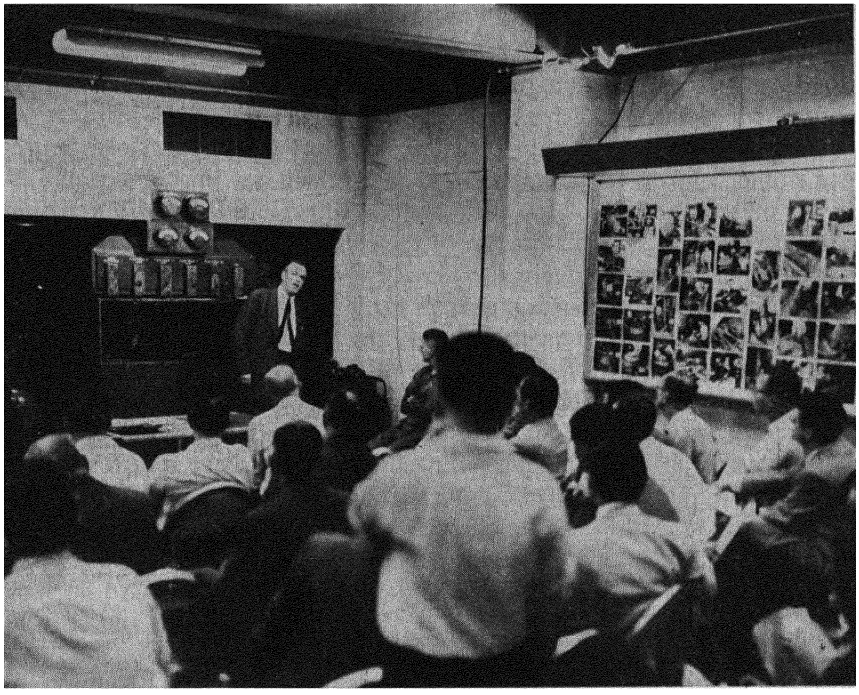
Industry	Costs, median averages	
	1942	1952
Chemicals	$4.00	$ 6.00
Primary metals	5.24	13.30
Fabricated metals	6.45	10.71
Machinery, except electrical	6.47	11.00
Rubber products	6.75	12.00
Miscellaneous manufacturing	7.07	11.89
Transportation equipment	8.00	14.97
Electrical machinery	9.00	9.90
Paper products	9.38	17.50
Instruments	9.50	14.00

SOURCE: "Industrial Salesmen's Call Costs Up 80%," *Sales Management*, Apr. 4, 1953. Data from Research Department of McGraw-Hill Publishing Company, Inc.

The role of the salesman has changed from being an individualist to becoming a member of an over-all distribution plan. The shift in his role has not taken place because of any lesser importance on his part. The chief reason has been the growth of the whole economy, its greater size and complexity. In many firms, salesmen alone cannot be given complete responsibility for sales. Their work must fit into the program of product planning, consumer research, and advertising and production scheduling. In the small firms and those which have a less organized distribution plan, the role of the salesman as an individualist will continue.

American industry spends about $10 billion annually on compensation for outside sales personnel (not counting retail salesclerks), while spending some $6 billion a year on advertising.

Those who say that the figures should be reversed, that the day of the personal salesman is ending, point out that his number—about 1.5 million—has not increased in a decade. But most managements believe that he is here to stay and that the $10 billion spent on him every year is a worthwhile investment. Simultaneously, the wise marketer realizes that if his company is to compete effectively in the years ahead, every single dollar placed in a salesman's pay check must be a dollar well-spent.



Group selling is the salesman's dream. He can talk to, say, 50 prospects at one time instead of having to make 50 calls on that many prospects. The idea works well with production men because many can be lured more easily into a two-hour demonstration session than induced to sit still that long in their own offices.

Lincoln Electric Co. conducts 500 or more of these meetings in one year. The subject is "Your Welding Cost and A.C. Welding."

W. R. Persons, vice-president in charge of sales, says the service has boosted Lincoln Electric sales 300% in a period when sales of the industry as a whole were declining.

Another big reason why the company likes the idea: Group selling has reduced selling costs to the lowest point in the company's history.

SOURCE: "Group Selling Comes Back," *Business Week*, Nov. 7, 1953.

HAVE SALESMEN FORGOTTEN HOW TO SELL?

Many executives in the sales fields of marketing claim that the salesmen of today do not have the aggressive, competitive spirit of their predecessors. As one manager, when attending a sales convention, phrased it, in an aside to a colleague, "Looks to me as though we are entering the Metallic Age—gold in our teeth, silver in our hair, and lead in our pants!" Salesmen, it is often claimed, have grown soft. One way to get an answer to this accusation is to find out what purchasing agents think about salesmen.

When *Purchasing*, a Conover-Mast publication, sent a questionnaire on the subject to purchasing agents, a total of 508 purchasing men of all types responded and results of the poll included the following:

A majority, 67 per cent, say there has been no change in the quality of salesmen; 25 per cent find the quality better; and 8 per cent think it is poorer. More than half the sales calls are merely routine, a majority of purchasing men say, and only a small proportion of salesmen's calls represent sound, aggressive, competitive selling to win new customers and increase present business. However, about 72 per cent of the purchasing men said that fewer than a quarter of the calls are of the sound, aggressive type. Purchasing agents were also asked to look at salesmen from another standpoint: "What proportion of calls made by salesmen do you consider truly constructive?" The answer by 49 per cent of the respondents was that only 10 per cent of the calls are helpful.

More than half (58 per cent) of the purchasing agents don't go along with the popular expression, "Salesmen have forgotten how to sell." The consensus is that the competitive era ahead will force a return to basic selling techniques. Most of these purchasing agents, 87 per cent, believed that poor salesmanship can be corrected by better sales management and sales training.[3]

THE ATTITUDES OF COLLEGIANS TOWARD SELLING

Selling is one of the best training grounds for advancement to positions of top management and executive leadership. One survey of 250 companies, for example, showed that 38 per cent of the presidents started as salesmen.[4] Also, among men in the better income brackets, the percentage of salesmen is higher than for most other occupational groups. The variety of personal contacts, the challenges to be met each day, and the opportunities for self-expression provide personal satisfactions that few occupations can equal. However, in spite of the many advantages that selling offers as a career, many college men do not care for it.

The lack of appreciation for selling as a career is attributed to influences such as the tendency of some high school counselors to advise the smart boy to become a physician, lawyer, or engineer and to suggest that those not so well-qualified might go into some phase of business such as selling. In the universities, some of the blame is attributed to those economists who fail to appreciate that vigorous selling is necessary to keep our whole economic machine ticking. In a few cases, selling is even described as a racket and salesmen as leeches on our distribution system. At any rate, whatever the causes, the number of college men looking to sales as a career has not kept up with the rises in national production.

Sales Management magazine has directed several surveys and published reports on collegians' attitudes, particularly those of business students,

[3] *Purchasing*, August, 1953. See also *Sales Management*, Aug. 15, 1953.
[4] *Business Week*, June 24, 1950, p. 30.

toward selling as a career. Data from the last published report, a survey made by National Analysts, Inc., are shown in Table 26–2.

Table 26–2. *Career Survey among College Seniors*

Question 1. Have you definitely decided what type of work you will do after graduation?

	Total		Respondents Were in These Colleges					
			Wharton School of Business		Northwestern School of Commerce		University of California	
	No.	%	No.	%	No.	%	No.	%
Number answering	1,014	100.0	428	100.0	290	100.0	296	100.0
Yes	669	66.0	298	69.7	204	70.4	167	56.4
No	305	30.1	117	27.3	83	28.6	105	35.5
Don't know	40	3.9	13	3.0	3	1.0	24	8.1

Those who selected selling as a career gave the following reasons (some persons gave more than one answer):

	Percentage
Financial reward greater	35.1
Had experience and like it	34.2
Like to meet people	24.2
Have qualities tests indicate	22.4
Following in family's business	14.9
Greater opportunities	13.8
Freedom of action, own boss	11.2
Work is varied, more interesting	9.5
Advancement more rapid	5.7
Good experience for other fields	5.2

Those who did not select selling as a career gave the following reasons:

	Percentage
Not interested, doesn't appeal	26.8
Lack personality or knack	17.2
Dislike particular phase (as house-to-house selling)	5.1
Tried it and don't like it	4.5
My choice of career better	3.9
Insecure, unstable, cyclical	3.2
Doubt ability to succeed	2.3

The editors decided to introduce a question in the survey which would ask those college seniors to choose the word which best describes selling to them. Interviewers presented a card to each respondent which listed seven words, and the results were as follows:

	Percentage		Percentage
Profession	23.7	Occupation	17.1
Job	10.0	Business	21.4
Career	20.7	Livelihood	4.9
Racket	1.2		

SOURCE: Philip Salisbury, "How 1,014 College Seniors Rate Selling Work as a Career," *Sales Management*, June 1, 1948. Table at the foot of this page was also taken from this source.

The interviewers of National Analysts, Inc., first asked, "Have you definitely decided what type of work you will do after graduation?" If the respondent said "yes," the questioner asked what type of work he had decided upon, and the student might answer selling, accounting, manufacturing, etc. If he said "no" in answer to the first question, he was then asked what type of work he leaned toward. There again selling *might* be mentioned. If selling was mentioned either as a definite decision or as a "lean toward," the respondent was then asked his reason for choosing selling work as a career. To those who did not mention selling, the interviewer said, "I notice you haven't mentioned any form of selling work. How do you feel about selling as a career for yourself?"

Combining those definitely decided and those "leaning toward," the findings, tabulated in the accompanying table, showed that selling—

Career Choice of 1,014 College Seniors

	Percentage
Selling	34.4
Accounting	24.0
Management, administration	9.0
Advertising, market research, sales promotion	8.6
Production, manufacturing	7.1
Personnel, industrial relations	6.2
Finance, banking, investments	4.9
Foreign commerce	4.0
Law	3.7
Graduate school, teaching	1.6
Transportation, traffic	1.3
Other miscellaneous and qualified	5.1

despite the fact that it attracts only about one-third of the graduates—is nevertheless the most popular career, with accounting the greatest rival in capturing the interest of college seniors. The 34.4 per cent who selected selling as a career were made up of 21.9 per cent who were sure and 12.4 per cent who were undecided but leaned toward sales.

As a result of this and similar surveys, the editors of *Sales Management* recommended a four-point program to those companies that want to recruit good college men.

1. Start working on these men before they become college seniors. It isn't too early to start the educational work at the high school level.
2. Arrange to give college boys summer jobs in your sales department.
3. In your appeals emphasize the financial rewards, variety and interest, freedom, travel, and new contacts.
4. Conversely, play down the theory that salesmen are born and not made, and that selling is insecure and undependable.

THE SERVICE IDEAL IN SELLING

Managements that appreciate the importance of selling try to sell prospective salesmen on the economic importance and prestige of the salesman. They put little emphasis on the easy side of selling and much stress on the service ideal. They may mention that the salesman is not tied to a desk or a machine, that he has the freedom to move about and to meet interesting people but the emphasis is on the basic economic and social importance of selling. The best selling is helpful selling. The way to sell is to serve. The ideals presented to young people are likely to be in the form of salesmen who have become successful as a result of hard intelligent work such as cited in the example that follows:

The career of Gerald M. Loeb, partner in E. F. Hutton & Company, New York, is not a dramatic one. It is a repetitious tale of building brick by brick. It is a story of personal devotion to an austere, back-breaking schedule in Wall Street. Loeb rises so early that by the time he reaches Schrafft's at 31 Broadway, where for 20 years he has breakfasted at precisely 7:30 A.M., he has already read all the morning newspapers from beginning to end. By the time the Stock Exchange opens at 10 A.M., Loeb has spent two hours at his desk digesting the bulletins on late developments flashed him by branch offices and correspondents all over the globe. He maintains a very heavy correspondence with corporation officials, makes many personal calls on business leaders, and keeps almost as well posted on developments in a number of industries as do many insiders. . . .

As an ambitious young man from San Francisco in E. F. Hutton's New York statistical department, Loeb soon set himself apart from the statisticians who stayed statisticians. They never got any order-giving clients, according to Loeb, "because their approach was academic. 'What do you think of General

Motors?' someone would ask them. 'It's a good company,' they would answer. That was the end of the discussion. I would answer the question with some others. 'Why do you want to know? Do you own General Motors stock? Do you plan buying it? What else do you own? Have you other motor stocks? How much of your capital is invested?' And then they would get a reply that applied to them personally on what they should do and whether I thought General Motors at the price and as things appeared in the market was going up or going down. Such personal attention made another customer every time."

From management's point of view, there are important implications in the moral of this story. Management's challenge is to educate its salesmen to such a belief in the product or service that they can confidently orient their approach and thinking to developing the *customer's* interest in the product–not breaking his resistance with "high-pressure" selling. Put in another way, it is making the prospect want to buy, not "selling" him. As Loeb expressed his own attitude, "I don't sell. People buy from me." [5]

REASONS WHY SOME SALESMEN FAIL

Theoretically, there are only three reasons why a salesman fails: the man is temperamentally unfit for sales work and should get out of it entirely; he isn't working; or he isn't working *right*. . . .

Recently, a management group in the life insurance industry studied two groups of salesmen to learn what distinguished the more successful from the less successful. The researchers learned that the less successful men were spending too much of their time "sitting on china eggs." They were working hard enough, but they were trying to make sales to people who didn't need or didn't have the money to buy insurance. They weren't properly qualifying their prospects. They weren't working *right*.

The following are some of the specific findings:

About 68% of the clients of the less successful men had incomes below $4,000 a year, compared with 33% for the more successful group.

The less successful men made 57% of their sales to married males, while the other group found 83% of their sales in this market.

About 79% of the lower group's sales were made to men with less than $10,000 of life insurance; 58% of the upper group's sales fell in this category.

About 43% of the lower group's sales were made to men with no dependents, compared with 15% for the success-group.

"It is clear," said the analysis of the findings, "That the successful men simply approach better prospects."

How many individual insurance salesmen would have discovered these facts

[5] J. M. Hickerson, "Successful Sales Techniques," *Harvard Business Review*, September–October, 1952.

for themselves? Not many. Yet if these, and other facts having to do with the "where to go" and "how to sell" were furnished to them by management, many a man would be able to correct his own basic weaknesses.[6]

The results of a similar study of 300 salesmen of the Atlantic Refining Company are shown in Table 26–3.

Table 26–3. *How Time Is Spent on a Typical Call*

Kind of activity	Low-rated salesmen, percentage	High-rated salesmen, percentage
Company procedures: Activities required by company procedures such as credit and collection, stock checking, study of customer equipment, managerial advice, etc.	13	21
New business: Time spent on soliciting new business	11	22
Selling talk: Time spent on product selling	21	40
Nonselling talk: Conversation not directly related to selling, such as greetings, weather and sports, discussions, stories, etc.	43	11
Waiting: Waiting to see the customer, and interruptions while with the customer	12	6

SOURCE: Noble Hall, "Salesmen's Time and Duty Study Spots Sources of Waste for Atlantic," *Sales Management*, Apr. 15, 1952, cover story.

ARE SALESMEN BORN OR MADE?

Salesmen are not made *or* born; they are made *and* born. If a salesman candidate has the personality and basic abilities needed for success in salesmanship, he may be taught the skills required for successful handling of a sales situation. That is the most basic conclusion which has emerged from one 5-year study of sales-training effectiveness.

A major purpose of the study was to discover the effect of intensive sales-training experience on the measured abilities and personality characteristics of salesmen candidates. The candidates had had no experience in salesmanship prior to the beginning of the study. During the course of the study they underwent an intensive 450-hour sales-training program.

A control group utilized in the study was composed of successful sales-

[6] A. R. Hahn, "Weakest Link in Sales Management," *Sales Management*, Jan. 15, 1953.

men who had been in the sales field a minimum of two years and were earning a minimum of $4,000 to $5,000 a year. These successful salesmen were given a battery of tests measuring general ability or intelligence, social intelligence, interests, personality, values, and attitudes. They also took a standardized sales-performance test designed to measure sales approach, approach to buying motives and objections, presentation, and the close. The salesmen candidates took both groups of tests before training and again after training, and their performance before and after the course was compared with the scores of the successful salesmen.

Before training, the salesmen candidates did not differ from successful salesmen on the first group of tests, nor did they differ after training except on one scale of the value inventory. Before training they did less well than successful salesmen on the standard sales-performance test; after training, however, they did *better* than successful salesmen on the same test. Furthermore, the study showed that a typical pattern of abilities and personality characteristics does exist for successful salesmen and for salesmen candidates alike.

The following general conclusions of significance to management were drawn from the study:

1. Sales training has beneficial results, but the emphasis in a sales-training program should be on how to handle a sale, on the skills of selling, and on knowledge of product and company, rather than on changing the basic abilities and personality characteristics of the trainee.
2. A standard sales performance test measuring such basic factors as approach, presentation, approach to buying motives and objections, and the close, is helpful in selecting salesmen.
3. In selecting salesmen the sales manager should look for a typical pattern of abilities and personality characteristics. This pattern can be measured.
4. Salesmen candidates may be taught how to handle a sales situation successfully in a relatively short period of time if they have the typical pattern of abilities and personality characteristics.
5. Previous experience in salesmanship need not be a prerequisite for employment—if a company has a sales-training program which all newcomers must take, and if this program puts emphasis on how to sell.[7]

CAN YOU SUCCEED IN SALES WORK?

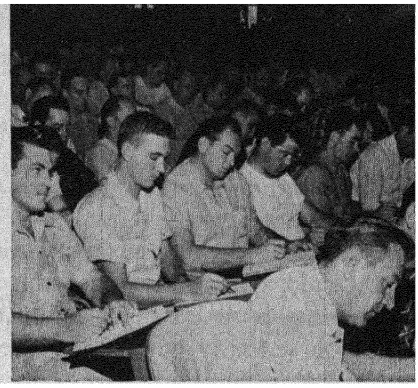
Would you really like to know . . . seriously enough to check yourself by a simple self-evaluation test? Accurate measurement of your pattern can, of course, be done only by a specialist. However, Nash-Kelvinator Corporation has published a booklet, *To a Man in Search of His Fu-*

[7] Victor W. Eimicke, "Are Salesmen Made or Born?" *Printers' Ink*, Feb. 27, 1953.

Here a "squad group" at Sugar Camp sales training school of the National Cash Register Company meets informally to practice using company products. The squad group idea was originated early in NCR sales training.

NCR looks over its candidates very carefully. It uses interviews, aptitude tests, and other modern personnel tools. It wants to weed out the ones likely to fall by the wayside. For example, it won't hire men whose parents run a sizable enterprise of their own, on the theory that the son might be called on to bail out the old people. Nor will it take a man who has a private income. Reason: He lacks the proper "motivation" to stick with selling.

SOURCE: "National Cash Register Teaches Old Theory, New Ways to Sell," *Business Week,* Aug. 2, 1952, pp. 38–42.



Classes assemble at Sugar Camp sales training school of the National Cash Register Company to hear a guest speaker. Classrooms at Sugar Camp are air-conditioned, spacious, and equipped with all facilities for teaching sales technique. The faculty is recruited from experienced branch managers.

The students are novice salesmen who have served perhaps a year with the company in the field. During the summer sessions of five weeks, groups of older salesmen also meet at Sugar Camp for refresher courses. When the season is over, the faculty takes to the road to brush up the field men in the branches on new machines, techniques, ideas.

SOURCE: "National Cash Register Teaches Old Theory, New Ways to Sell," *Business Week,* Aug. 2, 1952, pp. 38–42.

ture as an aid to men interested in salesmanship. The booklet includes a self-administered evaluation test which is reproduced on page 422. This test was prepared by the Psychological Corporation of New York, one of the foremost authorities in vocational psychology and a big factor in the development of classification programs for the armed services.

If you are the kind of person who likes to find out where he's heading and why, who likes to face facts and realities, then you will probably get a good deal of pleasure and satisfaction out of rating yourself by taking this test.

Naturally, there can be no rules or standards established for determining infallibly who can or cannot be a good salesman. Some tall men have been magnificent salesmen, and other tall salesmen were not even good order takers; the same applies to fat or slender men, to curly-haired men or the baldpates. Some college graduates have been sales wizards and

others couldn't sell peanuts. And there have been farm boys and lumberjacks who developed unbelievable capacities for selling. While this test is a helpful measuring stick, you should not regard it as being totally above the possibility of error.

There is, however, a sound basis upon which you may safely proceed: If frank, honest self-evaluation as a result of the test shows that your chances of succeeding in sales work are slim, it may be wise to stay out of the field. If, on the other hand, you discover that chances for success are reasonably or considerably on the favorable side, then you are warranted in seriously considering sales work as a career.

Self-evaluation Test for Prospective Salesmen

DIRECTIONS: Which of these statements describes *you?* If the answer is "yes," draw a circle around the "Y"; if the answer is "no," draw a circle around the "N." It is to your own interest to be as fair and accurate as possible in your answers. When you have finished, check your answers with the key on page 522.

1. I'd rather deal with things than people.	Y	N	14. I would like to be a mechanical engineer.	Y	N
2. I think chemistry is a very interesting subject.	Y	N	15. I like blind people.	Y	N
3. I like talking to strangers.	Y	N	16. I like to have regular work hours.	Y	N
4. I would like to be a college teacher.	Y	N	17. I would enjoy making speeches.	Y	N
5. People find it easy to approach me.	Y	N	18. I would like to be head of a research department.	Y	N
6. I would like to do research in science.	Y	N	19. I like to keep meeting new people.	Y	N
7. I enjoy raising money for charity.	Y	N	20. I enjoy bargaining when I'm buying something.	Y	N
8. I would like to teach in a school.	Y	N	21. I would like to develop some new scientific theories.	Y	N
9. I like fashionably dressed people.	Y	N	22. I like to have a definite salary.	Y	N
10. I would like to be a watchmaker.	Y	N	23. I'd rather have only a few really intimate friends.	Y	N
11. I like to attend conventions.	Y	N	24. I'm better than average at judging values.	Y	N
12. I've more than average mechanical ingenuity.	Y	N	25. I like to play cards.	Y	N
13. I dislike people who borrow things.	Y	N			

SOURCE: Reproduced by permission of Kelvinator Division, Nash-Kelvinator Corporation, from materials originally prepared and copyrighted by them.

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QUESTIONS AND EXERCISES

1. Contrast the role and function of today's salesman with the position and functions he had 25 years ago. What factors account for the difference?

2. Do you believe a salesman is born and not made? Explain.

3. What facts should a salesman know about his product? His company? His customer? His competition?

4. Are salesmen paid enough? Would the wholesale grocery salesman or the salesman of industrial packaging equipment generally have the higher earnings? Why?

5. What are the basic reasons why some salesmen fail? Which of these reasons can be overcome by proper training and work habits?

6. What are some of the major differences in how the most effective salesmen spend their time as contrasted with the less effective salesmen?

7. Take the Nash-Kelvinator test. How did you score? Which of your low-scoring characteristics could be improved in a sales-training course?

27 Selling Direct to the Consumer

THE ALERT MARKETER

1. **Becomes acquainted with the advantages, disadvantages, and methods of marketing by direct selling.**
2. **Finds out what products can be sold profitably by house-to-house salesmen.**
3. **Watches the trend toward or away from the passage of community ordinances to restrict house-to-house selling.**
4. **Learns about the legal pitfalls associated with direct selling.**

The salesman who does "direct selling" is referred to by many terms that are synonyms or near-synonyms such as "door-to-door salesman," "house-to-house salesman," "independent salesman," "house-to-house peddler," "route man," or even "independent distributor."

The first direct salesmen in this country used packs or wagons to sell supplies such as needles, thread, and kettles to settlers who lived far from the nearest store. These Yankee traders were independent businessmen who bought and sold for cash. Today, the term "peddler" is detested but the direct salesman is still an important factor in marketing.

Estimates of the number of part- and full-time direct salesmen vary from 1 to 2 million. The number falls off during periods of prosperity and increases during depression years when regular salaried jobs are scarce. The total annual sales volume has been estimated as high as $7 billion. The estimates of the number of business firms that use direct selling vary from 3,000 to 6,000 depending on the extent to which fringe companies such as milk and baked-goods firms are included.

KISS

Lazy Wholesale-Retail Marketing

GOOD-BYE

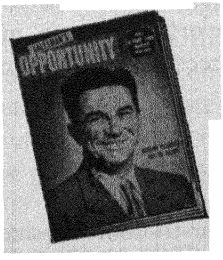
Here's the Sensible Solution to the Distribution Nightmare Plaguing Manufacturers Today

You hear a lot these days about the "Marketing Revolution" and the swing to automatic selling. Like thousands of other business-men, you may be worried about the future of your business in these days of jungle warfare for the consumer's dollar, and wonder how *you* can cut through this era of "lazy selling" and hammer out your niche in the market place and get your share without sinking a fortune into national advertising.

In all the tumult and shouting many manufacturers have made their own "Marketing Revolution" *by turning to Direct Selling.* They have quietly by-passed sluggish wholesalers and disinterested retailers, and recruited armies of ambitious, aggressive, on-the-job independent salesmen and saleswomen who demonstrate and sell their products and services right before the eyes of customers. Many have rolled up annual sales in the millions, achieved nationwide distribution overnight, made boom-time profits . . . all without spending huge sums to capture illusive consumer good will, without courting wholesalers and retailers, without fighting frantically for counter and floor space.

Take a look at Direct Selling! If yours is an old business losing its grip on the market and wondering what to do next . . . if yours is a small business which cannot hope to compete successfully with the giants . . . if yours is a new product or service backed by big ambitions but small capital . . . *take a look at Direct Selling!*

You may be amazed and delighted to discover that Direct Selling is the short cut you're looking for to quick, pin-point, 48-state distribution at low cost . . . with assured profitable volume in the first years.



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28 E. Jackson Blvd., Chicago 4, Illinois

ADVANTAGES TO THE MARKETER OF DOOR-TO-DOOR SELLING

Anyone who has ever marketed his product through the conventional wholesaler-retailer channels is likely to have felt discouraged by the lack of aggressive selling. Few retailers sell. Most of them merely make goods available to those who wish to buy. As a result, many manufacturers seek to arouse through advertising consumer demand which the retailers can satisfy.

Many a manufacturer, especially the small or beginning manufacturer, lacks the capital and know-how that would enable him to develop consumer demand. Naturally, he thinks of the nonconventional methods of marketing such as direct salesmen and direct mail. The door-to-door salesman is typically in business for himself. He finances himself and thus eliminates expenses such as expense accounts, credit extensions, workmen's compensation, and social security.[1]

Selling by door-to-door salesmen involves many expenses which may be just as high for the manufacturer as those of the wholesaler-retailer variety, but the manufacturer can control the amounts expended more easily. Instead of committing himself to spending thousands in having many high-priced salesmen call on wholesalers and dealers, he can hire, train, and supervise a few direct salesmen for hundreds of dollars. His commitments are likely to be less burdensome in the early stages of the venture.

Door-to-door selling is aggressive. It takes the product to the consumer at a time when the salesman can get, or at least seeks to get, the prospect's undivided attention. It does not wait for the consumer to go to a retailer to buy. The salesman can give a full demonstration of the product, explaining the advantages of owning the product in a more effective manner than is done by the typical retail salesclerk. The prospect can handle and examine the product thoroughly. The salesman is stimulated to try to complete the sale on the spot because he works under an incentive plan that increases his compensation when he succeeds and decreases when he fails.

LIMITATIONS OF DIRECT SELLING

Even though the manufacturer who uses door-to-door salesmen does not have some of the expenses of wholesaler-retailer selling and advertising costs, he has other expenses and many "headaches." These are mainly

[1] In 1950, the Old Age and Survivors Insurance Law was amended to include self-employed persons. This expense, however, is not usually paid by the manufacturer who markets by direct selling.

the difficulties in getting, keeping, and motivating a staff of salesmen who seldom make a career of door-to-door selling. In many companies the annual turnover among these salesmen runs as high as 300 per cent. They try the work as a stopgap until they can get a more secure job elsewhere. Many are part-time workers who want to earn some extra money in order to pay for a new car or a doctor bill. The hiring, supervising, and stimulating of workers of this type are likely to be frustrating and discouraging to management because each door-to-door salesman is, after all, financially independent. He rarely identifies himself with his supervisor or feels obligated to him. Generally, as a manufacturer's financial responsibility to his salesmen decreases, his control over them also decreases.

There is, in spite of what door-to-door selling enthusiasts claim, still some stigma attached to sales work of this kind. Part of this unfortunate stigma is caused by the knowledge that when a man is incapable of getting a full-time salaried job, he can still get into door-to-door selling. He can be unemployable to most employers, but some direct-selling company will welcome him. The manufacturer often finds that he is dealing with the type of salesman who can get him into legal difficulties because of his conduct and promises made to customers.

Under modern laws, there is also the possibility that legal complications may arise from the question as to whether the company's door-to-door salesman is an independent contractor or an employee of the manufacturer. Companies that go into direct selling for the first time need expert legal advice.

The direct-selling companies have to spend considerable effort and money in holding pep meetings. Supervisors are often chosen for their ability to arouse enthusiasm to a frenzied pitch in the type of salesman who will work energetically only as long as the emotional hypodermic lasts.

From the consumer's standpoint, door-to-door selling is usually an expensive way to buy. One salesman calls on one prospect at a time. It would be cheaper for the customer to visit a display in a store where other customers also come and buy and where a salesclerk on a fixed salary hands the customer the item chosen from the display. The commissions paid to door-to-door salesmen, in most cases, run higher than retail markups (see Table 27–1).

TYPES OF DOOR-TO-DOOR SELLING

Direct selling has several forms. One popular form is the independent salesman who functions as an independent operator. He buys and sells on his own and works either as he wishes or in accordance with a plan furnished to him.

Table 27–1. *Commission Payments for Door-to-door Selling*

Company	Products	Commission, percentage
Fuller Brush Co.	Brushes, housewares	43
Stanley Home Products	Brushes, housewares	45
Easterling Co.	Silverware, china	20
Senak Co.	Silverware, aluminum (Collectors receive 5–10%)	15–20
Aluminum Cooking Utensils Co.	Wear-ever aluminum	25–40
Saladmaster Sales	Kitchen utensils	40
L and M Co.	Kitchen, household items	45–55
Alabama Novelty Co.	Home furnishings (Collectors receive 15%)	20
Morgan's Home Equipment	Home furnishings (Collectors receive salary and 10%)	20
Jewel Tea Co.	Groceries, general items	15–25
Hoover Co.	Vacuum cleaners	18–20
Electrolux Co.	Vacuum cleaners	35
Bible Distributors	Religious books	51
The James Co.	Religious articles	50
Children's Press	Children's books, records	40–50
Tour Bengal	Cutlery	80
Color TV Screen Co.	Television accessories	58–95½
Charmeuse Creations	Jewelry	50
Yormark Watch Co.	Watches	69
American Seed Co.	Flower, vegetable seeds	33
Greeting Card Guild	Greeting cards, stationery	40
Merlite Industries	Home fire extinguishers	25–52
Kendex Corp.	Stockings, lingerie	15

Controlled route salesmen are given incentives for sales to new customers, but they receive less than itinerant, single-call salesmen. Most concerns offer volume bonuses.

SOURCE: Norman Brucks, "A Critical Analysis of Door-to-door Selling," *Sales Management*, Nov. 1, 1952.

In a second form, several salesmen work as a crew but each man is essentially an individual operator. The group may move about as an itinerant crew. The crew, however, may be directed not by a manufacturer but by an independent distributing agent. The agent or supervisor of the individual crew member may change products or suppliers at the will of the group director.

In the third type, the controlled organization, the salesmen are given some supervision and control by the manufacturer. The control is not,

however, carried to the point where the salesman can be defined legally as an "employee." However, efforts of salesmen are directed and quotas are established. In most cases of companies using the controlled organization, the products sold require some selling skill. Some technical knowledge of the product and ability to demonstrate or explain it are essential to success in selling it.[2]

EXAMPLES OF COMPANIES THAT HAVE USED DIRECT SELLING SUCCESSFULLY

A history of this phase of marketing would reveal many examples of both failure and success. Unfortunately, no adequate statistics of failures or successes are available. Three successes are described.

1. Saladmaster Sales, Inc., of Dallas, Texas, held its first sales meeting in January, 1947. The president of the company, three salesmen, and 15 visitors were present. Six years later, the company had 3,000 salesmen, sales were being made in 48 states, and the volume was $7 million.

Of the salesmen, called "distributors," 66 per cent were part-timers, mostly housewives, or men who held regular jobs and wanted to earn extra money.

The Saladmaster machine, sold for $29.95 and usable for chopping, peeling, shredding, and grating raw and cooked foods, accounts for 60 per cent of sales volume for the Saladmaster Company. Although 80 per cent of the salesmen for the product were inexperienced, during the first 6 months of their selling experience they sold 50 to 60 per cent of their prospects on the idea of buying the machine. After this period they usually sold up to 80 per cent of the prospects on whom they called.

Saladmaster sales management believes that long training costs the company too much and serves only to discourage the new salesman, who often has no financial security, and causes him to quit before he begins to make sales. Furthermore, the company found that 2,000 quickly trained salesmen topped the volume of 500 expert salesmen.

The part-time distributor of Saladmaster averages $500 sales volume a month and his commissions average $200. He may work 2 hours an evening or only 3 hours a week. The more successful distributors average $1,000 sales volume monthly.

The company is constantly searching for new salesmen through the use of contests and campaigns within the organization itself. One month, for example, it conducted a "National Manpower Month" which reached all those connected with the company. Each participant received the premium of a new Saladmaster for each salesman that he found for the

[2] Norman Brucks, "Three Door-to-door Sales Groups," *Sales Management,* June 15, 1953, p. 76. See also by same author, "Door-to-door Sales People; Who They Are; How They Work," *Sales Management,* July 1, 1953.

company. The company spends about $150,000 a year in advertising for experienced personnel men and sales managers through full-page advertising in popular magazines.

In reference to turnover, the company states that 25 to 30 per cent of its distributors remain with the company for more than a year, and of this percentage some remain permanently. In the executive ranks, the company claims no turnover. A good field executive can earn more than $1,000 a month; district and regional men earn from $15,000 to $40,000 a year.

Each new distributor is required to pay $10 which goes into a "guarantee pool" that is used for occasional losses suffered by customers because of the dishonesty of a few of their distributors. This is "good-will insurance"; although the company is legally protected against these losses, it believes that it is morally obligated to redeem any down payment accepted by dishonest distributors who fail to send the merchandise.

The company utilizes the device of giving a gift to each housewife who witnesses a demonstration. She receives this gift whether she purchases the product or not. Furthermore, the salesman secures the names of five friends from each housewife on whom he calls. He also obtains information about these five people that may enable him to make sales to them. Sometimes the housewife receives a premium for supplying the names, but usually he sets up the condition so that she will receive a more valuable premium if he completes sales of certain amounts. Because of the conditional offer, the housewife selects people whom she considers to be good prospects. Furthermore, the housewife makes the appointments for the demonstration to each of her friends, so that about 9 out of 10 people are home when the distributor makes his initial call. Almost 90 per cent of a distributor's calls are follow-ups of names supplied by housewives.

The Saladmaster Company uses the system of giving every salesman a supervisor from the beginning of his connection with the company. The supervisor's influence fluctuates with the needs of the salesman for advice and selling aid. Since the supervisor is responsible for sales, he spends an average of one-third of his time advising the distributors. These supervisors get from 2 to 10 per cent incentive "override" or commission on the sales of those under their direction.

The company also provides aids to its distributors via advertising to presell its products before the distributor calls on the customer. The advertisements, although soliciting mail orders, are designed to help the customer become familiar with the product before the salesman calls. The company has extended this advertising to TV and to color films that are shown in drive-in theaters throughout the country.[3]

[3] Harry Lemmons, "Who Says Door-to-Door Selling Is on the Way Out?" *Sales Management*, Aug. 1, 1953.

2. Fashion Frocks, Inc., Cincinnati, Ohio, was started in 1925 by Phil Meyers, a University of Cincinnati football star, who failed to convince his father, a small manufacturer of women's dresses, that he should bypass retail stores and sell direct to the consumer. To the father it seemed too revolutionary an idea. As he said, "You can't sell dresses like brushes!" However, he helped the son set up a firm to test his new idea. The basis for this new company followed the concept that the best possible low-priced garments could be sold in the "door-to-door" manner.

Meyers acquired his sales force by advertising in a small newspaper for women who wanted to earn extra money. The initial response was small. Only 100 answered the request and only 50 of these supplied the request for two references. However, Meyers sent those 50 women blank forms, style cards, and sales instructions. By the end of the first year, he had 1,000 women employed in selling Fashion Frocks, producing a sales volume of $165,000. Meyers' father soon joined the son's company and was followed by a brother into what is today a successful business.

Every day some 50,000 women sally forth to ring doorbells and to ring up an estimated $22,000,000 in annual sales for a fabulous firm called "Fashion Frocks." This marketing-wise firm has created at least a marketing rebellion in its industry, if not a marketing revolution. In the years since the war when the women's apparel business suffered more downs than ups, Fashion Frocks has applied its own unusual strategy to keep its sales on the increase without a single one of the slumps considered almost traditional in the business.[4]

Assembly-plant operation and modern equipment are utilized in turning out 2 million garments a year during all months of the year, despite the traditional slumps.

The basis of selling Fashion Frocks depends upon the part-time army of saleswomen who sell the garments throughout the United States and many foreign countries. Meyers' sales force fluctuates between 100,000 during the peak spring and fall selling seasons and 30,000 during the lulls, the average selling force being 50,000 women.

In order to become a saleswoman, the applicant merely submits a coupon from the Fashion Frocks advertising. She receives a blank on which she lists her qualifications. The company's requirements are that she must be at least 18 years of age and able to supply two references. The company then sends her a style kit that contains swatches of materials, color cards, and about 150 style cards. The kit includes sales instructions, order book, return envelopes, calling cards, postcards with messages to the customers, and suggestions for telephone conversation procedures.

[4] "Fashion Frocks; an Example of Using Marketing Strategy to Reverse an Industry Sales Slump," *Tide*, July 18, 1952.

A composite of the average type of Fashion Frocks' representative was compiled with the following results: She is usually about 38 years old, married and the mother of two children, owns an automobile, went to high school, has no other job, and her husband is employed. She usually works with a specific end in sight such as a new TV set or a kitchen appliance. She works like a beaver for a short time, but when she has achieved her goal, she usually quits until she develops a new objective that costs extra money.

All the saleswomen work on a commission and average 17 per cent on the sales price. The bulk of the merchandise sells at $7 to $9, the 200 styles ranging from $4 to $16.

Although the garments are carefully marked in regard to laundering and dry-cleaning instructions, some customers ignore these instructions and register complaints about the merchandise. It is the policy of the company to give prompt refunds upon a complaint of this kind. This policy has gained for the company a great deal of confidence from the millions of women to whom it caters. In return, the company puts a great deal of confidence in its sales personnel, since most of its business is C.O.D. An estimated $4 million a year is doled out in the form of merchandise deposits with its saleswomen. This system has worked so well and the defections in it are so little that no record keeping of the defections is required.

The company is constantly devising new methods of providing incentives for its sales force. Styles are changed and bargains or premiums are offered periodically. Premiums are in the form of articles such as sewing kits, steak knives, and the like because of their novelty appeal This keeps the enthusiasm toward the job alive. The company provides a four-page magazine, *Voice of Fashion*, which contains information about pending promotions and anecdotes about other members of the sales force.

Fashion Frocks invests about $500,000 a year in advertising in order to recruit saleswomen for the company. About $1 million a year is spent for postal services.

Contrary to most other businesses, Fashion Frocks finds that this type of selling improves with the depression years. More women seek part-time employment and work harder to sell when the incentive for funds is greater. The best places for sales are in towns having a population of 25,000 to 100,000, especially where the selection of dresses is not too varied.

3. Avon Products, Inc., New York, started in 1886 with four items. It now has some 260 items, making its list one of the broadest of all cosmetic and toilet goods lines. In 1941, the company's net sales passed the

$10 million mark; it reached $40 million in the early 1950's. Its 60,000 sales representatives are regarded as persons running a small business of their own with the help of the company, who sells them the merchandise. Most representatives are housewives who wish to supplement the family income.

A basic factor in the selling of Avon Products is informal friendly relations with the customers. This has been a major policy since the company started. Representatives are secured through want ads in daily and weekly newspapers. The applicants are interviewed in their own locale where they receive demonstration kits and sign a contract giving them their territory, usually the representative's own neighborhood. Each of them is encouraged to cover her territory thoroughly.

The procedure used in approaching the prospect is to present the housewife with a complimentary sample of an Avon product. The training program is aimed toward helping the "saleswoman" learn how to approach the prospects. The company puts forth extra effort to aid those saleswomen who have discouraging problems. The attitude of pressure on the saleswoman is always avoided.

Letters to the saleswomen are friendly and encouraging. Each Avon representative receives the company magazine, *Avon Outlook*, about seventeen times a year. The magazine, which has existed for the past 50 years, gives information about selling techniques, new Avon products, and selling incentives.

Informality extends to the regional meetings which the Avon representatives are invited to attend. Although business is discussed seriously, there is again a spirit of friendliness and the meetings are not held strictly to procedures.

To increase the incentive to sell, advertising is used. One year, for example, Avon ran advertisements which contained an oil painting of a famous Avon customer with her handwritten message about Avon products. Of course the advertisements showed the famous customer sitting with her Avon representative in an informal pose! The copy stressed the company slogan, "Welcome her when she calls." [5]

In addition to these three companies, many others equally well-known might be mentioned, such as The Fuller Brush Company, Mason Shoe Company, The Easterling Co., Inc., J. R. Watkins Company, and the Jewel Tea Co., Inc. The annual volume sold by each of these and several other direct-selling companies is envied by many well-known firms that sell through the wholesaler-retailer channels. Obviously, also, many direct-selling companies are small and never grow large enough to make noteworthy profits.

[5] Marshall Beuick, "It Pays to Be Friendly," *Printers' Ink*, Aug. 1, 1952, p. 25.

Many direct salesmen make good earnings. The Easterling Co., for example, sells silverware and china. The average Easterling salesman sells to 43 per cent of the people visited and the average sale value is $140. The incomes of many active full-time "distributors" are in the $10,000-and-over class (see Table 27–2).

Table 27–2. *Annual Sales and Earnings of Some Publicly Held Companies Employing Door-to-door Distribution*

Company	Sales	Net income before taxes
Stanley Home Products, Inc. (brushes and household cleaning aids)	$57,701,162	$7,298,287
Avon Products, Inc.* (cosmetics)	47,033,052	6,963,337
Fuller Brush Company (brushes, cosmetics, household cleaning aids)	44,641,277	3,681,200
Electrolux Corporation * (vacuum cleaners)	†	4,210,024
Fashion Frocks, Inc. (dresses and other apparel)	21,178,891	1,286,698
Real Silk Hosiery Mills, Inc.* (hosiery and apparel)	8,739,813	96,131 ‡
Beauty Counselors, Inc. (cosmetics)	4,998,042	691,585
The Process Corporation (greeting cards)	2,035,051	144,176

One of the most successful enterprises–the C. H. & C. W. Stuart companies of Newark, New York–has approximately 20 subsidiaries and divisions all selling door-to-door. (They have found that once sales volume of a subsidiary begins to level off, it is usually more profitable to develop a new subsidiary company than it is to try to increase sales further.) Sales of these individual subsidiaries are reported to run from a few hundred thousand dollars up to as high as $14 million annually. Each subsidiary carries one major product line. Items sold include such varied products as nursery stock, cosmetics, silverware, jewelry, and china.

* 1953 figures.

† Not reported.

‡ Excluding reserve adjustments.

NOTE: Figures are for 1952 unless otherwise noted.

SOURCE: Table and comments from Victor P. Buell, "Door-to-Door Selling," *Harvard Business Review*, May–June, 1954.

METHODS OF GETTING PROSPECTS

Direct selling can be classified in terms of the salesman's procedure in getting his prospects. Some of the more common procedures are as follows:

The cold-turkey call. The salesman simply goes wherever he wishes on the impulse of the moment.

The spot-call is used by salesmen of certain products that on the basis of quick observation are obviously needed or not needed by the individual on whom he calls. Examples are lawn seed and roofing. The salesman can tell at a glance whether or not the homeowner has need for the product.

The lead method. The salesman has specific preselected individuals in mind when he makes his calls. He may obtain leads from lists of births, deaths, or directories. The book salesman, for example, may get lists of high school students. Usually, in this method, sales calls are not expected by the prospects.

The appointment method. When the prospect does not expect the call by the salesman, making the sale is more difficult. In the appointment method, the prospect expects the call; ideally, the prospect requests the call. To arrange for leads, advertisements with coupons may be run. Telephone calls may be made. Part-time housewife salespersons for cosmetics and apparel often make appointments by telephone—the lure being the desire to show the prospect a new beauty or fashion item.

"Bait advertising" may be used, such as TV commercials that invite the prospect to request a demonstration of an appliance, priced ridiculously low. These unethical direct sellers offer, for example, a rebuilt vacuum cleaner at an unbelievably low price, inviting the housewife to telephone to arrange for a demonstration. When the demonstrator calls, he tries to sell her a new vacuum cleaner. Such advertisers should be reported to the local Better Business Bureau.

The party, hostess, and club plan. Direct salesmen can, in some cases, save time for themselves through the use of a group plan. This plan provides for a demonstration to a group whose members know that a salesperson will be present. The group gathers at the home of a friend, the hostess, where entertainment is provided by the salesman who acts as master of ceremonies. Between acts or games, the product is demonstrated. Stanley Home Products claims that it sells 7 out of 10 prospects this way. In the club plan, an individual organizes a group with himself as secretary and arranges for each member to pay weekly dues to him. The secretary is, in function, also a salesperson and for his compensation receives merchandise selected from the company's catalog. These plans are insti-

tuted with the idea of suppressing the usual customer hostility to the door-to-door salesman.

The route method. This system of door-to-door selling is applicable to those areas where repeat sales are possible, preferably at weekly or monthly intervals. A definition for the route sale method as used by the Jewel Tea Company, is "a cold call repeated at a sufficiently frequent fixed interval in order that the prospect not only accepts, but eventually expects, a salesman." [6]

ONLY CERTAIN PRODUCTS CAN BE SOLD DOOR-TO-DOOR

Many products do not lend themselves to profitable direct selling. The sensible marketer can easily recognize certain products that should and others that should not be sold door-to-door. To be salable by this method, the product should be portable and easily demonstrated, have a wide profit margin for the manufacturer and the salesman, and involve some feature that, when explained, tends to arouse interest on the part of the prospect. It should differ in some noteworthy way from similar products ordinarily sold at retail stores. If the article offers repeat sales possibilities or leads to the sale of related products, the chances of success for the direct seller are much greater.

Specialty products have traditionally been ideal door-to-door items because of their high margins and need for good selling techniques. However, as they turned into staples, mass-distribution techniques with their attendant lower margins became more suitable methods of distribution. For example:

The Real Silk Hosiery Mills enjoyed its dramatic and profitable growth in the early 1920's when silk hosiery was still a luxury available only to the wealthy woman. As it became a standard part of the wardrobe, prices and profit margins dropped. Volume increases to offset these lower margins could not be produced by door-to-door methods.

Again, although many staples are included in door-to-door lines, the items promoted most vigorously are not staples. Thus, the door-to-door cosmetics houses carry standard items, but they feature the special-formula preparations that are not usually bought except as a result of the selling techniques of the store demonstrator or the house-to-house saleslady. Similarly, while Fuller carries toothbrushes and other staple items, emphasis is on the many special brushes that are not usually found in stores.[7]

THE GREEN RIVER ORDINANCES

Some communities, possibly as many as 500, have restrictive ordinances against peddling and house-to-house canvassing. The passage of these

[6] See *Sales Management*, June 1, 1953, p. 72.

[7] Victor P. Buell, "Door-to-door Selling," *Harvard Business Review*, May–June, 1954.

ordinances has usually been encouraged by local retailers who imagine that door-to-door selling takes business away from them. Also, some individual citizens favor restrictive measures because of annoyances they have suffered, particularly from overly aggressive and unethical direct sellers.

These ordinances have had a tangled history in the courts. In some states the courts have upheld them; in others they have been declared invalid. The validity of the ordinances has been tested by organizations such as the Watchtower Bible and Tract Society, publishers of Jehovah's Witnesses material, as well as by magazine publishers and direct-selling firms such as Fuller Brush Co. In 1951, however, the United States Supreme Court upheld the Alexandria, Louisiana, ordinance of the Green River variety, giving the community the right to ban salesmen from homes without invitation. As a result, the magazine subscription industry and other direct sellers will probably make efforts from time to time to have Federal laws enacted that will strike down all such local legislative bans.

The National Better Business Bureau has sought to head off "the arbitrary abolition of direct selling through widespread adoption of the Green River ordinance." The Better Business Bureau has treated objectively the $7 billion business of the door-to-door salesmen and proclaimed their rights in a bulletin called *The Right of Free Men to Engage in Legitimate Business.* The BBB believes that communities should restrict only independent salesmen who are engaged in fraudulent practices and not restrict the majority of hard-working men.

In the BBB's eyes, the door-to-door salesman is a "creative, educational force in our economy who does not take a market away from the local merchant so often as he creates a new market where none existed before."

While conceding there are some abuses in direct selling—just as there is a minority of dishonest retailers and mail order firms—the BBB declared:

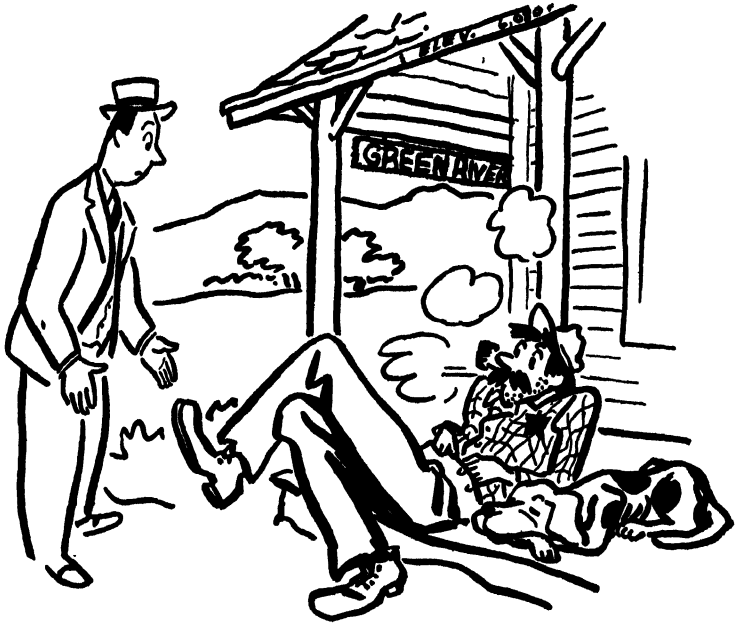
"Out of 111,144 complaints received by the nation's Better Business Bureaus during the first six months of 1951, only 1.5% involved direct selling generally. . . . To demolish a $7 billion industry in the hope of catching a few thieves on its fringe is like burning down a barn to roast a pig." [8]

Many direct-selling companies are not greatly concerned about the Supreme Court's 1951 decision because a large proportion of direct selling is currently done by appointment. The salesman who makes an appointment is outside the jurisdiction of local antipeddling ordinances. Companies such as Jewel Tea Co. assume that they operate on an invitation basis because the route men set up trading agreements with customers by which each customer agrees to let the route man call once every two weeks. Also, companies that use local citizens as "distributors" are not

[8] "BBB Champions Door-to-Door Sales Method," *Advertising Age,* Jan. 21, 1952.

The Green River Ordinances

In southwestern Wyoming's Sweetwater County, just about where the rumbling Green River crosses a section of Union Pacific track, sits the county seat of Green River (pop. 3,181). High up in the Rockies (elev. 6,080 feet), Green River thrives on the manufacture of lumber and railroad ties. Squatting, as it does, along UP's right-of-way, the town also



"SALESMAN YOU SAY? GOT AN INVITATION?"

gets more than its share of traveling salesmen just passing through, and 20 years ago its got more than it could stand.

So many salesmen whiled away the time between trains by hawking their goods door-to-door in Green River that the town council determined to reinstate peace & quiet. Charging that "ringing doorbells disturb the quietude of the home and become a constant annoyance," Green River's solons passed an ordinance in 1931 forbidding salesmen to call on homes without first obtaining permission from the householder.

Since then, some 500 other communities have passed some sort of "Green River Ordinance," even though Green River's closed door policy has been repeatedly challenged (five states have upheld it, 11 states have termed it invalid). Last week, the Supreme Court itself looked into the case of another town with a Green River Ordinance: Alexandria (La.). It closed the door for good.

SOURCE: *Tide*, June 15, 1951, p. 15.

likely to have these salesmen looked upon as outsiders who drain money from the community; such distributors are therefore less likely to have difficulties with local enforcement officers.

The likelihood of interference with its salesmen, legally or illegally, on the part of local law enforcement officers means that most direct-selling firms need their own legal staffs to help them avoid litigation and deal with it when necessary.

CONCLUSION

The present relatively small percentage of total retail sales, probably less than 3 per cent, is not likely to increase greatly for door-to-door selling. It will, however, continue to hold its place in distribution as an adjunct to our main method of distribution of consumer goods—the retail store. Like the mail-order house and the vending machine, door-to-door selling will be a valuable outlet for the manufacturer who seeks a competitive advantage.

SOURCES

JOURNALS

Two magazines cater almost exclusively to direct-selling advertising:
Opportunity Magazine, 28 East Jackson Blvd., Chicago.
Specialty Salesman Magazine, 307 N. Michigan Ave., Chicago.

National Association of Direct Selling Companies, Winona, Minn. Members are direct-selling companies whose merchandise through one process or another reaches the consumer through a personal solicitation, usually at the home of the prospective customer.

The Association serves its member companies in respect to practically all matters of industry-wide concern or importance. Its members consist of direct-selling companies and not of salespersons, although salespersons are served indirectly because of the membership of the companies with which they are connected.

National Retail Tea and Coffee Merchants Association, 1441 Merchandise Mart, Chicago. Oliver J. Corbett, Secretary. Retailers of tea, coffee, and other foods who sell their products through designated delivery routes and feature the premium method of advertising belong to this organization.

House-to-House Selling, U.S. Department of Commerce, Business Information Service, Washington, lists directories, periodicals, and trade associations that apply to this field of selling.

COLLATERAL READINGS

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Pederson, Carlton A., and M. D. Wright, *Salesmanship: Principles and Methods*, Homewood, Ill.: Richard D. Irwin, Inc., 1950.

Wilson, John M., *Open the Mind and Close the Sale*, New York: McGraw-Hill Book Company, Inc., 1953.

QUESTIONS AND EXERCISES

1. Discuss reasons why direct selling may increase rather than decrease sales of a product through regular retail channels, as described in this Oklahoma incident:

> Perhaps the most important aspect of the party method is its grass roots coverage, making customers of people who otherwise might not have bought at all. Further, there is some indication that this method of direct selling actually contributes to, rather than detracts from, sales through regular retail outlets.
>
> Seven out of 10 women at each party buy on the spot; but the remaining three have become pre-sold on a product category and tend later to become purchasers at their retail stores. One example of this: a few years ago a group of cooking utensil salesmen invaded a small Oklahoma town and started knocking off huge sales via the party plan. Local merchants complained bitterly, supported a nuisance ban which eliminated the competition. The ban was successfully appealed and the merchants won over when the salesmen presented a brief showing that store sales went up when the party plan came to town, slipped back down when it was forced to leave.[9]

2. What are the basic reasons why manufacturers engage in direct-to-consumer selling? What are the limitations on direct selling?

3. What is the relationship between the method of payment of salesmen and the extent of control which can be exercised over them?

4. From the consumer's viewpoint, is direct selling an economical way to purchase?

5. What are the common methods of conducting direct-selling operations?

6. What are the characteristics of products which can be sold successfully on a door-to-door basis?

7. What are some of the methods used to get prospects by direct-selling organizations?

8. What are "Green River ordinances"? Why have so many of them been passed? If all cities had Green River ordinances would direct selling cease? Explain.

9. Evaluate the statements in the advertisement, "Kiss Lazy Wholesale-Retail Marketing Good-Bye."

[9] " 'Party Plan Selling': More Companies Find New Ways to Build Higher Volume in the Home," *Tide*, Sept. 12, 1953, p. 27.

PART EIGHT

MANAGEMENT RESPONSIBILITIES IN MARKETING

28 Top Management in Relation to Marketing

THE ALERT MARKETER

1. **Realizes that top managements of successful companies are sales-minded. He studies the "psychological climate" of the company, particularly in regard to sales.**
2. **Notes how well the management of any given company coordinates marketing with other essential operations such as production and finance.**
3. **Becomes acquainted with the statistical procedures and charts used by managements to guide them in stimulating sales and coordinating production with sales.**
4. **Learns about the significance for marketing of "Automation," "Cybernetics," and the new electronic computers now in development and in the first stages of use.**

Managements of successful modern companies are likely to be sales-minded. They have to be, in order to survive against competition. In the early history of our country when we were in an economy of scarcity, a company could succeed when its management was production- or finance-minded. The same situation exists in time of war, but in peacetime most company managements find it necessary to become sales-minded. They realize that keeping some 60 million people gainfully at work is largely a problem in marketing. Goods must be sold at a profit to keep plants in operation and to keep workers gainfully employed so that they can buy the goods that industry produces.

TOP MANAGEMENTS HAVE TO BE SALES-MINDED

The head of a food packing company expressed his responsibility in this way: "Every breath I take is supposed to be taken for the sales department!" The need for sales in many companies is so important that the responsibility for sales is on the shoulders not only of the sales and advertising managers but also of the president.

Some companies have been traditionally sales-minded. A good example is Firestone Tire & Rubber Co. Harvey Firestone, Sr., was sales-oriented. The present president, Lee R. Jackson, worked with Harvey Sr. and came up through the ranks as an aggressive salesman. Harvey Firestone, Jr., chairman and chief executive officer, and his brother Thomas think of the company as a selling organization. As one of them stated, "Every man's a seller in this company—even the buyers."

Firestone's sales-mindedness probably stems from four things: (1) For years, the company has been headed by an executive who has put sales right at the top of the chief executive's functions; (2) ever since 1928, the company has been in the retail business; (3) since 1924, at the suggestion of Harvey, Jr., the company has been training college graduates intensively as salesmen; (4) just about every aspect of business-training, promotion, advertising is product-oriented, little effort being spent on theory and the broad concepts of merchandising.

Says Jackson: "I'm not too clear on just what the difference is between selling and merchandising. It has always seemed to me that merchandising is more a question of ideas, plans, and policies; and selling is the act of getting the order. For that reason, I've tried to keep all the selling possible in our business."

In a way Firestone is the reverse of Sears, Roebuck & Co. Sears is a distributor that sometimes manufactures; Firestone is a manufacturer that has got into the retail trade. It's characteristic of Firestone's top management thinking that when the company wanted to learn more about training it turned to Sears for help.

Jackson was in at the beginning of Firestone's retail venture in 1928. Under Harvey, Sr., the company decided the only way to find out why it wasn't getting good representation in some areas was to go into the retail business itself. That experience cost the company $8 million before the experiment paid off.

Field Test. It's Jackson's notion—as it is the Firestones'—that the cost was worth the lesson. Not only do the more than 700 company-owned stores today make money; they make management retail- and promotion-conscious.

As a result, the company teaches its salesmen not to be middlemen or wholesalers pushing products into retail channels. The salesmen learn what the retailer's problems are, then get the job of helping Firestone's 60,000 franchised dealers make a go of their businesses.

The company-owned stores—a large operation but small compared to total

distribution—are still used as test stores for finding out how to merchandise a product. No single dealer could run the cross-section tests that Firestone does, or try out the management techniques.

If you pin Jackson down to the one thing he believes makes Firestone a hard-selling company, he picks out this point: "Because of our store experience and retailing bent, our sales force realizes that nothing does the company any good until the customer in the store walks out with a product."

Firestone's salesmen, like its top executives, have to be aggressive. Other factors are taken into consideration, but an applicant for a sales job is hired or turned down largely by that single criterion.

He gets little formal testing—mainly simple clerical tests to find out if he can do the kind of arithmetic that will make him a good horse trader. Firestone's merchandise has quoted prices, but a salesman is allowed a lot of discretion in making a deal.[1]

Not all company managements are as sales-minded as Firestone but many are forced each year to become so. Almost all managements, however, realize that marketing must be coordinated with other operations such as product design and production. Management's responsibilities extend all the way from the purchase of raw materials out to the ultimate customer. Every company makes the newcomer or visitor quickly aware of its concern or lack of concern about marketing problems. Hence, anyone who wishes to evaluate a company in regard to its interest in marketing should become alert to the differences in the psychological climates of companies.

EACH COMPANY HAS A UNIQUE PSYCHOLOGICAL CLIMATE

As someone has said, "A business organization is like a home—it has a characteristic atmosphere. In some homes, the head of the household and all its members are vitally concerned about politics, religion, or some other interest—the occupations of the individual members being only of minor interest. In others, where the personality of the head of the household dominates the activities and spirit of the members, the opposite occurs. Like any group, a business organization has its own culture, traditions and, to some extent, its own language and climate."

In some companies everyone from top management to the shipping room is concerned with production. In others, the dominant interest is marketing—even the machine operator in the factory knows who will buy and use the product made by his machine.

Some companies have a lively team spirit in regard to sales. Employees use the editorial "we" in a manner that connotes a firm identification with the company and its success against competition. In others, each employee

[1] "Selling: The Big Job for Many Top Men," *Business Week*, July 4, 1953.

is an individualist who seeks his own satisfactions without very much thought about the other members of the team or management's sales goals.

Similarly, each organization has its own tempo in seeking its goals. The pace set in one may be active, energetic, fast. The employees who advance most rapidly are the dynamic-mannered individuals. In others, the tempo of work and manner is slower. Most of the employees are seeking security rather than rapid development. The pace is a "congenial" one. In some organizations, advancement to top positions can be achieved through any channel. In others, such advancement can take place only through sales.

Some organizations are conservative in their consideration of new products and new marketing ideas. They react only as they have in the past. They continue to function as they did years ago, making only minor changes in their products. Other companies place much stress on research in all areas of the business, particularly in the development of new products. New products are always in the laboratory or pilot-plant stage, and these companies often plunge into new situations without much apparent planning. J. Elliott Janney has described these two types of companies.

> Company A is highly controlled. All operations are carefully analyzed to the fourth decimal place. Files, forms, and records are "textbook" illustrations of how such things should be handled. This company seldom ventures on any individual big projects; its handsome annual profit is a daily accumulation of small profits on many little operations. Company officials seldom jump off the dock, but when they do, the water is never over their heads.
>
> On the other hand, Company B, also very profitable and also highly regarded in the industry, habitually high-dives into deep water. Management seldom takes on small operations, which are felt to be beneath the company's notice. Typically, decisions are made on the spot. Many ventures are dismal failures. However, the guesses are more frequently right than wrong, and the width of the profit margins on ventures is so great that at the end of the year this company, too, winds up well in the black.[2]

Of course, pay scales vary from company to company of the same industry. In one, the pay scales for salesmen may be above the average, year after year. In another company that makes the same kind of product, the pay scales are always below the average for the industry. The salary scale of a company may be low but its prestige level may be high. These two aspects, salary and prestige levels, do not, however, always appear in reverse. Many companies can be found that are relatively high or low in both respects.

Companies differ markedly in their attention to public relations and publicity for their products and policies. Some managements put forth extra effort to get press releases and have their executives make speeches

[2] J. Elliott Janney, "Company Presidents Look at Themselves," *Harvard Business Review*, May–June, 1952.

at conventions. Others avoid both and every employee, particularly the salesman, learns to keep quiet about incidental company matters.

Company managements also differ in regard to factors such as the top education of the executives. Some companies are headed by men who never went to college and they are proud of it. Other organizations have so many college graduates that the employee with a bachelor's degree feels inferior because he does not have a doctor's degree!

Some companies set the pace for their competitors. They are the first to develop the new design and to break from tradition. Others wait until the new products and methods are well-established and they then follow suit. Sometimes the slow-to-change companies make more profits than the pioneers, but American business has moved forward because pioneers and innovators refused to abide by tradition.

Some companies are so volume-minded that each executive gets ulcers unless his sales curves are ever upward and his cost curves ever downward. "Bigger and better" is the motto that seems to hang on the wall of every office.

Numerous additional criteria for evaluating and characterizing the climates engendered by different managements might be listed. Each person who becomes a member of an organization soon learns to adapt himself to the existing atmosphere. If he does not, he is likely to be unhappy and soon leave it. Certainly, the student of marketing should be aware of organizational differences such as these, especially when he applies for a job. Look for them and decide whether your efforts in marketing are likely to be hampered or helped by the company's psychological climate.

IS THE COMPANY GROWING VERTICALLY, HORIZONTALLY, OR BY INCREASING THE SALES OF ITS ESTABLISHED PRODUCTS?

For years many larger American companies grew by extending their operations vertically. Related companies were merged to perform vertically related functions, as in textiles where companies were combined to do everything from raising the cotton to owning the stores that sold the product. Economists think of vertical integration as having two possible directions: upstream, toward the sources of supply, or downstream, toward the markets. The steel industry's vertical integration has come about mainly because of production needs; but in the textiles the desire to control or gain markets has been dominant.

In the horizontal type of combinations, two or more companies that produced similar or duplicate products have merged, as in the case of one oil company buying another oil company, or a washing machine manufacturer buying a competing company.

At this stage in American business, however, the current trend is toward

neither vertical nor horizontal structures but toward diversification, or the adding of new lines that have no functional relationship to the products previously manufactured.

To gain a wider market, a company has two general approaches. One is the merger route and the other is to add new lines. Examples of the latter are RCA's entry into the range and heater business and Armour's development of new chemicals. This current trend seems to be an example of the old maxim that "men with lines on both sides of the boat often catch more fish."

Current news sparkles with examples: A big steel company that mines ore and runs a line of ships has just announced it will make kitchen sinks. A major glass company now turns out plastic bathtubs. A chemical company which makes a fruit spray and a new synthetic fiber also processes uranium ore for an atomic energy plant. A camera manufacturer has devised a flexible, transparent waterpipe. A paint concern has just produced a substance which makes synthetic gems for optical instruments. A rubber tire firm is in the floor tile business. The list is endless.

So there is always a frontier, and as it advances our prolific economy continues to spread new goods before the people. Older economies pride themselves on rare and special skills they have retained over the centuries, but ours renews its youth continuously.[3]

One reason for diversification is that a company may have only a seasonal or cyclical demand for its regular product. Adding a new product may contribute to more stable employment and income. High labor costs, high taxes, and low profit margins cause companies to seek a means of spreading overhead and acquiring a broader base for sales efforts.

Companies that have an excellent reputation in one field often find it easy to capitalize on their reputation by going into another though unrelated field.

Usually, managements that look for and take on other lines believe that they can profit more by doing so than by confining themselves to the old lines in which they are established. Modern managements seek growth. If they cannot achieve it in one direction, they try another, even though the venture leads them into strange fields of production and marketing.

DIVERSIFYING HAS ITS PITFALLS

One of the most important characteristics of the American system of free enterprise is its versatility. When a management man realizes that the market for his product is declining or when he decides that his company's share of the market cannot be increased to a satisfactory level, he begins

[3] *The Biddle Survey*, Mar. 10, 1953.

to think about diversification. He investigates the possibility of making and selling some other product, usually a product related to one with which his company is well-acquainted. If he finds a product that appears to have good potentials for profit for his company, he asks questions such as

Would our present production equipment be appropriate for making the new product?

Would our management skills and engineering know-how fit the needs for making the product?

How much capital would be required to launch and sustain the new effort?

What kinds of companies now manufacture the product? Are they aggressive and progressive?

What share of the market does each company now fill?

Is the demand for the product likely to rise or decline?

Would the product require a distribution system which we are competent to utilize or improve upon?

Do we have the sales management, selling staff, advertising and other promotional personnel competent to do the job?

Scores of other questions are likely to be asked and given to various specialists for their answers and recommendations. After all the available answers and recommendations have been considered (or ignored), management makes its decision. Sometimes the decision to go ahead is made because management is more action-minded than analytical. Most American executives abhor "standing still." They would rather take chances and hope to overcome eventual difficulties than endure the status quo. As a result, some managements venture too far or too soon into unprofitable forms of diversification. Here is an example.

A certain aircraft company on the West Coast manufactured heat-resistant engine components for jet airplanes. Almost all its output was taken by the government for defense. In 1945, the management decided that it would have to diversify in order to compensate for the loss of its specialized market.

Its first venture was to buy a company for making stainless steel caskets, on the assumption that thousands would be needed for the soldier dead being brought back from overseas. Unfortunately, faulty cost estimates were made and sales were unsatisfactory. The company then made wood caskets. Later, this woodworking equipment was put to work making redwood furniture and packing boxes.

Soon the demand for its regular lines of engine parts had a spurt and the space used for the casket, furniture, and packing-box business was needed. This part of the business was sold.

The next plunge into diversification was to purchase a company that made a complicated motion picture film developing machine that used

several steel tanks. The machines were costly to make and tied up so much capital that management lost interest. This company was sold.

Next, the aircraft company went into the dairy equipment business, manufacturing stainless steel tanker trailers, refrigerated storage tanks, and related items. Unfortunately, the aircraft engineers had had no experience in designing for dairy needs nor did they know the specialized legislation that governs dairy machinery. This business folded.

One of the main causes for the series of failures was that the company tried to enter fields where price came first. Its previous experience was in an industry where top quality was of primary importance and price secondary. As a result of its ventures into diversification, the management decided to carry its plans for future growth only into those fields that are closely related to the original products of its earlier history.[4]

CONVENTIONAL DEPARTMENTAL STRUCTURE VERSUS THE PRODUCT MANAGEMENT TYPE OF ORGANIZATION

In the conventional company structure, the vice-president in charge of sales has charge of sales for all products. When a company diversifies, however, the addition of new and different products creates complicated marketing and operating problems with which the existing management has had little or no experience. The conventional organizational structure must be changed.

The usual method for doing so is to modify the conventional structure by appointing several product managers, each of whom is a kind of "general manager" for a class of related products. Each operates as an autonomous unit. The product manager, working under the general direction of a top-level committee or executive, decides how products of his group shall be made, the quantities to be made, the chains of distribution for each, its packaging, pricing, advertising, and promotion. The product manager is more than a coordinator—he is the final authority whose decisions affect the profits to be made from his products. Such a product manager relieves the old-line executives, such as the sales manager, of certain duties.

Monsanto Chemical Co., for example, changed its structure by grouping its products into three major lines: inorganic, organic, and plastics. They also set up separate merchandising and overseas departments and provided for a functional division of research and engineering. This product-line kind of command is quite a change from the old system under which a Western division plant making any type of product came under the Western general manager no matter what his specialty was. Under the new organization, no matter where a plant is located, its products

[4] "Diversifying Has Its Pitfalls," *Business Week*, Mar. 20, 1954.

come under the direction of the individual product managers. A product manager can have plants of different areas make the products he wants them to make for the markets as he sees them.

Of course, the product manager type of organization in an old company has advantages in dealing with problems in marketing diversified products, but it also tends to cause frictions to develop between the manager of a group of products and the general production manager. The latter often has difficulties when he tries to coordinate all the production needs of several product managers, each of whom functions as an independent unit.

The student of marketing investigating the marketing structure of a company should be aware of these two types of organizations and seek to find out how effectively the existing type of organizational structure is functioning. If the product management plan is in use, that plan may, for example, mean that any young man who takes a marketing job in the company can hope to advance only within a single product division. He may have to become a specialist whether he wishes to do so or not.

REPORTS FOR MANAGEMENT'S GUIDANCE OF MARKETING

Modern management is frequently compared with flying an airplane. Business operations have become so complex that, like modern airplane pilots, executives need instruments to guide them. "Flying by the seat of the pants nowadays won't get the plane off the ground."

True, many small business concerns have only two reports about their business; their bank's monthly statement of deposits and withdrawals and their income-tax report. Generally, however, the larger and more progressive the business, the greater the number of reports that are used by the responsible executives.

Important improvements have been made in the forms of the reports that are prepared. Some of these developments are as follows:

1. Reports are condensed and interpreted for the executive. Lengthy detailed reports that only a statistical expert can understand are being displaced by *highlight* reports that can be understood at a glance. Charts and graphs are used to indicate the significant facts and trends. If the facts are too involved to be clear after a quick reading, a briefing session or meeting is held to clarify the material for the executives.

The quickie report gives top management the condensed results of current operations at the earliest possible moment, along with the year-to-date results, and a comparison with operations a year ago in terms of earnings per share. Management is able to take corrective over-all steps sooner: to prepare drafts in advance for directors' meetings; to determine more quickly the amount that

Lukens "Market Facts" board in Sales Vice-President Wiese's office, Lukens Steel Company, keeps him up to date and is available for immediate reference with members of the sales team.

Monthly session for top company officers, above, uses board as tool for review of economic outlook, production, sales, and inventory trend. See also *Dun's Review and Modern Industry*, January, 1954.

will be available out of cash for estimated federal income taxes; and to refer readily to previous operations.

Many firms find that it is not the precise dollars and cents accounting that makes money for the company. In most cases management needs only an approximation of actual operating developments. These show the trend and provide enough information for executives to make decisions.

For this reason, it is now standard practice in some companies to provide estimates. A few management people resist this trend, preferring actual figures. But on-the-ball accountants are quick to point out that their "final" figures are really no more than refinements on an original estimate in many cases.

Later, when regular accounting data are available, they are used as a check on the estimated figures. Meanwhile, management has enough clues to permit advance planning.[5]

2. "Guesstimates" about the future instead of facts about the past are being used more frequently. Accurate reports about the past are less useful to management than estimates that can guide decisions about the current situation that is developing. It is more helpful to have a report which shows what *is* happening than to have one that shows accurately what *did* happen a month ago. The useful reports show the variations from the expected which are taking place.

3. Reports that compare the recent past with the more remote past are giving way to reports that compare current accomplishments with forecasts and budgets. Whenever the last quarter has been compared with the preceding quarter or the corresponding quarter of the past years, the assumption has been that the underlying conditions remained the same. This is seldom true. Hence the modern trend toward a system that forecasts sales, production costs, cash requirements, profits, etc. Forecasts made at regular intervals on the basis of conditions then prevailing are a useful guide in planning.

MANAGEMENT IN RELATION TO THE REVOLUTION IN THE SECOND HALF OF THE TWENTIETH CENTURY

In the last half-century, America developed the greatest industrial age that the world has ever known. The aim of each company management has been to make money by making and selling more products, better products, products at lower prices, and to give the customer some value that he wants. This achievement has required competent management in research, production, employee relations, and sales. Certain technological trends have affected all of these.

At the turn of the twentieth century, the village carpenter might build an entire house. If he wished, he could also build the furniture and all the equipment in the home, with the exception of items such as the metal products for heating. Since that time, hundreds of companies and thousands of workers are now involved in what was formerly a one-man job. Since each of these can specialize on a single product or activity, there can be greater proficiency and hence a lower cost for the ultimate consumer. As a result, the carpenter's grandchildren of today have a much higher standard of living, shorter hours of work, and better education. Technology, efficiently utilized by management, has made possible much greater production with fewer workers.

[5] "Flash Report Cuts Corners, Presents Facts Quicker," *Modern Industry*, Dec. 15, 1952.

What are the most likely influences and the directions in the new technology? How will marketing be affected? Answers to questions such as these can be deduced from sciences and from the influences that already affect us. One of these sciences is cybernetics.

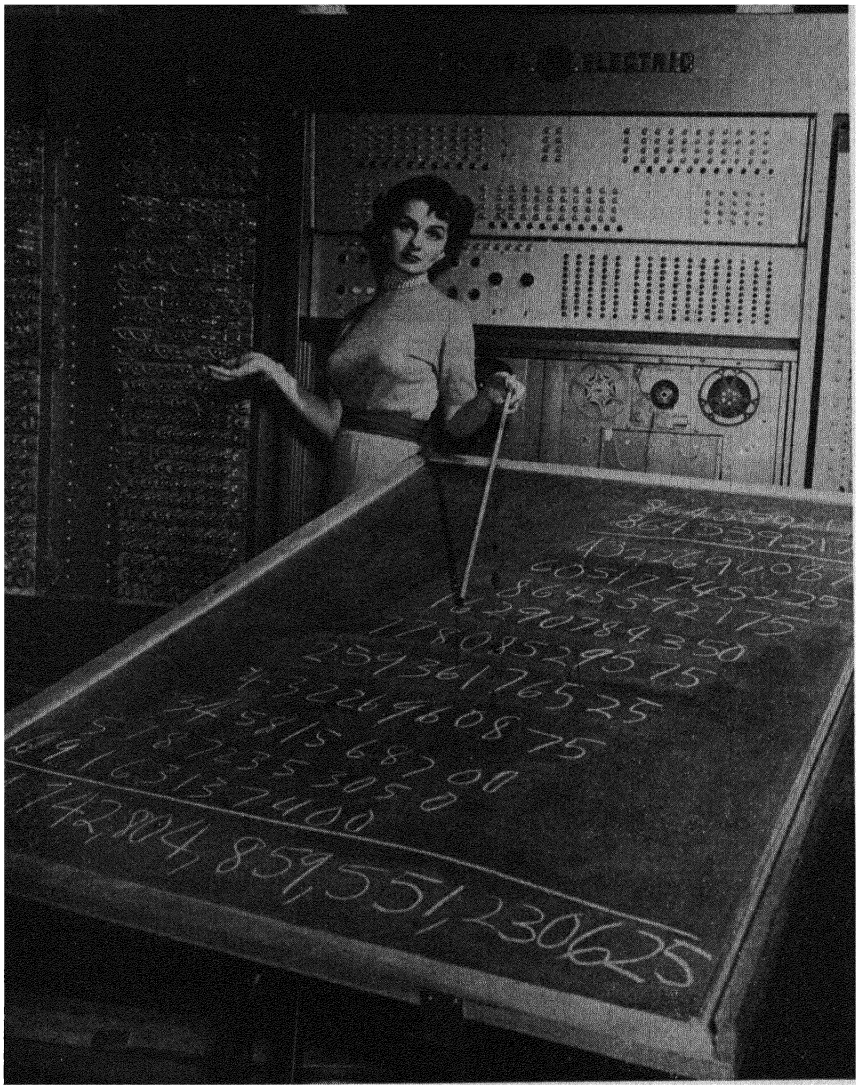
Cybernetics is the scientific study of those methods of control and communication which are common to living organisms and machines, especially as applied to the analysis of operations of machines such as digital and other computers, the so-called "brain machines." Cybernetics is derived from a Greek word meaning "steersman."

We have read about guided missiles that automatically make adjustments for variations in the speed of the projectile, wind direction, wind resistance, temperature and, most important of all, *select* the target that is to be hit! We have read about electronic "brain systems," located in the RCA Building in New York City, that, even though they are a thousand miles away from a pipeline, automatically open and close valves of the pipes that transport 26 different products which are drawn from storage plants along the pipeline, hundreds of miles in length.

Cybernetics as a science is likely to have a greater effect on our lives during the next 50 years than will the physics that may eventually give us ample and cheap atomic energy. Thus far, cybernetics has had its most prominent applications to the development of computing machines that reel off a 7-day job of preparing a payroll in 4 hours or do a 3-week production-planning chore in 20 minutes. Everyone who reads newspapers and magazines has learned of machines that can multiply 42 nineteen-digit numbers per second. We have heard about Univac, the Remington Rand, Manchly Division, electronic computer, which enables statisticians to forecast in a few seconds the results of voting in national elections, computations that formerly required many hours. Computations such as these, useful as they may be for actual work, inventory control of wholesalers' records, and marketing research, have a significance far greater than computational only. When a computing machine, capable of making lightning calculations, is teamed up with a "feedback" system that monitors an automatic process, the potentials for future production and marketing become vast indeed. They bring about a new kind of automation in industry.

Automation in industry means automatic handling of materials and parts as they go through the production process. The current development of this trend, however, makes use of feedback or self-correcting controls. This is a new kind of technology.

In the old technology, machines in factories were arranged in an order that would give continuous operation. Machines were used that performed several operations in accordance with a predetermined set of controls. The machines had no "brains" in the sense that they could



OARAC—that's the complicated-looking machine in the background of the photo—did in four one-thousandths of a second what this Syracuse, N.Y., housewife, Mrs. Connie Hodgson, failed to do correctly in eight minutes.

She was one of half-a-dozen intelligent adults who pitted their multiplication skills against the computer.

Average time for the six human contestants was more than eight minutes, the fastest, four and one-half minutes. None of their answers coincided. Like Mrs. Hodgson, who forgot to carry a one in the row to which she is pointing and came out one trillion off, none of them got the right answer—which is 74,742,805,551,230,625.

This is the way it works: You turn on the current and then the . . . er, well, anyway, it's a good example of the new thinking machines which are opening vast new horizons to industry.

SOURCE: Courtesy of General Electric Company.

"store" data and use it later in making computations and "decisions." The modern automation machines not only perform a sequence of logical operations but they also correct errors that occur in the course of their own operations and they can choose, according to built-in criteria, between several predetermined plans of action. The idea of feedback is further explained by the following quotation:

> But in the long run the new technology of the electronics engineer will have a far greater effect on machine-tool design and on the construction of plant and equipment, and thus a far greater meaning for the businessman, than any of the more spectacular mechanized operations that have so far been installed in our plants and offices. In that fact lies the real significance of automation.
>
> Since the concept of feedback, which lies at the heart of the new technology, is so important, businessmen need to understand it.
>
> Actually the concept is quite simple. In systems employing the feedback principle, the operation of the control device is a function of actual performance rather than of expected performance. For example, if a machining time of 2½ minutes does not produce the desired result, a machine making use of feedback control can automatically allow more turning time rather than stop after a predetermined cycling time.
>
> When such feedback devices are tied together—in what is often called a servomechanism—the result is a closed-loop system of controls. Thus, although certain forms of automatic operation are possible without making use of the feedback concept, it is feedback that makes it possible to construct a complex machine that is self-correcting.
>
> It was the military demands of World War II that gave the greatest impetus to the use of the feedback concept to make closed-loop control systems, as well as to the development of the high-speed computing devices. The speed and maneuverability of aircraft made traditional gunlaying techniques obsolete. In order to meet the pressing military requirements, highly trained scientists went to work on the problem of designing and constructing automatic position-control systems. Out of this work came not only our modern gun directors but a substantial body of new technical knowledge. And on the basis of this knowledge electronic control systems can now be devised for the performance of a great variety of industrial tasks.
>
> That these advances would have considerable industrial importance was recognized from the beginning by virtually everyone familiar with the military's work in this field. But neither the potential benefits nor the problems involved in achieving them have been made clear to the businessman. In fact, from the businessman's point of view, exactly the wrong things have been emphasized.[6]

Instruments of all types are coming into increased use throughout industry. Automation is growing by leaps and bounds. In the 15 years after

[6] John Diebold, "Automation—the New Technology," *Harvard Business Review*, November–December, 1953.

1939, industry's spending on instruments expanded twice as fast as on other capital investment. At that time, 5 per cent of the nation's plants were involved in instrumentation programs; 15 years later, about 20 per cent of plants were involved in various kinds of instrumentation projects. The effects of instrumentation in industry are most commonly considered in relation to the employment of workers. By 1953, Ford Motor Co. had made a 24-minute motion picture on automation and its beneficent effects on workers.

For marketing and management, certain effects are already evident. In mail-order selling, a special type of computer is doing inventory work for John Plain & Co., a Chicago mail-order house. In peak seasons, the company may get orders for 150,000 items in a day. When manual methods of record keeping were used, it took a week or two to get a day's sales reports into form for guidance of the buyers. The new electronic device needs only an hour to give the day's summary of sales; for each group of items in an order, only 0.4 second is necessary.

An example of how the system operates is the speed tally at the John Plain & Co. office. An operator is given the order. She records the quantity of the order and the catalog number of the item on a special keyboard.

On the drum of the memory unit, corresponding data are stored on magnetic tape. Magnetic recording heads scan the drum as it rotates at high speed; as each matching bit of information is found, the computer ticks it off. In this fashion, close records are kept of items ordered and also of materials still in inventory.[7]

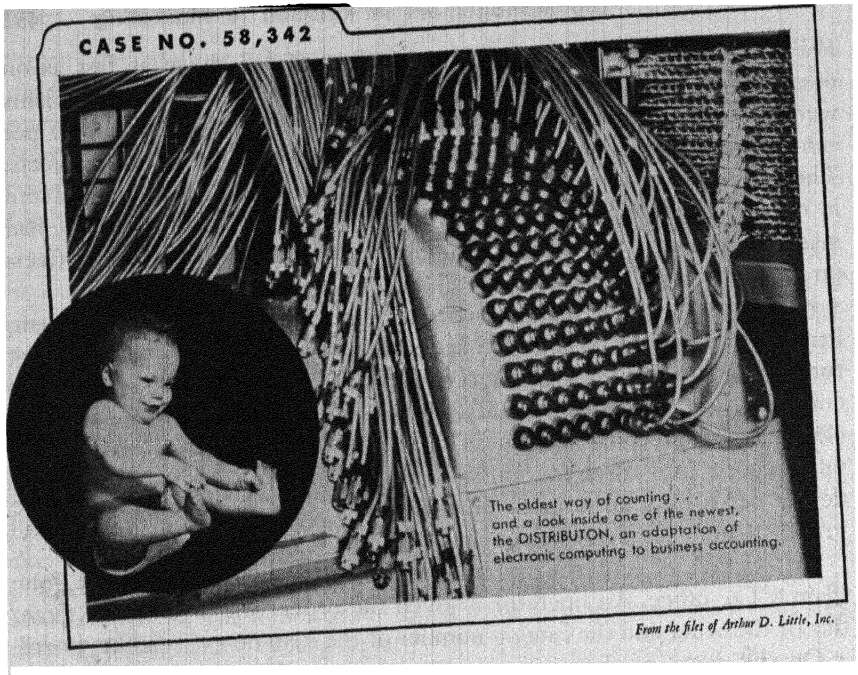
E. B. Weiss, Director of Merchandising, Grey Advertising Agency, Inc., began a series of articles in *Advertising Age*, October, 1953, on the coming impacts of cybernetics on the world of marketing, selling, merchandising, and advertising. Books such as *Automation* by John Diebold and *White Collar* by C. Wright Mills have dealt with the probable effects of this new technology. A leading business publication has summarized the impending effects in regard to tomorrow's management—the kinds of companies we will have, the ideas it will take to run them, and the kinds of men who will run them in 1980—as follows:

In industry today, the trend is definitely toward more products per man—a trend that has been stepping up, not slowing down.

Example. Take General Electric Co. Despite an increase in wages, total payroll as per cent of sales has dropped significantly in the past years. In 1947 it was 47%; in 1953, 36%. In 1947, one worker accounted for $7,000 in sales. In 1952, his share was $12,000.

If you project this decline in labor content per production unit, it is possible to foresee the day when industry will be able to produce vast amounts of goods

[7] "For Computers: More and More Assignments in Industry," *Business Week*, Nov. 21, 1953.



The Value of Outside Research

In 1951 John Plain & Company, mail-order supplier to 48,000 rural stores, took a step in a profitable direction. They wanted to handle their pre-Christmas rush of orders with the same size staff that processed their off-season load.

They asked Arthur D. Little, Inc., whether the principles of electronic computing could be adapted to their relatively small-scale needs. An ADL staff member who specialized in information handling studied the existing system, conducted a survey of possible improvements, and within two months had reported favorably to John Plain.

A high-speed order-processing system was outlined, including an electronic inventory control. At the same time ADL recommended an electronics manufacturer especially qualified to engineer and build the equipment. John Plain's management gave priority to the inventory control system as most economic for their immediate needs. Construction of the system began.

Result—the DISTRIBUTON—a commercial electronic computer with magnetic drum memory, still one of the few such working machines. With the DISTRIBUTON, 10 clerks keep continuous inventory records even in rush season—where it would take 150 by hand. More important, the flow of data from daily reports keeps John Plain's inventories balanced and speeds the filling of orders.

Thus ADL guided one client to an application of frontier science—a profit-building, workable, new system. This client was a wholesaler, but it could have been a textile plant, a retail store, a railroad.

Will a new approach improve your product, your methods, your sales? Because we are outside, free from your company's tradition or habit, ADL brings to your problem a fresh outlook. Because our staff is drawn from *all* the sciences and technologies, we do not favor any one kind of solution. Though trained for instance in chemistry or business research, our men specialize in problem-solving for industry. We have produced a new kind of paint brush bristle . . . developed a microfilm enlarger . . . and helped plan the diversification of an industrial area. Work can start at any stage—idea, process-design, or manufacture—and can follow through with you to pilot plant or dealer's shelf.

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with much less labor than it uses today. The strides in productivity that have been made in the past 50 years may be small compared to what is ahead.

And not far ahead, either. The reason: automation. A strange word conveying only a theory of super-mechanization a few years ago, it is now accepted as an industrial fact that will eventually spread to almost every industry.

What Is It? Automation is far more than an extension of present-day mechanical gadgetry. Mechanization means the replacement of human power with mechanical power, humanly controlled. Automation, going a step further, eliminates the human control.

Thus an operation like the machining of a part automatically controls itself. Just as the eye of the commuter adjusts to the bouncing newspaper page on the 8:16 each morning, so the machine adjusts to variations in the metal to make the part conform to predetermined standards. No human eye is needed, no calipering.

This automation—or feedback control—makes possible a continuity and interlocking of operations never before achieved.

To a large extent automation already exists in processing industries like petroleum refining. Oil companies have a labor content per sales dollar as low as 10%. At a trio of new chemical plants in Calvert City, Ky., with a capital investment of several million dollars, only a few hundred men run the entire integrated operation.

Less, Not More. All this means that management, far from running big organizations of people, will in the future be operating great mechanical organizations using fewer and fewer people.

Supporting this probability is a development that has gained the attention of top management only in the past year or so. This is the emergence of electronic equipment as a way to shorten the communication distance between the production line and headquarters.

It is no accident that most of the 30-odd companies listed in the billion-dollar club today had their beginnings in the period between 1880 and 1900. In those years, America stood on the threshold of an era of growth. The decades to come saw huge gains in populations, remarkable improvements in production machinery, and the artificial stimulus of two great World Wars.

It is likely, though, that U.S. industrial growth would have been nowhere near so spectacular had it not been for basic inventions in: (1) communications; (2) data gathering; and (3) data-handling equipment—all of which appeared—significantly—around the turn of the century.

One can't imagine a General Motors as it is today without typewriters, adding machines, calculators, telephones, rapid printing methods, fast methods of transportation, teletype systems.

The technology of communications—probably as much as production technology or methods—made it possible for companies like GM to grow big.

. . . today the technology of industrial communication is on the verge of something that may prove to be as revolutionary as the telephone. It will make decentralization unnecessary and uneconomical.

At its heart is electronics. Today, it may take days, or weeks, or months for top management to find out what goes on in its array of plants. Tomorrow,

electronic calculators, intracompany closed-circuit television, new mathematical techniques—made possible by electronic equipment—will bring central headquarters into immediate touch with sales, production, financial, or inventory problems.

Basic Problem. If you analyze the communications problem in a big organization, the outstanding features are not the lack of information, or even the slow speed with which it can be made available to top management. Rather, the problem is this: What does management do with the data once it gets it?

Too many clerks and accountants still have to coordinate data, analyze it, calculate relationships. This takes time—and makes accounting today largely historical. And it is probably the main reason why so many companies right now are trying to keep headquarters out of the plants, leave the job to plant people. Top management can't know what's going on fast enough, anyway. . . .

Solution? The electronic devices that are now being pushed into organizations may very well be the way to overcome it.

Management will be able to:

Gather data much faster than ever before.

Almost instantly interpret its meaning—whether the inventory figure at Plant X is too heavy in view of the business situation or of the requirements of Plant Y.

In effect, this will return sound decision-making to the top. For instance, budgets today can become unrealistic without top management knowing it (this is a constant complaint of operating units). Major decisions—such as those involving capital investment—are often based on these out-of-line budgets. With new methods of analyzing problems in centralized, coordinated statistical bureaus, management can arrive at the decisions needed to meet new business conditions or changes in production techniques. . . .

Automation will combine all operations—from the design of a product, to the raw material, to the finished product—in a single, continuous process. There won't be scattered operations, such as engineering, manufacturing, assembly, purchasing, set up in different offices and plants.

Instead of smaller plants, which many people have thought would mark the future, there will be still larger units. In this sort of setup, executives will have to pay closer attention to coordinating design, supply, production, and sales—which means centralized planning.

Specialization will be intensified. It will be the job of men on the line to maintain continuous operations. The production man of today who runs a machine becomes the maintenance man of the future factories.

More Paper. But because of the increase in specialists, no one man will be able to keep up with day-to-day developments. There will have to be many more surveys and reports than ever before that top management will have to pore over and analyze.

Developments in electronic record keeping and computation, the use of mathematical models such as linear programming will allow such analysis. . . .

Sales. With the increasing output resulting from automation, selling will become more important than ever before. In fact, the overcoming of unique

consumer preferences and the moving of mass output can well be the No. 1 task for future management.

At General Electric Co., for instance, the past three or four years have seen more emphasis than ever before placed on marketing. One of its most ambitious training programs aims to make its engineers market-minded.

Product planning—which encompasses just about everything from the design to the point of sale—has become a key to GE's philosophy today. . . .

If the corporation manager of the future can relegate personnel worries to a much lesser role than in today's management, that need not mean the rank-and-file will revert to the commodity status it once held.

Individuals in a plant, because they will be few in number but important in function, will gain new status.

In the future, because there will be fewer workers, companies will be able to provide more benefits, give employees individual attention, understand their problems more fully than is possible now. But unlike today, it won't take large staffs to accomplish it.

Progress. This will do much toward bringing about the talked of, but little realized, democratic industrial society. Workers will be more highly trained and educated. Their knowledge of industrial processes will be broader.

On the other side of the coin, however, because workers will be more skilled, they will demand more information. At Monsanto Chemical Co.'s plastics division in Springfield, Mass., for instance, management constantly finds in its surveys that the group that insists it isn't being told enough by plant officials is the highly skilled work force. It isn't because these people aren't given the same information as other workers, but because they are more interested in all phases of the business.

In the light of all this, what can we tell about the sort of manager that tomorrow's industry will require?

Many look upon the advance of technology as reason to assume the engineers and technical people will take over at the top. But the reverse is probably more likely to occur. Technicians there will have to be, but the top managers will have to know less about technology—depending on the specialists to provide them with correct information—and more about finance, sales, accounting.

It may even be difficult to train such men in big companies. Some look ahead to the day when top management will be culled from the ranks of small businesses where the individual will continue to have the opportunity to learn and use a variety of skills.

But however the management man of the future is trained he will be a specialist in his own right. The professional manager, trained to tap the brains of the specialists, will become a reality.[8]

[8] "Tomorrow's Management—What Kind of Companies Will We Have . . . What Ideas Will It Take to Run Them . . . What Kind of Men Will Run Them . . . in 1980," *Business Week*, Aug. 15, 1953.

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QUESTIONS AND EXERCISES

1. What are some of the major factors that will cause more and more companies to become marketing-oriented?

2. What are some of the basic ways in which the policies of a sales-minded company would be different from the policies of a company that was production-minded? How could these policy differences be explained in regard to (*a*) new product development, (*b*) sales compensation levels, (*c*) public relations, (*d*) marketing research?

3. Define "vertical integration." Give examples of this at various levels of marketing.

4. Define "horizontal integration." Give examples.

5. Are diversification and integration compatible concepts?

6. Why are so many companies tending to diversify their product lines?

7. What are the more recent patterns of reports to top management?

8. Is cybernetics of any concern to the alert marketer? In what ways might marketing operations be changed by the application of such theories?

9. What is the feedback principle as applied to automation?

29 Budgets in Relation to Marketing

THE ALERT MARKETER

1. **Learns how to use budgets as aids rather than handicaps in his marketing efforts.**
2. **Notes what costs are commonly charged to such divisions of the budget as personal selling and advertising.**
3. **When he is participating in setting up budgets for marketing, develops a basic "philosophy" or guiding principles for determining the figures in the budget.**
4. **Tries to have all employees in his company become interested in attaining the company's marketing objectives and to use the budget as a guide in *beating* the budget rather than in merely *meeting* it.**
5. **Recognizes the value of the break-even point in sales as a tool for management.**

Modern business executives on all levels of management are budget-conscious. Department heads in factories, sales supervisors, and advertising managers know or at least should know about the budget figures that apply to their operations. Those executives who are responsible for marketing functions are especially concerned about the extent to which monthly, quarterly, and annual sales and cost figures are above or below those set forth in the budget. Almost all companies of importance in marketing today operate in terms of a budget. In small companies, the chief executive is his own budget director. In the larger companies, a budget man, comptroller, or other specialist works with executives to set up the budget with its forecasts of sales, costs, and profits.

When a good budget system is used the sales are predicted after consideration has been given to business conditions and activities of competi-

tors. The previous year's figures are used as a guide and it is assumed that the effectiveness of the previous year's sales operations indicates the probable effectiveness of the next year's operations. The sales volume and the costs to attain it are estimated. If the marketing executives believe that they can sell more through the use of new methods or the marketing of modified products, the costs of making the new potentials effective are estimated and included in the budget. The budget should always be in line with the company's selling plans, and its objectives should be attainable and realistic.

Budget preparation is usually done by a company's accountants or specialists in budgeting and is therefore considered a function of the accounting department or chief accounting officer. The basic principles and technical procedures in budget marketing are too complex to treat fully here, but modern marketing men must learn to use and appreciate the values of a budget. Many marketing failures are due to lack of a plan and an adequate budget to carry out the plan. A plan assures direction, goals, objectives. A budget gives follow-through to the plan. The executives know whether their operations are following below, meeting, or beating the budget. In a very real sense, budgeting is a function of all members of management, particularly those in marketing. All executives, including the chief executive, participate in the setting up of budgets.

The success of a budget is not measured by the extent to which budget forecasts are missed by only 5 per cent but by the extent to which the budget enables a company to make greater profits. A good budget does not restrict executives in their decisions. It is an aid for fulfilling responsibilities and achieving objectives. The executives who are responsible for marketing, such as the sales manager and the advertising manager, must set up their budgets as members of the management team. They have to explain to their colleagues the why and how of their strategies and objectives. Information concerning sales and costs must be fed continually to their fellow executives.

Ideally, the marketing executives also cooperate with each other and agree among themselves as to how the various costs of marketing should be apportioned. Normally, costs of selling are allocated to the sales department. Costs of advertising are allocated to the advertising department. This is easy to do for some costs but not for others. Traveling expenses of salesmen, one would assume, would always be charged to sales costs. Yet J. K. Lasser's survey of practices by treasurers of 297 large companies showed that 11 per cent include those expenses in advertising.[1]

Wide differences exist in regard to the distribution of marketing costs in budgets and as a result frictions develop among executives within the

[1] See "Treasurers of 297 Large Companies Define What Is Advertising and What Is Not," *Advertising Age*, Sept. 28, 1953.

same company. Such frictions will tend to be resolved as companies adopt standard procedures in budgeting and as marketing executives learn to work in good spirit with each other. The attainment of these ideals will take so many years that the student of marketing, when he works in a specific company, should note the stage of the trend toward the ideal in his company and then seek to participate as best he can in the eventual attainment of the ideal.

GUIDING PRINCIPLES IN SETTING BUDGETS FOR MARKETING

Thus far, no one has been able to develop an adequate formula for determining how much money a company should allocate in the budget for such marketing costs as personal selling and advertising. Some companies do the entire marketing job through personal selling, others through advertising, and many by means of both. Some try to produce sales immediately, others try to develop good will that should produce sales in the future. Companies differ not only in size and kind of product sold but also as to market potentials, gross margins, length of time in business, reputation with consumers, past methods of selling, and distribution of the sales dollar to costs (see Table 29–1). Activities of competitors differ from year to year and each company adjusts its budget accordingly.

The basic thinking that underlies the computing of the components in the marketing budget varies widely, but certain guiding influences are used currently. Let us apply them to one phase of marketing—advertising.

1. Percentage of past sales. This percentage can be computed on the basis of gross sales or net sales. A survey of 515 companies—486 manufacturing and 29 nonmanufacturing companies—indicated that 28.7 per cent considered, along with other factors, "percentage of gross sales last year" and 8.5 per cent considered "percentage of net sales last year" in computing their advertising budgets.[2]

The percentage-of-sales concept is an easy and natural approach to the setting up of a budget for marketing purposes. Management, through trial and error, has learned the relationships that have taken place between their past sales volumes and gross or net margins. This approach is simple and popular.

2. Percentage of anticipated sales. The survey of the 515 companies mentioned above revealed that "percentage of anticipated gross sales, current year" was used by 36.4 per cent and "percentage of anticipated net sales, current year," by 8.3 per cent of the companies.

The use of anticipated sales is a better base for setting up a budget than

[2] *A National Survey of Industrial Advertising Budgets,* National Industrial Advertisers Association, New York, 1952.

Table 29–1. *Where the Sales Dollar Goes of the* 100 *Largest United States Corporations (In Cents)*

	77 Manufacturing companies	15 Trade companies *	6 Railroads	2 Public utilities
Goods and services	56	79	23	16
Wages and salaries	24	13	50	43
Taxes	11	4	11	19
Interest	Less than ½	Less than ½	3	3
Dividends	3	2	3	8
Depreciation and depletion	3	1	5	9
Reinvested in business	3	1	5	2
	100	100	100	100

Goods and services. Costs of materials and services purchased from others, etc.

Wages and salaries. Wages, salaries, and fringe benefits, partly estimated on basis of payrolls reported by companies representing over 84% of the total employment of the group.

Taxes. Federal, state, local, and foreign taxes, excluding general sales and special taxes on gasoline, oil, automobiles, tobacco, liquor, transportation, telephones, etc., collected and remitted by the reporting companies.

Interest. Interest paid on bank loans and funded debt.

Dividends. Dividends on preferred and common stock.

Depreciation and depletion. Reserves for depreciation and depletion.

Reinvested in business. What is left of the sales dollar after all operating costs have been met and dividends paid.

Data are for the year 1952.

* Allied Stores Corp.; American Stores Co.; Anderson, Clayton & Co.; Federated Dept. Stores; First National Stores; Great A & P Tea Co.; Kroger Company; McKesson & Robbins; May Dept. Stores Co.; Montgomery Ward & Co.; National Tea Co.; J. C. Penney Co.; Safeway Stores; Sears, Roebuck & Co.; F. W. Woolworth Co.

SOURCE: The National City Bank of New York, 1953.

past sales. The experience of the past does not fully indicate the needs of the future, which change as conditions and marketing objectives change.

When percentages of either past or future sales are used as a guide, the budget maker must still decide on the appropriate multiplier for specific marketing functions such as advertising. He can select a multiplier such as 5 per cent of sales, a percentage figure developed through past experience, or he can find out what other companies of his industry use. Many industry associations provide their member companies with average figures for costs of personal selling, advertising, and other marketing functions. The limitation of such "common" figures is, of course, that a

fixed multiplier, however obtained, does not provide for changes in the task to be performed the next year.

3. The task to be done. When the 515 companies mentioned previously were asked about how their advertising budget was determined, 71.1 per cent mentioned "task to be done" as one of the factors considered. All managements who sell under the changing conditions of today must, at times, consider the task to be done when planning the budget for the next year.

Managements must decide what goals shall be attained and the promotional efforts that will be employed to achieve them. Estimates of costs for each type of effort must be determined. The task to be done centers the attention of marketing men on the goals sought rather than the past record. It stimulates the imaginations of the responsible members of sales and advertising departments. It helps those concerned with the budget to become more flexible in their thinking and to adapt their figures to attain the company's marketing objectives—to beat the budget rather than to meet it.

The task-to-be-done principle in preparing budgets is becoming widely accepted. There will always be, however, occasions when management will define the task to be done in terms of the "minimum job" concept. This concept assumes that a minimum expenditure is necessary to perform a chosen task and that the budget figures must provide for the performance of the smallest job worth performing for the company.

THE DEFENSIVE-OFFENSIVE METHOD

Sometimes the marketing task to be done is considered as a defensive-offensive set of objectives. The total budget is divided into the "defensive" part which is designed to maintain and build sales at a normal rate and is expanded for all sales districts in proportion to company sales, and the "offensive" budget which is aimed at increasing sales in districts where the sales figures are below the potentials. Thomas D'Arcy Brophy, Kenyon & Eckhardt, Inc., has described the concept as applied to advertising budgets as follows:

> It is generally recommended that between 10 and 20 per cent of the total advertising investment be placed in the "Offensive Budget." By not exceeding 20 per cent of the money available for advertising, we do not over-emphasize differences between company sales and potential that are due primarily to historical reasons.
>
> After the "Defensive" and "Offensive" parts of the advertising budget are combined, the next step in developing our advertising appropriation factor involves a fundamental principle of advertising investment.
>
> Experience tells us that the effectiveness of the advertising dollar will vary

considerably from one locality to the next. In urban areas, there is strong competition for the attention of the consumer. In rural areas, there is much less competition.

In Chicago, for example, there are four daily newspapers, 15 radio stations, and four TV channels. In addition, there are cards in every streetcar, bus, and subway car, plus outdoor advertising boards, all vying for the attention of the consumer. Thus, to get the same advertising effect in Chicago or, for that matter, in any other major metropolitan market throughout the country, we must place a greater weight of our advertising expenditure in such localities than is necessary in smaller communities. So, to guard against the danger of spreading advertising too thin in heavily urban areas, our appropriation is finally weighted for size of market. In fact, a portion of the total advertising budget is spent exclusively in the larger metropolitan areas.

By recognizing these points, an advertiser distributes his budget in accordance with the requirements of each individual sales area. He distributes his budget to protect current sales advantages, to reach for added volume in highly competitive markets, and to obtain uniformity of advertising effect regardless of size of community.[3]

HOW AN INDUSTRIAL MANUFACTURER DEVELOPED A SALES BUDGET

Working out a successful sales budget involves many different factors (see Table 29–2). One of the most important aspects is seeking out those customers who will buy goods at a rate that will be to the mutual advantage of the consumer and the manufacturer. The manufacturer wants to be able to sell enough goods to maintain his plant at a near-capacity level of production. Certain manufacturers feel that they can accomplish this and still maintain good customer relations if they are allowed to help customers arrange their shipments and orders in an orderly sequence. The result of more orderly procedure should make their business more profitable to them and, eventually, enable them to lower prices to consumers. To accomplish these goals, sales-budget plans are being developed by executives in order to coordinate the manufacturer's production with the buying situation of each customer.

As an example of how such a budget plan has been set up, let us use the case of a waxed paper converter. This company buys paper from paper mills and then converts it into 250 grades of waxed paper which it sells. The company often puts out special orders for its customers and, as a result, many transactions are handled on an order-by-order basis. If this plant is to operate at near-capacity level, a continuing sales study is necessary.

To facilitate a sales-budget study, the company set up ten major classifications into which all its 250 types of paper would fit. Then a sales

[3] Thomas D'Arcy Brophy, "What Is the Agency's Role in Setting the Advertising Budget?" *Advertising Agency*, August, 1953.

Table 29–2. *Example of Budget of a Small Industrial Manufacturer: Comparison of Budget with Actual Selling and Administrative Expenses, First Nine Months of a Fiscal Year*

	Budget	Actual at end of nine months	Amount over or under budget at end of nine months
Sales expenses:			
Salaries for salesmen	$11,007	$ 9,222	$+ 1,785
Traveling expenses	8,686	6,074	+ 2,612
Commissions to dealers	9,800	12,400	− 2,600
Advertising	8,052	19,047	−10,995
Sales allowances and adjustments	59	...	+ 59
Cash discounts allowed	14	11	+ 3
Salaries:			
Executive	7,500	6,846	+ 654
Engineering	5,752	8,189	− 2,437
New York office	413	412	+ 1
Liability insurance	34	37	− 3
Reserve for bad debts	818	794	+ 24
Patent expense	551	1,518	− 967
Legal and advisory expenses	3,988	3,899	+ 89
Taxes (state and capital stock)	566	566	
Traveling expenses:			
Executive	2,303	2,986	− 683
Engineering	1,282	1,103	+ 179
Donations	56	90	− 34
Outward cartage and hauling	66	90	− 24
Outward freight and express	421	689	− 268
Use and occupancy insurance	59	59	
Directors' fees and expenses	289	284	+ 5
Duty and exchange adjustments	...	21	− 21
Contract bonds and insurance	132	171	− 39
New York office expenses:			
Rent	315	310	+ 5
Stationery and office supplies	38	93	− 55
Telephone, telegraph, and cables	338	252	+ 86
Postage	38	32	+ 6
Engineering expense	22	15	+ 7
Miscellaneous	113	114	− 1
Miscellaneous selling and administrative expenses	251	413	− 162
	$62,963	$75,737	$−12,774

A budget has many values for management. The head of this firm can, for example, at the end of nine months of operation, note the items on which more, or less, money has been spent than anticipated. In this case, he can see that less than was planned in the budget has been spent for salaries and traveling expenses of salesmen. On those items, the company is plus or "to the good." On items such as "commissions to dealers" and "advertising," the company is minus or "short" in its first nine months of operation.

The budget indicates quite clearly wherein the management has done better or not as well as planned.

analysis was conducted for a year. All sales were broken down among the ten classifications. Each classification was also broken down by grade, month, and tonnage, and sales to customers by month and tonnage.

This analysis served as a basis on which the sales manager set up the budget for the year. It was easy to check which grades were low in tonnage and which were spotty as to monthly sales on a tonnage basis. The analysis showed how often each customer was placing orders and the grade and tonnage purchased. Using these facts, the company made a survey of the possibilities of sale for each grade. Such matters as the possibility of getting enough paper to produce the proposed quota, the machine capacity necessary to manufacture it, and the possibilities of changes which might occur had to be considered.

It was at this stage that the company's objective was established. This objective was to judge each customer and prospective customer on the basis of his probable yearly and monthly rate of usage. Thus the final budget actually represented a series of customer studies which established the quota or budget for each grade of the company's line.

Production control in every company is influenced by the sales budget; hence, this company included in its plan a schedule which continuously shows the potential demand for every specification of paper. It also indicates the quantity of materials and the machine hours required for processing. This gives the company a guide for its purchasing department as well as a means of telling its salesmen what calls to make before they go to the wrong place on a fruitless trip.

In the light of its experience, this company management has learned that when an organization can set up an even production schedule and also eliminate some of the problems of supply which plague its customers, it is taking steps that will improve the business of its customers as well as put its own business on a more even keel.[4]

BREAK-EVEN

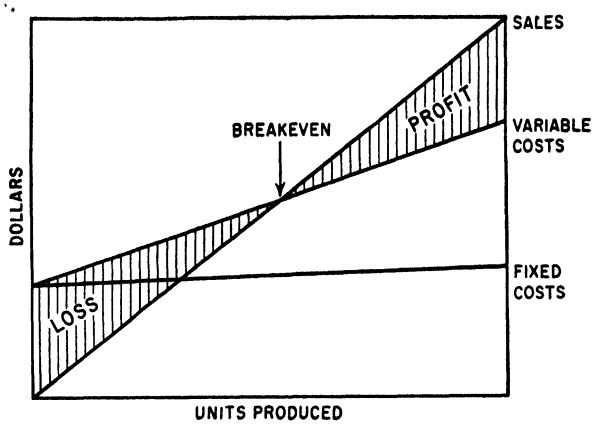
Break-even represents that point in sales volume at which a particular company shows neither a profit nor a loss. When sales are above this point, the company begins to show a profit; when below, it would be operating at a loss; thus it represents just what its name implies. A break-even chart is a graph showing the relation between operating costs, net sales, and fixed costs. It indicates the point at which the sales volumes charted become profitable.

This is easier to understand when it is applied to an example. Take a company whose fixed overhead is $1 million a month. This is the sum

[4] See D. E. Merrifield, "Keying the Sales Budget to Customer Buying Needs," *N.A.C.A. Bulletin*, Jan. 1, 1952.

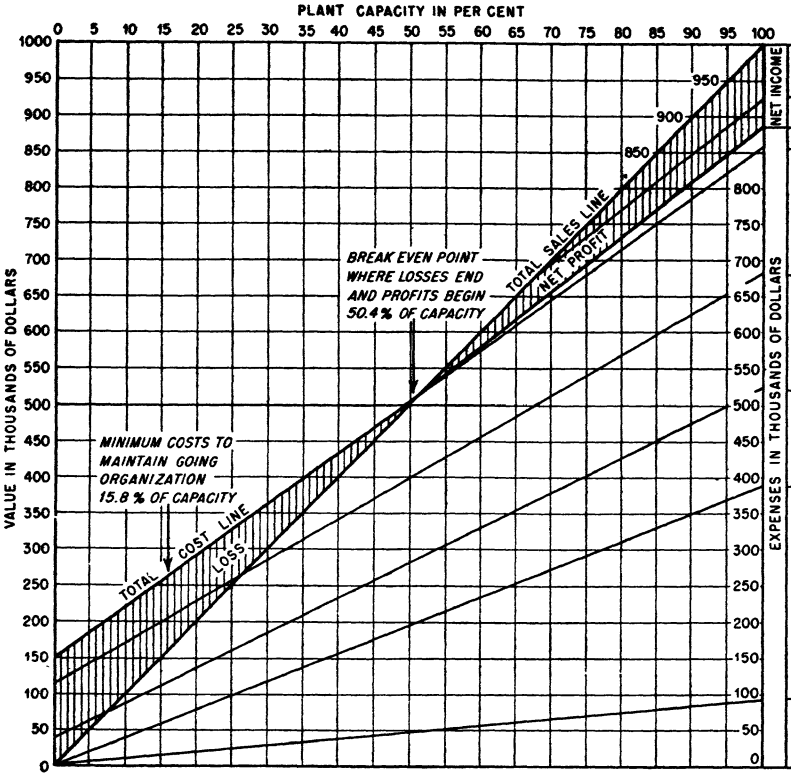
which the company must pay whether the plant produces or not. If the variable cost of the company's product, that is, mainly production and sales, is $1 and the sale price is $2, then its unit margin is $1. Thus the company must sell 1 million units in order to meet its overhead plus its production costs. Its break-even point can be expressed as production of 1 million units a month, or $2 million in sales. Another way to say it is that if normal monthly volume is 2 million units, then the break-even point is 50 per cent of this normal volume.

The explanation seems simple, but the trouble begins when the busi-



ness situation is complicated. The man who sells pencils from door to door on a consignment basis comes very close to having no break-even point. When he does not work, he neither loses nor earns any money. He merely tells the pencil manufacturer to come pick up the merchandise. A more complicated and paradoxical situation is that of the Long Island Railroad. It would take a small army of accountants working with a roomful of electrical computers to keep track of all its possible break-even points. Without doing any figuring, however, it is known that it loses money when it doesn't operate—and loses even more when it does! Fortunately, most businessmen are not in this dilemma, but neither are their operations nearly as simple as those of the pencil salesman.

In a recent survey, businessmen agreed that the concept of the break-even point is simple enough. But they were unanimous in saying that it is a difficult job to calculate what it actually is in operation. Even companies with trained men and highly developed systems of doing the job often consider the break-even point as a rough measure. A Monsanto Chemical Co. executive considers it "a handy management tool, but not so important in management control as such things as return on investment or net income as a per cent of sales."



VALUES ON PLANT CAPACITY BASIS		YEAR TO DATE % CAPACITY BUDGET	YEAR TO DATE % CAPACITY ACTUAL
EARNINGS TO SURPLUS	$ 74,371		
6% DIVIDEND ON CAPITAL STOCK	$ 43,050		
INCOME TAX AND BONUS	$ 24,658		
MISCELLANEOUS DEDUCTIONS FROM INCOME	$ 176,105		
SELLING AND ADMINISTRATIVE EXPENSES	$ 159,823		
FACTORY OVERHEAD INCLUDING IDLE FACILITIES EXPENSE	$ 132,650		
DIRECT MATERIAL	$ 295,204		
DIRECT LABOR	$ 94,139		
TOTALS	$ 1,000,000		

A Budget in Graphic Form—To Illustrate the Break-even Point in Operation. **(Continued foot of opposite page.)**

Some few executives discount the entire concept. They say it has no practical value and is merely an interesting statistic. The only fixed costs are real estate taxes and insurance, so why bother to compute the break-even point? Scrap prices, for example, which are beyond the company's control, fluctuate so widely that a break-even for even six months in advance could only be a guess. Other executives are not so extreme in their views and agree that the break-even idea does have a certain value when considered in the proper perspective.

A survey conducted by *Business Week* [5] revealed no significant trend in relation to the use of break-even points. Some companies utilized the concept all the time both in planning and operations; others used it very little if at all. Still others used it but weren't decided as to its real value; and a few were trying to find out just what their break-even points were.

The survey did show that, measured in units necessary to break even, the figure has, in many cases, gone up considerably since 1940. This is largely the result of lower margins, increased costs of plant equipment, and rising variable costs. Semifixed costs such as fringe benefits and the excess administrative overhead encouraged by high profits also have influenced the higher break-even figure for individual companies.

Even with this increase, however, in only a few cases were the break-evens near enough to present volume to cause concern. Among the exceptions was one case in which break-even was 90 per cent of current volume. At the other extreme were points as low as 45 per cent.

Even the comfortable 45 per cent positions could change drastically if prices were to fall. Take our original example of the company with a $1 million fixed overhead and a $1 unit margin. If it had to cut its price so that its unit margin was only 50 cents, the volume representing the break-even point would double. That is why so many manufacturers fear the necessity of having to cut prices. They consider their present costs, figure them in relation to a lower selling price, and shudder.

Of course, the picture is not really quite as black as that. Most com-

[5] "What Does 'Break-even' Mean?" *Business Week*, Dec. 13, 1952.

This management puts its budget into graphic form in relation to plant capacity.

If the company's operations are conducted on a 100 per cent capacity basis, the total sales will be $1 million.

Note that the sales must reach the 50.4 per cent of capacity before the company can begin to make money.

Note also that "Selling and Administrative Expenses" and "Factory Overhead" are almost constant regardless of the amount of capacity that is sold.

Expenses for "Direct Material" and "Direct Labor" rise as the sales or amount of capacity increases. Obviously, when the company makes and sells only small amounts of the capacity, the expenses for material and labor are low.

The two right-hand columns can be filled in with the appropriate figures for any period of operation such as one month, six months, or at any time that management wants to compare the budget estimates with the actual figures.

panies could undoubtedly cut their administrative and supervisory costs. They might also be overestimating their depreciation costs. (In a period of inflation, the danger lies in the underestimating of costs.)

On the whole, since break-even points do exist, they should be considered as valuable additions to the facts a company uses as a basis on which to run its business. The break-even concept is not the whole story in planned marketing, but, on the other hand, budget making and marketing plans are not complete when it is excluded.

Whether a company computes them or not, break-even points do exist for any given set of fixed costs, variable costs, sales, and prices. By working with these facts, a management can evolve various combinations that indicate what their optimum sales should be for a given period or plant capacity.

The publisher of this book, like most other publishers, estimated his break-even point. In the case of this particular book, the publisher estimated that he had to sell 8,000 copies before he would reach the break-even point.

DISTRIBUTION COSTS AND SELECTIVE MARKETING

A great deal of modern sales planning is based on the finding that 10 to 30 per cent of the market accounts for most of the company's business. A common expression is that 30 per cent of the customers bring in 70 per cent of the business. Numerous studies of this kind have been made by manufacturers and wholesalers.

For example, the Louisville Grocery Survey, one of the early studies in the grocery field, found that in a wholesale grocery firm 50 per cent of the total number of customers brought in less than 2 per cent of the total sales volume. Similarly, 40 per cent of the total number of items carried in stock accounted for less than 2 per cent of the sales volume. Much more than 2 per cent of the firm's efforts, however, had been expended on making these few sales.

A meat packer also, in studying the business of his wholesale branches, found that 24 per cent of his salesmen's personal calls, 26 per cent of his salesmen's telephone calls, and 16 per cent of the total number of his deliveries were devoted toward obtaining only 2 per cent of the total sales volume. Needless to say, the gross margin on these sales did not even cover the expenses of the above activities, let alone the remaining expenses of the business.

In many cases, some of this unprofitable business is carried on because the firm has a tradition to uphold, namely, "If it exists, we have it or we will get it for you." Numerous firms take pride in being able to supply the wants of their customers, however unusual they may be. An-

other reason is that many managements seek dollar volume; each year's sales must be higher than the preceding year's even though a high percentage of individual sales are unprofitable.

Many a sales manager, though aware of this profit problem, dislikes the thought of ignoring 70 per cent of the prospects in a market. If he concentrates on the upper crust of customers, he runs the risk of failing to add new customers who will replace those who drop out at the top. He may also find that his salesmen develop a snobbish attitude toward little customers, some of whom in time grow into important customers. Furthermore, he realizes that a small customer is unprofitable when he is charged with his share of all costs but he often becomes profitable as an additional customer who is charged only with the incremental costs involved in serving him. In making distribution cost analyses, a distinction should be made between average and incremental costs.

Generally, however, the conviction seems to be growing that management can reduce costs and increase profits by adopting a *selective selling* policy. This means that sales effort should be confined to profitable customers, to obtaining large orders rather than establishing *complete coverage* as the goal of selling. Distribution cost analysis should be a valuable tool in establishing the appropriate sales policies.

Even if manufacturers and wholesalers were to develop a policy of selective selling, small stores would not be cut off from their sources of supply. As one food wholesaler stated,

> It is a fallacy to assume that selective selling would cut off food outlets from a source of supply if generally adopted. If each retailer concentrated his purchases with a relatively few sources of supply, then, instead of retailers buying from many wholesalers, and instead of wholesalers selling a large number of retailers, each retailer would have a few sources, each wholesaler would have fewer customers, and there would be closer relationships between wholesalers and retailers—and lower wholesaler operating costs—to the benefit of all.[6]

An example of how distribution cost analysis can boost profits was offered in a study made by the Bureau of Foreign and Domestic Commerce. A hardware wholesaler discovered that a large proportion of his sales were handled at a loss, so he eliminated about 30 per cent of the items he stocked and 50 per cent of his customers. As a result, his company showed an appreciable decline in sales volume, but prices to customers were lowered, operating expenses went down, and net dollar profits were three times as large as his previous average annual earnings had been.

A Chicago mail-order house had much the same sort of experience.

[6] *Effective Grocery Wholesaling*, U.S. Department of Commerce, Economic Series, No. 14.

Profits were so poor that the company cut down the number of catalogs mailed from 2.7 to 1.8 million. It also refused orders under $5 and concentrated on high-profit-margin lines. Thus by selling more goods to fewer customers the company went from a $300,000 loss one year to a $1.3 million profit the next.

For an entire business, the problem of directing marketing effort so that its various elements may be brought into closer proportion to the potential sales of numerous customers, products, salesmen's territories, etc., is far-reaching, so that it may affect every aspect of the business. Thus, a plan to eliminate a certain segment of sales because its marginal costs exceed its marginal revenue would need to be reviewed in the light of the fact that the reduced scale of production might alter the unit manufacturing costs and therefore affect the gross margin of the entire business.

Similarly, the reallocation of selling and advertising effort, to bring it into closer relation with trade possibilities, may affect not only the physical volume of sales in certain territories, but also the price per unit and, therefore, the gross margin, where the latter is not predetermined or fixed on a uniform basis.

Management may, however, profitably abandon the policy of laissez faire or the policy of complete coverage in the application of marketing effort. To maximize profits, it can employ distribution-cost analysis as a tool in directing the component elements of marketing effort so that they are applied in closer proportion to the sales potentialities of different segments of the business.

If past experience furnishes any guide, such a policy of selective selling offers to many businesses an important opportunity for reducing distribution costs, lowering prices, and increasing net profits. For the economy as a whole, a widespread adoption of selective-selling policies may lead to an over-all reduction in distribution costs and in prices, thus facilitating an expanding volume of production and employment.[7]

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[7] Charles H. Sevin, *Distribution Cost Analysis,* U.S. Department of Commerce, Economic Series, No. 50, p. 51.

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QUESTIONS AND EXERCISES

1. What is the relationship of the marketing manager to budget preparation? Why should the alert marketer be concerned with the preparation of the budget?

2. Does the existence of a budget restrict the decisions which the alert marketer might otherwise make? Does it hamper his authority?

3. What are the popular methods of settling over-all budget figures for various marketing tasks? Which of these methods is the most restrictive on top management? Which is most likely to lead to aggressive action and improved performance?

4. Discuss the role of the customer in setting up the sales budget. In what ways does the customer influence the budgeting and operations of the company?

5. Define a break-even point. What are the basic elements of cost that are considered in a break-even analysis? What is the significance of such an analysis to the alert marketer?

6. Explain the concept of fixed and variable costs.

7. Would you find generally that all customers are profitable customers? What factors cause companies to keep on selling products to certain customers whose purchases are unprofitable?

8. If most companies adopted a more highly selective selling policy, would distribution costs be reduced? Explain.

30 Credit as a Factor in Marketing

THE ALERT MARKETER

1. **Develops a sympathetic and cooperative understanding of the credit department of his company.**
2. **Watches the extent to which manufacturers participate in the credit selling done by their dealers.**
3. **Studies the financial facilities provided by credit insurance companies, commercial finance firms, and factors.**
4. **Becomes acquainted with the laws that apply to conditional sales or other forms of installment selling.**

Years ago the frontier fur trappers brought their skins to the trading posts and in exchange for them received the supplies they needed to carry on their trade for another year. The typical trapper had to ask for supplies on credit, assuring the merchant that he would pay the bill with the income obtained from the next year's furs. Today there are very few merchants who deal with trappers but almost all our small-town merchants and even big manufacturers must obtain many of their supplies and sell their goods on credit. Credit is necessary for them to be able to carry on their operations.

Those who have had years of experience in marketing and finance realize that installment buying has broadened the market for our mass-production industries. Mass production without mass sales is impossible. Mass sales without mass credit is almost equally improbable. In America the development of mass markets for consumer goods has been inseparable from the increasing use of credit.

We can appreciate this when we study the history of the automobile industry. Its development had to wait until private commercial financing facilities were available.

It was not until 1913–1917, when companies were formed to finance consumer installment purchases of automobiles, that the latter industry started on a mass-production basis.

By bringing all consumer durables within the reach of most of our families, the mechanism of installment buying makes mass production and low prices possible. For example, in 1921, only 5,000 electric refrigerators were sold, at an average cost of $550, or a total retail value of $2.75 million. At that time, mass installment credit was not available in this field. In 1952, with widespread use of consumer credit for appliances, 3.5 million electric refrigerators were sold, at an average cost of $155, for a total retail value of over $542 million. It has been estimated that without mass credit and mass production, an electric refrigerator today would cost around $2,000, the lowest-priced car would be about $7,500, a radio around $750, and a television set about $2,500.

Consumer credit also means that new products can reach the mass market much more quickly, thus both supporting production and employment, and raising the average family's standard of living. Various marketing studies show that it took eighteen years for electric ranges to reach a million sales. That was before the era of installment buying. Electric clothes washers required about ten years to reach the million mark, and most of those were sold before mass credit was operative. The newer electric dishwashers, however, because of the mechanism of installment buying, required only five years to reach a million sales, with the average purchase price down to $300 by 1951.

Gas and electric clothes driers were purchased by a million families over the same five-year period at an average price of $239, also thanks to installment buying. Room air conditioners hit the million mark in a little more than four years, and home freezers in less than three—also because of the installment mechanism.[1]

IMPORTANCE OF CREDIT IN BUSINESS MANAGEMENT

Practically every business today utilizes some sort of credit operation in its distribution and promotion programs. It has long been recognized by managements of successful business organizations that efficient credit management has an important effect on the net profits of the company. This is true in the retailing field as well as in manufacturing and wholesaling (see Table 30–1).

The last Census of Business as reported by the Department of Commerce showed that there were more than 122,000 wholesalers and manufacturers in the United States doing a total credit business of some 70 billion dollars. Credit sales represented 85.5 per cent of their total operations. The fact that in the manufacturing and wholesaling field the percentage of credit loss was only 0.14 per cent demonstrates that this huge

[1] Theodore H. Silbert, "Living beyond Our Means," *Dun's Review and Modern Industry*, November, 1953. The above statement might be modified to indicate that room air conditioners have been on the market since 1936.

Table 30–1. *Percentage of Cash versus Credit Sales in Nine Retail Trades*

	Cash, percentage	Open credit, percentage	Installment, percentage
Automobile dealers	48	14	38
Automobile tire and accessory stores	35	35	30
Department stores	53	29	18
Furniture stores	18	19	63
Hardware stores	44	49	7
Household appliance stores	27	24	49
Jewelry stores	31	17	52
Men's clothing stores	43	49	8
Women's apparel stores	50	46	4

Because of the composition of the sample, the Retail Credit Survey's data on the distribution of sales by type of payment generally understates the proportion of cash sales and overstates the proportion of installment sales. However, for those who wish to follow the reports, the movement from year-to-year is probably indicative of the change in each type of sale.

The United States Census of Business covering Retail Trade for 1948 shows, in Table 11A [not shown here], sales by type of transaction for all of the principal kinds of retail business. These data are more useful, in certain respects, than those from the Retail Credit Survey since they cover retail sales of cash as well as credit-granting stores.

SOURCE: *Retail Credit Survey–1951,* Board of Governors of the Federal Reserve System, June, 1952.

amount of business was conducted under efficient credit management. This Census of Business also showed that retail stores did a total of more than $32 billion in credit business. Some $25 billion of this was in charge-account sales and about $7 billion in installment sales.

From these figures it is apparent that firms in manufacturing, wholesaling, and retailing have had considerable success in handling these millions of credit transactions. To a great extent this success can be accredited to scientific study, research, and education. Much of the progress in credit management can be attributed to the National Association of Credit Men in the manufacturing and wholesaling field and to the National Retail Credit Association in the retail field. Largely through their efforts, the credit department today is recognized by top executives as one of the most important and basic areas of business operations. Credit management has assumed the position of a profession of top importance in modern industrial life. Credit and sales departments must cooperate very closely with each other. In fact, a sales executive who does not

support the credit department can do much harm to his company. The same holds true for a credit executive who is not sales-minded.

Department store executives especially appreciate the relation between credit and sales. Investigations show quite clearly that people prefer the stores where they have charge accounts over those where they do not have an account by as much as a 3.8 to 1 ratio. Charge accounts increase store sales volume.[2]

MANUFACTURER'S PART IN HELPING RETAILERS WITH CREDIT PROBLEMS

Until recently, it has been unusual for manufacturers to take an interest in installment merchandising by their dealers. The manufacturers assumed that consumer credit was the province of the retailers and need not concern them. More and more manufacturers, however, are beginning to realize that credit is an important aspect of point-of-sale operations that can affect the sale of their products and, therefore, their volume of business.

Producers of the larger, more expensive consumer goods such as furniture, automobiles, television sets, jewelry, and so forth are most concerned with installment selling. Large amounts of farm equipment, medical supplies, and laboratory equipment are also sold on deferred-payment plans. Estimates indicate that 70 per cent of the larger furniture items, 65 per cent of electrical appliances and floor coverings, and 60 per cent of automobiles are sold on credit, the percentages varying somewhat with business depression or prosperity.

Economists and marketing theorists watch the national level of consumer credit and its relation to discretionary spending power, or personal income after taxes. If consumers buy too much on credit and put too little into savings, the threat of inflation may arise. Credit expansion has an influence on prices and the marketing of goods. What its actual influence may be in a given situation is a subject for argument among the experts, but we know enough about the general importance of the trends in consumer credit to realize that marketing men must follow developments in this field very closely.

Some people believe that installment buying should not be encouraged because it is a form of borrowing and therefore weakens our economy. Actually this is not true. Buying a product that will last for 15 years and paying for it in 2 years does not represent a high degree of borrowing. Installment buying is, in a sense, akin to a rental plan, but a plan wherein all the rent is paid long before the tenants have to move out.

[2] Albert J. Wood, "A Charge Account Customer Is Worth Nearly Four Times as Much as a Cash Customer," *The Credit World*, December, 1953.

Consumers who buy on the installment plan may find that they are better off in the long run than their cash-and-carry friends. A man cannot spend more than he will earn over a period of years, but installment buyers often buy a larger proportion of durable goods and a smaller proportion of goods and services that are used up immediately. Obviously, the durable goods industries will grow when more consumers learn to use installment plans intelligently.

Since installment buying does increase the sales of durable goods for manufacturers, many retailers feel that the manufacturers should take part in programs designed to teach consumers how to use credit to their best advantage. Programs which teach modern credit practices to retail employees should also get financial backing from manufacturers, according to this line of thought. Better knowledge of credit and its ramifications would, of course, be useful to consumers as well as to manufacturers, wholesalers, bankers, and retailers.

CREDIT INSURANCE

Even though they may be in a sound financial position, farsighted executives realize the importance of being prepared for large credit losses. For this reason, many companies have become interested in credit insurance, which guarantees that manufacturers, wholesalers, and certain service agencies will be paid for the goods they ship or the services they render.

The manufacturer who carries the insurance gives the insurance company a list of those customer accounts which he wishes to have covered against loss. The customers are then rated according to their financial strength and their Dun and Bradstreet rating. On the basis of this information a maximum limit of coverage is set for each account.

The insurance company is only responsible for a company's "abnormal" losses. The policy does not apply until the policyholder's credit losses exceed the average for his type of business. Furthermore, a certain percentage of the loss is deducted before the indemnity is paid. This is to make sure that the insurance company is not paying an indemnity on what would ordinarily be the manufacturer's profit margin. The deductible factor also helps to prevent the manufacturer from becoming careless about extending credit on the assumption that he can always collect his insurance.

Credit insurance companies also carry on other activities. Past-due accounts, for example, can be filed with the company for collection. This service is especially useful to the small companies who do not have adequate collection facilities of their own.

Quite often, the policyholder can prove his loss by merely filing a

report that an account is overdue. Thus, policyholders are given an incentive to report overdue accounts rather than wait for them to be paid. This may help the insurance company spot a poor credit risk who is falling behind on many of his bills.

Sometimes the insurance company may help a company stay in business by persuading creditors to allow the company to try to pull itself out of debt. Of course, this is only done when the insurance firm, on the basis of long experience, believes that the delinquent company has a good chance to reestablish itself financially.

The insurance company may collect "salvage" on bad accounts as the debtor works off his debt or when a bankruptcy settlement is made. A percentage of this salvage is paid to the policyholder according to the amount of abnormal loss that he sustained.

The use of credit insurance often helps to solve the old conflict between the sales and credit departments. A credit man can back up his refusal to okay a large order by showing that the company's insurance will not cover the loss which might be suffered. On the other hand, if the insurance company gives coverage for a higher amount than the credit man would ordinarily approve, the sales department can feel free to extend its efforts to sell more goods.

Perhaps the greatest advantage offered by credit insurance is that it tends to serve as a balance wheel. Without insurance, business executives tend to go to extremes. In boom times, they overextend credit. In times of deflation, they tend to tighten their credit too drastically. Both of these policies are bad for the over-all economy of the nation. Insurance, however, puts a curb on the sellers' eagerness during a boom and gives them a much-needed feeling of security during a deflation period.

CREDIT FRAUDS

Most of a credit manager's relations are with business firms and customers who are honest or at least want to be. Credit frauds are the exception rather than the rule, but a credit department must be alert to detect deliberate, intended fraud. An example of this type of fraud will be of interest to marketers.

A salesman for a crockery company heard that The Sales Corporation, a large old firm of the industry, was setting up a small chain of stores and was making heavy purchases to stock its stores. He also learned that The Sales Corporation had a new buyer. The salesman, who had never been able to sell the old purchasing agent, was eager to try to make a sale to the new one. To his delight, he received an order for $2,000 worth of crockery on the condition that it be delivered to the Corporation's warehouse within ten days. The salesman sent in the rush order but three days

later received a letter from his home office to the effect that the order was being held up until a credit report on the corporation could be made. The salesman was quite angry at the thought of the commission lost as a result of the delay in shipment.

A few weeks later, however, his anger changed to apology, for post office inspectors raided The Sales Corporation offices and arrested six men, including the friendly purchasing agent! The purchasing agent and his associates had bought The Sales Corporation, including its good will and assets, shortly before the salesman called on them. This gang was a notorious swindle ring which purchased established concerns with a good credit standing and then exploited the firm's reputation. They would place large orders for merchandise, never pay for it, and resell it rapidly in order to escape detection. The postal inspectors stepped in a few days before the planned getaway, thanks to reports from alert credit managers whose suspicions had been aroused.

Credit crooks are specialists who have a variety of formulas for inducing the manufacturer to ship them his merchandise. Some of these crooks operate alone, on the assumption that it is easier to cover the tracks of one man. Others operate in a ring and while they take bigger risks, they also make bigger profits. Such losses occur in a somewhat different manner from those suffered through bankruptcy.

In the normal course of events, liabilities of concerns which go into bankruptcy average about $1 million a day. About one-third of this amount is probably salvaged by the creditors through liquidation proceedings. The net loss is considered part of the daily business risk, but it is impossible to guess how much of the total loss is actually being drained away by credit crooks rather than by legitimate bankruptcy.

The average businessman is well aware of the fact that credit risks exist but he often succumbs to the temptation to take a chance on small orders, particularly orders on stock which may deteriorate rapidly. Credit crooks know the businessman's weaknesses and try to exploit them.

Credit rings employ various devices to make their concerns sound reliable. They use impressive names such as "American," "International," and "Amalgamated." They closely imitate the names of well-known companies and use mailing addresses on the same street as those companies. They use fake references. A fairly large ring may purchase a concern with a favorable rating in order to use its name under which to make purchases. Such crooks may first establish themselves as honest businessmen and promptly pay for their first few orders. They then place a few large orders, sell the merchandise, and are never heard from again. Others of this same type deal honestly with a few suppliers and then use them as references for placing large orders over a wide area before they disappear with their gains.

Even though the operations of credit frauds usually follow a pattern, manufacturers and wholesalers cannot be expected to know the business history of all the applicants for credit and to spot every fraud. After all, there are some 2 million business enterprises in the United States. Furthermore, most of the credit seekers intend to pay and do pay their bills. On the occasions when they do not, their failure is usually due to poor management rather than a deliberate attempt to defraud.

How is the credit man to spot the "bad" order in the pile on his desk? Salesmen can help him by realizing that the best sales are often the hardest to make. A sale that comes too easily is often cause for suspicion and should be mentioned to the credit manager.

Most companies today set up a reserve fund to take care of the normal credit loss they expect in the daily run of business. If the ratio of loss is too small, the company executives may have reason to feel that they are losing profitable business through extreme credit caution. On the other hand, too high a ratio may indicate that they are falling victims to credit frauds or mismanaging credit operations.

CASH DISCOUNTS

Goods were scarce right after the Second World War. Many manufacturers of both hard and soft goods took advantage of this fact and stopped offering cash discounts. They felt that this was one cost they could easily eliminate. Retailers complained, but as long as goods were difficult to get they were in no position to bargain. Later, however, both hard and soft goods manufacturers had to contend with severe competition and their customers pushed the battle for the restoration of cash discounts.

This is how a typical cash-discount arrangement works. Manufacturer A ships a $2,000 order to Retailer B. The terms on the $2,000 sale are 2 per cent in 10 days. This means that if the retailer pays his bill within the 10-day limit he can deduct 2 per cent from the total price and remit only $1,960. If he does not pay within 10 days, he is charged the entire $2,000.

The cash-discount practice began soon after the Civil War and has been a standard procedure in many industries since that time. Its original purposes were to lessen bad debt losses of merchants who did business with unknown clients and to give sellers some ready cash with which to finance their business at a time when banking facilities were sometimes inadequate.

Now that steps have been taken to eliminate the procedure, retailers' organizations are formulating reasons why they believe the practice should continue. First of all, they point out that a retailer who strongly

competes against other merchants in matters of price often increases his own volume and, therefore, the volume of the manufacturers who supply him. The retailer, however, may lose money by selling at lower prices than his competitors. The cash discounts he earns by selling rapidly and paying his bills promptly balance off this loss and allow him to make a profit. A second point is that even in normal times, a retailer's earned discounts may exceed his net profits. Without the discounts, he might be operating at a loss.

Some individuals argue that a price concession would serve the same purpose as a discount. Retailers do not agree with this, however. They claim that such a price concession would soon be dissipated in competition. An example will illustrate what they mean. Retailers figure their markup before deducting the discount. Therefore, on a $1,000 order, with a 50 per cent markup on the selling price, the retailer sells the merchandise for $2,000. He pays the manufacturer $980 (with his 2 per cent discount) and makes a gross profit of $1,020. If a price concession is offered instead of the discount, the retailer buys the goods for $980, marks them up 50 per cent and sells the merchandise for $1,960. In that case, his gross profit is only $980.

Those who oppose discounts claim also that nowadays a manufacturer can borrow money from a bank quite easily and on a basis that will probably be less costly to him than the cash-discount procedure would be. Discounting is, therefore, outmoded as a method to enable manufacturers to have ready money. One of the most telling arguments against the cash discount is that it frequently becomes nothing more than a competitive weapon. Manufacturers try to "outgift" each other and sell their terms instead of their products. In the long run, this may injure the standing of their product.

Thus far, no final decision or conclusion in the controversy has been reached. The current conflict is another of the many trends in marketing that students should watch in the future. Each marketer must study the discount practices that prevail in his specific industry and watch for changes that indicate a stabilization in the trend.

TIME-PAYMENT CONTRACTS

Americans like the installment plan for the purchase of many products. As a result, many manufacturers and other business firms sell their goods by a "conditional sale" or installment contract. A conditional-sale contract is an agreement whereby the buyer of an article agrees to pay a stipulated price in installments at regular intervals. It differs from a lease. In a lease, the agreement calls for the making of one payment for the

use of an article for a given time, with the lessee having the option of renewing the lease or returning the article and discontinuing further payments. A lease does not require a filing for record.

Selling by the method of conditional sale, even on questionable credit, provides the seller with security for any unpaid balance on the buyer's account, since the merchandise legally belongs to the seller until the account is paid in full. The law, however, requires these contracts to be filed for record before the seller can retake his goods, if they are then in the possession of someone who had innocently purchased them from the conditional-sale buyer. A conditional-sale buyer may, for example, be a retailer who later sells his store, including an article of equipment such as an adding machine that was bought on a conditional-sale arrangement. If the adding machine manufacturer has failed to file a record or filed improperly, he may lose his goods and the security for any money still due him. The possibility of this kind of pitfall means that anyone who sells on an installment basis must learn a great deal about the laws of merchandising under installment contracts.

Also, in a conditional sale the seller must acknowledge acceptance of the contract from the purchaser before the instrument of sale becomes a contract. If, for example, the seller delays answering his acceptance of the contract and the purchaser cancels the order, the seller cannot claim damages in court as a result of the cancellation. This means that sales departments which use the conditional-sale method must make prompt acknowledgments of orders received through their salesmen from customers.

In case of default of payments, the seller must also be careful to use only peaceable methods or court procedures when he or his employees attempt to repossess the merchandise. The goods legally belong to the seller until payments are completed but he cannot use force in retaking his property. The laws protect a buyer from unlawful breaking and entering the buyer's premises.

Every effort in collecting unpaid accounts under conditional sale agreements, must be for the installments payable under the contract; never for the value or price of the goods as in a straight sale. Any action by the buyer not based on his ownership of the merchandise or that implied ownership by the buyer under the contract, is held by the courts to transform the transaction into an absolute sale, giving the absolute ownership of the goods to the buyer under the conditional sale agreement.

A famous incident of this sort occurred some time ago in the New York Courts. The W. & J. Sloane Co. sold carpets, draperies and similar furnishings to the owner of the Hotel Netherlands and retained ownership of the merchandise until the price was paid. When payments were not made, the

W. & J. Sloane Co. retook the goods, sold them elsewhere, applied the proceeds of the sale to the hotel owner's notes and brought suit against him for the balance still unpaid.

The company by so doing, asserted the court, lost its right to recover this balance. It "could not sue for the contract price and at the same time sell the property or treat it as its own.[3, 4]

Because of the many legal aspects of selling by the installment method, manufacturers and dealers should pay close attention to the terms of time-payment contracts in order to prevent losses in money and good will.

COMMERCIAL FINANCE COMPANIES

It is estimated that 50 per cent of the families in America have no installment loans of any kind. They pay cash or go without. As previously stated, when the American public first began to buy automobiles on credit, it became necessary to find methods of financing auto dealers and auto buyers. The banks at that time were not equipped to do that kind of financing. A new type of lending company developed to provide dealers with large lines of credit and to perform the unpopular job of collecting from slow payers, and if necessary, of repossessing cars.

The large automobile finance companies of today do volumes of business that run into billions of dollars annually. Finance companies are in business to lend money on retail auto and appliance receivables. The dealer lends money to a customer and turns the note over to a finance company. In addition to handling the dealers' receivables on retail sales to customers, the finance companies handle an even larger volume of wholesale auto paper. These are loans to dealers themselves, secured by the cars they have in inventory. The finance companies do not make much profit on the wholesale paper but they handle it in order to keep the dealers in business and obtain the more profitable retail paper.

Many business firms are frequently in need of cash to discount their bills from suppliers or to keep their business expanding. When a businessman finds himself thus financially embarrassed as a result of his expanding activities, he usually asks his bank to increase his line of unsecured credit. Inasmuch as he is not in a liquid state, the banker usually refuses to grant further credit. In that case, he asks his bank to accept his receivables or inventory as collateral. Most banks, however, are not organized to do the necessary extra book work and they therefore suggest that he either raise

[3] "Do's and Don'ts to Avoid Time Payment Headaches," *Sales Management*, June 15, 1948.

[4] *Earle v. Robinson*, 36 N.Y. Supp. 178.

more capital or turn to a commercial finance company. Raising new capital would be expensive and might not be sound at the time.

Possibly the businessman has been dealing with a finance company that has handled his consumer financing operations. At any rate, he can possibly find a commercial finance company or "secondary banker" that will lend him money on his receivables and he can thus turn his receivables into cash. As customers pay their bills, he turns the money over to the finance company and thereby reduces the amount of his loan and the interest charges. The interest rate is of course higher than it would be on an unsecured bank loan but his venture may still be profitable despite the additional cost of financing. Commercial finance companies argue that the businessman should not be concerned about what the loan costs him but rather whether it increases his profits by enabling him to take advantage of cash discounts, benefit from special buying opportunities, or do a greater volume of business.

The cost of borrowing on receivables is relatively high, because the risks and work involved are greater. Commercial finance companies usually charge $\frac{1}{30}$ of 1 per cent a day, or 12 per cent on an annual basis. This kind of financing is used most frequently by small business firms that are operating soundly in an expanding field of marketing.

FACTORING

In certain industries, most notably textiles, furniture, and shoes, a related type of financing, a factor, is commonly used. In these three industries, a factor buys the business firm's receivables. The factor pays the money in advance and for an extra charge, he takes over the credit risks involved in the receivables. The factor, however, evaluates the credit rating of each business firm's customers before the firm can accept the order. The firm's customers pay their bills directly to the factor. To function effectively, the factor must have adequate information about the firm's customers in order to be able to estimate credit risks. Factoring is especially common in the textile industry, and most of the 20 leading factors are located in New York City where the textile business is centered.

The interest charge made by factors is usually about 6 per cent on outstanding advances. In addition, service charges are made, depending on the amounts and kinds of services given.

Commercial banks of certain areas lend large sums of money at "wholesale" rates to both factors and commercial finance companies who, in a sense, are secondary bankers. Few banks are equipped to perform these highly specialized services and therefore often refer would-be borrowers

to the commercial finance companies or to factors who are adequately organized to perform these essential services.[5]

As previously stated, factors are a dominant financial influence in a few industries only, but each industry has its own unique credit and financial practices. The student of marketing who enters any area of distribution must make a special study of the financial practices that apply to his specific industry. This is especially important if he hopes to become a competent member of management.

SOURCES

National Association of Credit Men, 229 Fourth Ave., New York. The NACM has a membership of some 34,000 of the commercial and financial credit businesses in the United States. It is a business and service organization whose purpose is the promotion of higher standards of credit and financial management. To carry out this purpose the organization has, since its establishment in 1896, fostered improvements in credit practices and in giving better information services to its members. It has promoted legislation to protect credit sales, has prosecuted thousands of cases involving fraud, has provided educational classes for young business executives, and has established the Credit Research Foundation to advance further the basic knowledge about credit as a management profession.

The NACM also issues several publications to its members. Among these is *Credit and Financial Management,* a monthly magazine which provides pertinent information about the latest developments in credit methods and practices. *The Monthly Business Review* is recognized as a leading authority on business economy, particularly as it applies to the credit and financial field. The annual edition of the *Credit Manual of Commercial Laws* is accepted as one of the most practical and comprehensive digests of laws affecting credits and sales.

The NACM also operates a Credit Interchange, which is a nationwide system for assembling and distributing the actual ledger experiences of creditors. Thus creditors can exchange information through a single source, which reduces the work of credit departments and decreases bad debt losses.

The NACM also sets up Industry Credit Groups so that mutually interested creditors can meet for discussion, deliberation, and action on special credit problems of their industries. These groups are coordinated with the central Credit Interchange.

Members are also given assistance in all phases of their foreign trade;

[5] "Commercial Finance Companies Boom," *Business Week,* Feb. 7, 1953, pp. 86–88, presents a good summary of the functions of both commercial finance companies and factoring.

a Foreign Credit Interchange Bureau is maintained to provide the same type of information as does the Credit Interchange service in the United States. Adjustment and collection bureaus are available for the assistance of members and a special Fraud Prevention department is maintained.

Conferences are held frequently to discuss credit problems. All these activities, of course, allow credit executives to make mutually beneficial contacts with other credit men.

National Retail Credit Association, 375 Jackson Ave., St. Louis, Mo.

National Consumer Finance Association, Bowen Bldg., Washington. A trade association. All persons, firms, and corporations engaging in the business of financing individuals and families under regulatory small-loan laws are eligible for regular membership.

COLLATERAL READINGS

Beckman, Theodore N., and Robert Bartels, *Credit and Collections in Theory and Practice*, New York: McGraw-Hill Book Company, Inc., 1949.

Converse, Paul D., Harvey W. Huegy, and Robert V. Mitchell, *The Elements of Marketing*, New York: Prentice-Hall, Inc., 1952, Chap. 32.

Maynard, Harold H., and Theodore N. Beckman, *Principles of Marketing*, New York: The Ronald Press Company, 1952, Chaps. 29 and 30.

Phelps, Clyde W., *Retail Credit Fundamentals*, St. Louis: National Credit Association, 1952.

QUESTIONS AND EXERCISES

1. Discuss changes in consumer attitudes about credit that are taking place. In previous generations, "mortgage" was a fearful word to many people. "Installment buying" and "buying on time" were terms that carried social stigma. How are the terms "being in debt" and "being under obligation" regarded today?

2. Discuss the various ways in which credit has helped marketing and the public. To what extent should the general public be encouraged to make use of installment credit? Some persons claim that a person earns only a given amount during his lifetime; therefore, it would be better for him to pay cash for his purchases rather than incur installment obligations with interest and service charges. Do you accept or modify this claim? Explain.

3. In what ways must the credit department and the sales department support each other?

4. What are the essential features of credit insurance? How can credit insurance tend to improve credit and sales cooperation?

5. What are the principal differences between a conditional-sale contract and an outright sale?

6. What is factoring?

31 Transportation and Warehousing

THE ALERT MARKETER

1. **Investigates the costs of transportation and storage in the physical distribution of his product.**
2. **Becomes acquainted with the various warehouse facilities that are available today.**
3. **Learns how business operations may be financed through the use of available storage facilities.**

Profit or loss in marketing is often influenced by factors other than the quality of a company's product, the ability of salesmen, or the aggressiveness of dealers. In some cases, warehousing and transportation costs spell the difference. Generally, most managements pay less attention to these than to selling and advertising. Selling and advertising have more glamour than warehouses and delivery trucks.

A leading marketing consultant, Charles W. Smith of McKinsey & Co., management consultants, has listed seven common symptoms of distribution inefficiency. These symptoms are

1. Excessive or unbalanced finished-goods inventories
2. High warehousing and transportation costs
3. Salesmen's failure to concentrate on high-potential customers
4. Overcomplicated paper work
5. Loss of market position in key areas
6. Spotty distribution of key products
7. A cluttered product line.[1]

Anyone who moves in management circles can, to some extent, recognize the lack of interest in transportation on the part of managements by noting the varying entertainment practices of salesmen who call on company executives. The transportation officer of a company is usually the

[1] "Sellers Are Urged to Spur Efficiency," *The New York Times*, June 12, 1953.

traffic manager. The traffic manager decides whether shipments shall go by railroad or truck and which railroad or trucking company gets the business. Naturally, the representative of the common carriers call on the traffic manager to solicit the company's shipping business. As an incidental part of the soliciting, the traffic manager may be wined and dined.[2] Top management usually pays no attention to it. In many of the same companies, top management would, however, frown upon the purchasing agent if he were to accept dinner invitations, theater tickets, or Christmas gifts from salesmen who call on him. Managements expect purchasing agents to obey certain codes in regard to gratuities in order to keep their buying above reproach. These codes may not, however, apply to the traffic manager simply because management has less interest in transportation than in purchasing. Of course practices in regard to gratuities and entertainment vary with the company and the industry. In the clothing industry, for example, much entertainment is given buyers who visit manufacturers of the larger cities.

When managements do become interested in their traffic department, they often find it to be a neglected department. One executive vice-president expressed an all-too typical situation in the following letter to the secretary of a national traffic organization:

"After reading one of those ads about the Traffic Manager, I thought it would be a good idea for me to take a walk out to our own shipping room and see how it was run.

"What I found was a junior clerk who knew how to make out a bill of lading and that was all. It was obvious from a few minutes' conversation that he did not have the slightest idea of either the responsibilities or possibilities of the job he was supposed to be doing.

"I was shocked! Here we are spending half a million dollars a year on transportation and none of us had ever thought to look into the way it was being spent. Could you help me to find a Traffic Manager with the training and experience to do this job right?" [3]

COSTS OF TRANSPORTATION IN MARKETING

The costs of transportation in the modern distribution of commodities are likely to be given considerable attention by those investigators who wonder why the farmer gets so little for his crop and why the consumer pays so much. When the various cost factors are studied, transportation

[2] In recent years, several trucking companies have established scholarships for worthy students. At Christmastime, the companies send pictures of the students to customers with a statement such as "Instead of giving you gratuities for your good will, we have spent that money in providing scholarships for college students."

[3] From an advertisement by the Chesapeake and Ohio Railway.

is often found to be the "villain." This seems to be true in many countries. Here is an example, described by C. U. Clark in a letter sent from Paris.

A French agency had the curiosity to work out in detail the spread in prices between producer and consumer in a given case.

The *corpus vile* was a fine cauliflower weighing 2.35 kilos (5 lbs. 2¾ oz.). Raised near the English Channel, it was shipped to a wholesaler in Chambery, Savoy, and by him to a market town in the vicinity. In this process the cauliflower, for which the market gardener got 20 francs (almost 6¢), cost the consumer 131. Here are the details gathered by the agency in an effort to prove no profiteering was involved:

	Francs
Grower	20.00
Purchase tax	0.60
Handling	0.50
Shipper's expenses (including social service tax)	2.00
Shipping carton (dead loss)	9.60
Railroad freight	44.65
Trucking from station to wholesaler	1.76
Wholesaler's 8% commission	6.58
Trucking, Chambery to Les Marches	10.58
Sales tax	2.33
Retailer's margin, 13 francs per kilo (July '52 law)	30.55
Local tax	2.23
	131.38

The financial editor of *Le Monde* (Paris), which published these figures, concluded that it is the distribution system which is at fault and that it should be thoroughly reorganized.[4]

An able American economist, J. Frederic Dewhurst, answered the letter as follows:

Mr. Clark's letter from Paris in your December 29 issue about the cost of getting a cauliflower from the French farmer to the consumer provides an interesting opportunity for comparison with the cost of distributing similar products in the United States.

The French grower received for his cauliflower only 15 per cent of what the consumer finally had to pay for it. In other words, it cost five or six times as much to deliver the product to the consumer as to produce it. Handling and shipping costs amounted to about 10 per cent of the retail price; railroad and other transportation expenses to 35 per cent; and wholesaling and retailing costs to about 40 per cent.

In the United States, Texas cabbage, sold in Northern and Eastern cities,

[4] "Cauliflower Costs," unsolicited letter to *The Wall Street Journal*, Dec. 29, 1952.

"When you call me a cow, smile!"

The story of a Traffic Manager who couldn't see any difference between horses and cattle

If you were shipping a lot of horses, how would you waybill them? As horses? This man didn't. He had imagination.

His company made dog food. One of the principal ingredients was horse meat. Because horses are ordinarily shipped in small numbers and require special handling they normally take a fairly high freight rate. But horses for slaughter can be loaded to car capacity and handled just like slaughter cattle, so it seemed to this alert traffic manager that they should take the same rate.

Digging into the subject, he found that in certain tariff districts horses for slaughter actually did go at the fat-cattle rate. He made a thorough study of relevant Interstate Commerce Commission decisions. Carefully preparing his case, he presented it to the proper authorities in his district and won acceptance of his point. Today this manufacturer's large shipments of horses travel at an 18% lower cost. And that ain't hay!

The Traffic Manager, like any other executive, grows in stature and usefulness as his field of vision reaches out beyond the four walls of his own office. Through constant study, through frequent contacts with others in his profession, he is always opening doors to more efficient, economical transportation.

Chesapeake and Ohio Railway

MEMBER OF FEDERATION FOR RAILWAY PROGRESS

TERMINAL TOWER, CLEVELAND 1, OHIO

Chesapeake and Ohio Railway has published a series of informative advertisements about the traffic manager and his job. The above ad is from the series.

is a comparable bulky product for which figures were collected just before the war. These showed that the grower got just about 15 per cent of the average retail price; handling and shipping expenses came to 11 per cent; railroad and transportation costs (for a much longer haul) amounted to 36 per cent and the combined wholesale and retail margin accounted for the remaining 38 per cent.

The editorial opinion of *Le Monde* to the effect that these figures in themselves reflect an unhealthy situation requiring prompt investigation would probably be subscribed to by the great majority of producers and consumers everywhere. The ready acceptance of such a conclusion illustrates the strange persistence of the notion that distribution is an inefficient and wasteful process and that the "middleman" is at best an incompetent parasite whose activities should be looked into by the Federal Trade Commission and at worst a dishonest profiteer who ought to be sent to jail. Consumers and producers, especially farmers, are generally regarded as efficient and hard-working fellows who are prevented from reaping the just rewards of their honest toil by the "high cost of distribution."

Actually, of course, there is no rational basis for such conclusions. They are not based on an examination of the costs and possible economies of each step of the production-distribution-consumption process. (If they were, it would be clear that distributors perform their function no less efficiently than producers or consumers.) These ideas apparently arise from the wholly irrational feeling that "it just ain't right" for the producer to receive so little, and for the consumer to have to pay several times as much for what the economist calls the "time and place utilities" of making cauliflowers and cabbages available in the right quantities and varieties and at the right time and place for the housewife to pick out just what she wants when she wants it.

If it were not for this annoying matter of free choice and the consequent necessity of trying to meet the consumer's wishes, distribution could become a much more "efficient" process. . . .[5]

The costs of handling goods are just as necessary a cost to the consumer as are production costs (see Table 31–1). Actually, the costs of transportation and other factors in modern distribution tend to come down as mass production and improved technology become effective. Milk trucking costs are an example (see chart on page 496).

Transportation facilities available are air mail, air cargo by contract or common-carrier lines, railway express, parcel post, carload and consolidated pool cars, less-carload, direct rail freight, rail freight forwarder, and common-carrier truck or contract truck. The transportation manager of a company has to decide which is the most dependable and efficient method for him.

The most costly method, air mail, is used only for receipt of samples

[5] "Cabbage and Cauliflower," unsolicited letter to *The Wall Street Journal*, Jan. 9, 1953.

Table 31–1. *Marketing Margins for Oranges Sold in 30 Sample Stores in Pittsburgh*

	Florida, percentage	California, percentage
Retailing	24.4	23.3
Wholesaling	8.3	6.9
Brokerage *	0.7	0.1
Transportation	15.3	19.7
Shipping-point services	14.2	14.0
Producing	37.1	36.0

Marketing Charges

Grower's share. Oranges sold in Pittsburgh brought an average return to growers of $2.99 for a 77-pound box of California fruit and $2.69 for a 90-pound box of Florida fruit delivered at the packing-house door. These prices represent a return of 36.0 per cent of the consumer's dollar for California oranges and 37.1 per cent for Florida oranges.

According to the average prices reported for the 1949–50 season, California growers received $2.44 a box for all oranges sold in fresh form, contrasted with a return of $2.99 a box for oranges sold in Pittsburgh. Similarly, Florida orange growers received an average of $2.54 a box for all oranges sold fresh compared with a return of $2.69 a box for sales in Pittsburgh.

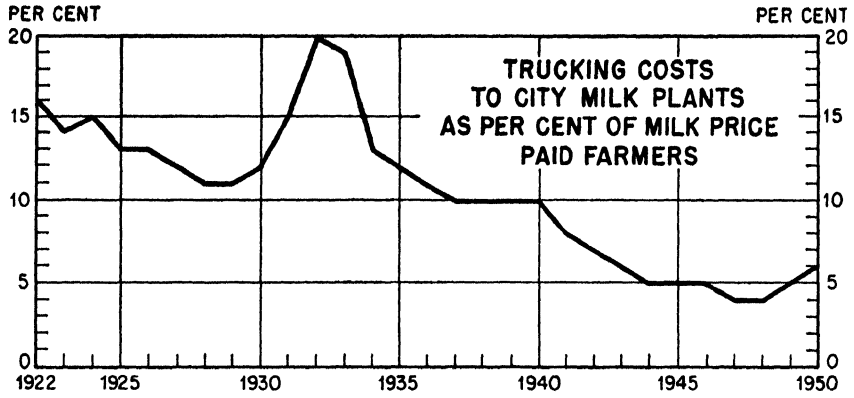
Shipping-point services. The cost of shipping-point services averaged $1.16 a box for the 1949–50 season in California for a margin of 14.0 per cent of the consumer's dollar in Pittsburgh. In Florida, the cost of these services averaged $1.03 a box, resulting in a margin of 14.2 per cent of the price paid by consumers.

Shipping-point services include advertising, inspection, and selling as well as the actual packing operation. . . .

Transportation. Transportation charges for moving oranges from California to Pittsburgh averaged $1.64 a box. This represents a margin of 19.7 per cent of the consumer's dollar spent for California oranges. Charges for transporting oranges from Florida to Pittsburgh averaged $1.11 a box for a margin of 15.3 per cent of the consumer's dollar. Cost of transportation includes freight, protective services, and Federal tax. The lots of California oranges traced back to shipping point were all shipped by rail. Florida oranges moved by both truck and rail.

* Includes brokerage and procurement charge made by produce-buying subsidiaries of chain stores in study.

SOURCE: Table and comments from Dehard B. Johnson, *Marketing Charges for Oranges Sold in Pittsburgh and Cleveland*, Bureau of Agricultural Economics, Marketing Research Report 27, January, 1953. Data apply to December, 1949–June, 1950 period.



The Storrs Agricultural Experiment Station, College of Agriculture, University of Connecticut, in a study entitled "Formulas for Adjusting Milk Transportation Rates," Bulletin 274, March, 1951, reports findings as follows:

The trend in hauling charges was downward relative to the price of milk in the period 1922–1950. From 16 per cent of the price of milk in 1922, the hauling rate reached a low of four per cent of the milk price in 1947 and 1948. In 1950 it was six per cent of the milk price . . .

The reasons why hauling rates declined relative to the price being paid farmers for milk, and relative to most other prices, include the following:

(1) Milk production per farm increased markedly during the past quarter of a century. This meant less time and travel by the trucker in picking up a given volume of milk.

(2) Roads were improved materially, facilitating faster travel by larger trucks.

(3) Better trucks were manufactured, which enabled one man to pick up a much larger volume than formerly.

(4) The quality of truck tires and tubes improved, and their prices followed a downward trend relative to other prices.

(5) Routes were consolidated and organized more efficiently.

In brief, the milk trucking industry was one in which technological efficiencies and increases in milk production per farm made possible hauling rates per hundred-weight in 1950 that were lower than in the 1920's.

SOURCE: *Motor Truck Facts*, Automobile Manufacturers Association, New York, 1951 ed.

and documents, such as invoices, bills of lading, and other documents. Air express provides facilities at a lower cost on low-weight shipments. The common-carrier air-cargo lines have cheaper rates and are equally efficient and fast. Their services are nonscheduled and merchandise moves as volume and tonnage demands.

The place of technology applied to transportation is becoming especially evident in transportation of freight by air. The volume of air freight at present is very small in comparison with railroad and truck haulage. Goods moved by air account for only $\frac{1}{30}$ of 1 per cent of all the ton-miles of freight moved in the United States. As airplanes are improved, however, they will compete more and more successfully with railroads and trucks, especially for higher-priced perishables such as flowers and

nursery stock or other products such as pharmaceuticals and replacement parts that require a minimum amount of time in transport. Atomic-powered airships may soon be taken for granted in hauling a great deal of freight. Once these airships are developed fully, they will be able to haul cargo at a reduced rate because less fuel need be carried.

The freight forwarder, who is regulated by the Transportation Act, is a middleman in transportation. He generally uses the facilities and services of the regulated common carrier. He moves a large percentage of the less-than-carload freight. He does not own any railroads and seldom owns truck lines. He pays the carrier carload rates and collects less-carload rates from the shipper. In some cases, the railroads could realize profits now going to the freight forwarder if they would provide less-carload service direct to the shipper.

Freight brokers usually operate in conjunction with contract carriers and ship at specified rates which are lower than common-carrier rates. Consolidated pool-car services provide railroad services for less-than-carload shipments at carload freight rates plus handling costs. Associations of allied concerns consolidate all commodities at a much lower rate than the rates of even the rail freight forwarders. It is possible for shippers to avoid all the minimums by using the same consolidator, as is often done for express shipments. The rail freight forwarder provides truck connections from off-line points.

A competent traffic manager can reduce transportation costs in so many ways that smart marketing executives cultivate his acquaintance. The traffic manager knows, for example, how competition in certain geographical areas can be met by means of "pool cars." A pool car is one that contains shipments which are to go to two or more receivers such as dealers. If each of two dealers in a distant city buys less than a carlot, he pays a higher rate, l.c.l. (less than carload) freight rate. If, however, the two shipments are combined to make a carload, each dealer pays the lower carlot freight rate.

Many variations are possible. An Eastern manufacturer may, for example, save shipping costs by combining shipments to dealers in Kansas City, Denver, and San Francisco. The full carload rate applies to the first city where the carlot is broken, Kansas City, and the l.c.l. rates from that point to the dealer's place.

In-transit or processing rates are somewhat similar. Texas cattle, for example, may be shipped from Texas to Iowa for fattening and then shipped on to Chicago for slaughter. The through rate from Texas to Chicago applies so long as the time limit, as much as 2 years, is obeyed.

Some transcontinental truck lines make better time than the railroads do between specific points. They do not, however, normally carry enough insurance to cover minor loss and damage claims. A transit insur-

ance policy must be used by the shipper for coverage against loss or damage.

Here are some of the questions a sales executive should ask and answer in order to improve shipping:

1. Are you instructing the shipper how to ship, to pack, and to classify orders?
2. Are you ordering shipments by express when part of them could be shipped by freight?
3. Are you requesting shippers to pack the various commodities separately and to classify them properly so that each package will have the lowest possible freight rate?
4. Are you taking advantage of the various consolidations to enjoy the low cost of transportation?
5. Are you watching the condition of shipments and signing them "in bad order" when thus received?
6. What are you doing toward freight-claim prevention? (Profits lost through merchandise lost and damaged in transit cannot be regained.)
7. Is your annual inventory shrinkage the result of failure to file claims or to place responsibility for loss and damage in the right place at the right time?
8. Are you fully aware of all firms who sell with freight allowances or agree to deliver F.O.B. destination? (Loss is frequently caused by the failure of buyers to show such terms on merchandise orders.)
9. Are you notifying manufacturers when shipments are damaged through poor packing? [6]

WAREHOUSING

MATERIALS HANDLING

Manufacturers and wholesalers who know their costs separate order handling from production and promotion costs. A recent study by drug manufacturers showed that order-handling costs amount to 9 per cent of sales. Half of this amount is spent for occupancy, order assembly, and order-handling administration. The other half goes for delivery. Reducing distribution costs, then, calls for a careful consideration of freight rates and minimum shipping charges. For instance, minimum shipping charges equal 2.5 per cent of sales on a $100 order, 5 per cent on a $50 order, and 10 per cent on a $25 order.[7]

We can appreciate the costs of warehousing when we realize that one warehouse of a big food chain handles in the course of a year 80 million pounds of produce and 15 million pounds of fresh meat. To do the truck-

[6] "Transportation for the Future," *Management Review*, February, 1947, pp. 94–96.

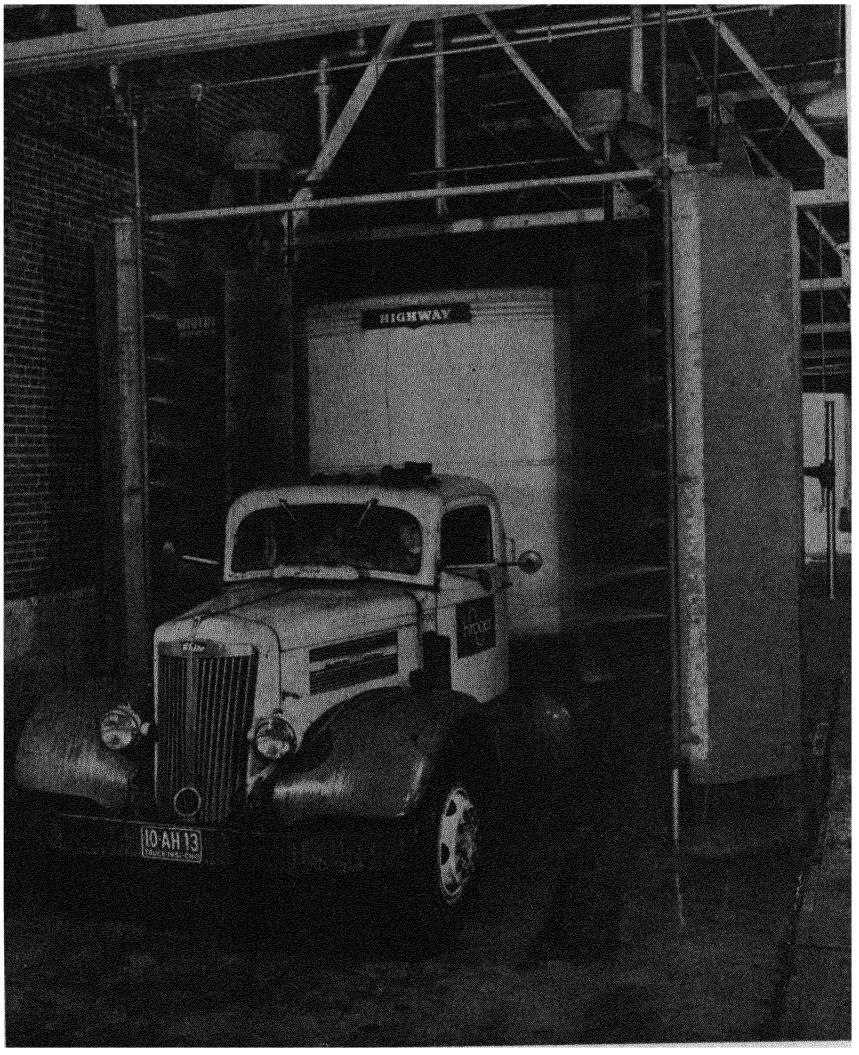
[7] Statement by Charles W. Doerr before the 78th annual meeting of the National Wholesale Druggists' Association, reported in *Tide*, Oct. 3, 1952, p. 26.

Storage capacity is increased by multiple-deck pallet racks for heavy wares. Packages may be stacked high on the rack shelves.
SOURCE: Courtesy of the Kroger Co.

ing to stores, a fleet of 45 tractors and 60 trailers are used. Materials handling in storage and transportation on the local level therefore becomes a formidable cost factor in distribution. Fortunately, technological developments in materials handling are being applied as illustrated in the photographs on this and the next page. Many advances are being made in the unloading, storing, and dispensing of goods. Marketing executives learn about and utilize these technical facilities by inquiry from consultants and manufacturers who operate in this field.

LOCATIONS OF WAREHOUSES

Our system of uniform freight classification and the various freight rates for different commodities compel executives to think in terms of warehouse locations in order to keep costs down. The costs in the physical distribution of a product are becoming a more important factor



Shower bath, built in, freshens up Kroger trailers. That is a good ad for grocery chain, as thousands see delivery vehicles daily.

SOURCE: Courtesy of Rust Engineering Co. and the Kroger Co. See also "Production Efficiency in Warehousing," *Modern Industry*, Oct. 15, 1952.

in locating factories and storage centers. Many factory sites were, of course, chosen years ago when canals were a more common form of transportation. That was before the motor truck had become an especially important means of handling freight. In some cases, the establishment of a regional warehouse, rather than the location of a new plant, may well be the answer for some concerns. For others the wise selection of dis-

tribution points or the use of public warehouses can offset the disadvantage of existing plant locations.

A large food products company located in two Eastern metropolitan centers carried stock in more than 100 public warehouses. Inventories were high and loss from spoilage was excessive. In an attempt to reduce total freight costs, the company decided to reduce the number of warehouses to 55. This was planned to give better service to customers and to eliminate high inventories and spoilage loss. It resulted in an annual saving of $120,000, or 10 per cent of the total cost of physical distribution.

KINDS OF PUBLIC WAREHOUSES

There are several basic types of public warehouses, classified according to the kind of commodity they store and the particular service required in connection with such stock. Everyone knows about household-goods storage warehouses that provide a place for storing household goods for safekeeping. There are also special commodity warehouses, for example, cotton warehouses, wool warehouses, tobacco warehouses, grain warehouses (grain elevators), and potato warehouses, which provide storage for owners and perform specialized services essential in the marketing of these commodities. Public warehouses provide tanks for storage of bulk liquids such as oils, syrups, and molasses, liquid chemicals, etc.

"Cold storage" warehouses provide facilities for commodities that must be refrigerated such as perishables, foods, and frozen foods. The public merchandise warehouse stores goods and wares of all kinds that do not require refrigeration for their preservation.

"Manufacturers, or other shippers and receivers and distributors use public merchandise warehouses for the storage of finished products and certain raw materials or semifinished goods until these goods are required by retailers, distributors, industrial users, or household consumers." [8] They may, for example, store raw sugar for the importer and refined sugar for marketing by the refiner. Jobbers and retailers of sugar may keep their surplus supply in a public merchandise warehouse. In other words, raw materials, semifinished goods, and finished products are frequently stored in public warehouses. The great variety of services offered by the public merchandise warehouses suggests the importance of the job they do in distribution in marketing. The American Warehousemen's Association lists over 170 cities which have member public merchandise warehousemen.

Prompt distribution from nearby warehouses of a company's product often means increased business for the company's dealers. The dealer in

[8] Wilson V. Little, *The Public Merchandise Warehouse in Distribution*, American Warehousemen's Association, Chicago, 1948.

a short time can replenish his shelves rather than wait for supplies from a distant factory. He need not lose sales when supplies are not quickly available.

The warehouseman is a storage and distribution specialist. He knows how to store any kind of merchandise. He knows credit information, insurance coverage, selling agencies, and freight rates. He furnishes a receipt to the owner of the goods on its arrival and keeps records for each type of goods and number of packages stored. When a jobber or retailer is in need of stock, the manufacturer or sales representative issues an order which instructs the warehouseman to deliver a certain product. The warehouseman notifies the manufacturer of deliveries made and of the balance of stock on hand. If so instructed by the manufacturer, he will collect on C.O.D. orders or will make out invoices on the manufacturer's forms for goods delivered locally or shipped out of town.

The use of the public merchandise warehouse enables many manufacturers to avoid the cost of having local sales representatives. The manufacturer furnishes the warehouseman with a credit list of his local and out-of-town customers to be served from stock at his plant. The warehouseman accepts orders from jobbers, fills them, and reports to the manufacturer all orders filled for billing. This routine cuts down on sales expense and saves time.

Several shippers may combine their merchandise in pool cars and store the merchandise in public warehouses so that all can realize a saving in shipping costs.

The services of a public merchandise warehouse include acting as a representative of the manufacturer by filling orders, accepting orders by telephone, furnishing office space for a company representative, and in every way facilitating the manufacturer's operations in the local markets.

An important service of the warehouseman is the issuing of receipts for merchandise received from a manufacturer. These receipts can be used as collateral for loans. Banks frequently lend up to 70 per cent of the value of the commodity in storage based on these receipts. When goods are segregated in a warehouse they are available for loans not possible while they are still a part of the owner's general assets.

The fact that many manufacturers have given up branch warehouses and have turned to public merchandise warehouses indicates that their services are, in some cases, economical. Costs to the warehouseman are based on actual units in his charge and the work involved, whereas a branch warehouse owned by a manufacturer must be set up to handle peak loads even though there is need for the facilities only several times a year. Fixed expenses must be met by the manufacturer each month

whether the warehouse is operating at full capacity or not. Furthermore, the wage scales for a manufacturer's warehouse are likely to be higher than those for a public warehouse.

A *bonded warehouse* may store any kind of commodity, but for one or more reasons it is operated under the supervision of a state or Federal agency. One variety, licensed by the government's Department of Agriculture, can issue Federal warehouse receipts on agricultural commodities it stores. A warehouse that stores liquor on which the Federal excise tax has not been paid is also operated as a bonded warehouse. This means that it is bonded to the United States Treasury Department to assure the collection of the tax prior to the delivery of the liquor. A warehouseman operating a United States Customs bonded warehouse storing imported merchandise is bonded to the Treasury Department to safeguard the collection of duties before distribution of the goods. Some states, as Illinois, require any warehouseman to obtain a license annually. A prerequisite for the license is the filing of a bond with the Commerce Commission to guarantee having insurance to cover wares he is storing.

FIELD WAREHOUSING

Field warehousing is increasing in popularity because many business concerns are doing a larger volume of business and need more working capital. Field warehousing is often preferred to public warehousing because hauling charges are saved. It is a temporary arrangement whereby a manufacturer can obtain a bank loan on inventory, which may also include unfinished goods, by offering receipts from the warehouse company as collateral.

Field warehouses operate as follows: Banks hesitate to lend money on inventory in possession of the manufacturer. Therefore, when a bank or other lender agrees to make a loan on a manufacturer's inventory, a field warehouse company is called in to check the premises. It establishes a warehouse there, keeps it locked or guarded, and posts it to show that the property is in the hands of the warehouse company. This warehouse may actually be a cattle ranch, a tank, or even a bureau drawer. The warehouse company issues receipts on the inventory, which are turned over to the bank or lender as collateral.

At present there are about 10,000 field warehouses in the United States, having an average loan figure of $80,000. The number and their value vary constantly because these arrangements are temporary. Costs are high because the borrower's credit rating is usually low and the plan involves considerable paper work.

This method of financing started in the canning business. It is espe-

cially useful in seasonal-type businesses or in any business where the volume of sales is large in relation to the net worth. With this type of financing available, a manufacturer whose product has a seasonal demand can have a more steady production. This eliminates rush periods of manufacture and overtime wages. Sometimes a manufacturer can take advantage of his suppliers' cash and quantity discounts and get carload freight rates when this method of financing is available to him.

There are also disadvantages to field warehousing. Interest rates on this type of loan are usually higher than on unsecured loans. Bank rates are from 4 to 6 per cent; other lenders may charge more. An additional expense is the fee of the warehouse company, which ranges from ¾ of 1 per cent to 2½ per cent of the loan. Part of this charge by the warehouse company is used to pay the warehouse custodian, who controls the goods coming in or going out and who takes frequent physical inventories. The warehouse company does not guarantee that the goods stored are of the grade specified (unless arrangements have been made to check) or are the property of the borrower.

Another use of field warehousing has developed since the Second World War. The distributor has a field warehouse set up on his own premises. The manufacturer stores goods there and gets a receipt. This relieves the manufacturer of inventory and places his product near the point of sale. As the distributor needs stock he gets it from the field warehouse and pays the manufacturer. In one arrangement the distributor has his local bank finance purchases on a warehouse-receipt basis. The distributor has the advantage of cash discounts and the manufacturer carries no responsibility.[9]

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QUESTIONS AND EXERCISES

1. Is it justifiable to consider transportation and warehousing expenses as being part of marketing costs? Explain.
2. Describe the operations of a freight forwarder. How could his services be utilized by a manufacturer?
3. What are some of the major ways in which a traffic manager might be able to support the marketing manager?
4. What is meant by classifying shipments to obtain lower rates?
5. What marketing services other than storage can be performed for the manufacturer by the public warehouseman?
6. What is a bonded warehouse? What added functions does such a warehouse perform? Does it aid in financing operations? Explain.
7. How does field warehousing function? How might it be used by a manufacturer? By a wholesaler?

39 Keeping in Touch with Competition

THE ALERT MARKETER

1. **Welcomes competition because it keeps him on his toes and brings about better products at lower prices for the consumer.**
2. **Wants to know his company's share of the market and tries to improve it.**
3. **Is not frightened by competition from the biggest companies but looks for areas in which they are weak and serves customers whose needs are not fully met by the giants.**

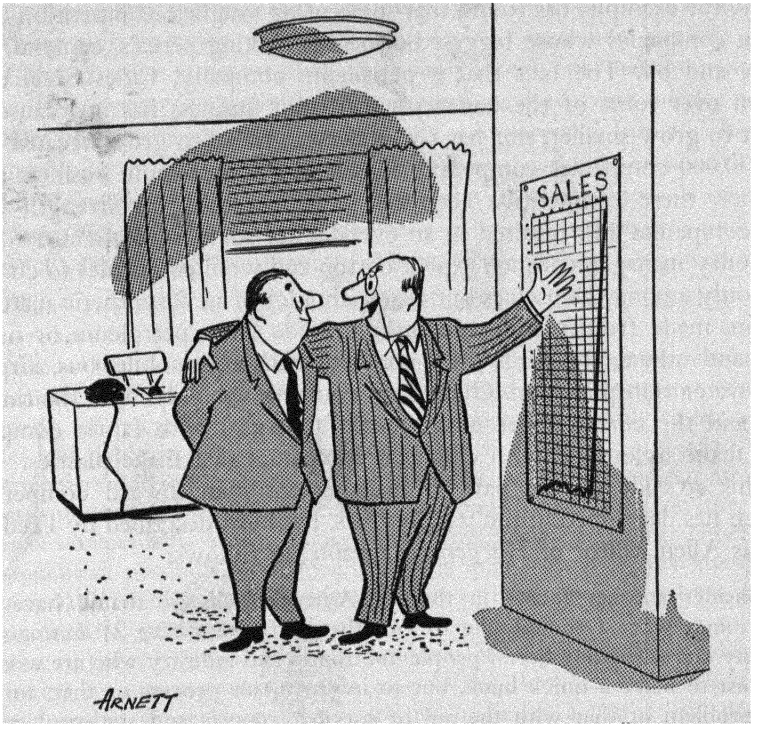
Competition is a dynamic force in American business. Managements are always aware of it and planning either to overcome or to stimulate it. An example of the way in which a management often stimulates competition is evident in the tactics of, say, the soap company management that markets two different brands of laundry soap. The same company may have two different sales organizations to sell the two brands, which are competitive although made in the same factory. The management knows that more of its soap will be sold when, for example, one group of 100 salesmen competes with another group of 100 than would be sold by one large group of 200 men.

Another example of the way a large parent company stimulates competition can be seen in the policies of allocating accounts to advertising agencies. A large firm such as General Motors, which spends millions of dollars for advertising, might own and operate its own advertising agency, thus keeping the agency profits for itself.[1] General Motors and

[1] Such an arrangement would mean, under present rules, that the agency could not obtain recognition from agency associations and most publishers. The interesting point about the situation, however, is that subsidized agencies have not developed in America because such a system does not fit into the thinking of competitive-minded managements.

other large companies do not follow that policy because they know that the members of their subsidized agency would not put forth much effort to do a good job. The men in such an agency could not lose the account and they would tend to coast along rather than put forth their best efforts.

General Motors and other large companies realize that aggressive promotional ideas are born in an atmosphere of competition. Generally, they



"I'm glad to see that your sales now equal your blood pressure."
SOURCE: *Tide*, Aug. 15, 1953.

give the accounts for each of their products to different advertising agencies, each one of whom knows that it is competing with the other agencies to hold its account.[2] Think of what this knowledge means to the members of the several agencies. No wonder Madison Avenue of New York, the center of American advertising, is known as the "Street of the Golden Ulcers!"

[2] Most large advertisers that market several different products use the multiple-agency system, but there are some notable exceptions. See "Should an Advertiser Split Up His Account among Agencies?" *Tide*, July 3, 1954. Also, experienced agency men realize that certain "house agencies," do exist but these are relatively unimportant.

Intelligent managements also stimulate competition by bringing out new products that compete with industries quite different from their major line. Research is actively carried on in many companies. Through research a company learns how to get more out of crude materials or waste products from their primary products. New processes rescue valuable ingredients from baser products for more refined purposes. This is especially true in the chemical industry. E. I. du Pont de Nemours & Company, for example, has found that some of its toughest competition comes from companies whose biggest business is making cereals, cameras, ham, tires, and oil. The fact that a petroleum company, Cities Service, has taken over some of the country's methanol business has not caused du Pont to grow smaller, nor has Cities Service failed to grow because there are 30,000 companies competing with it in the petroleum business alone. Rather, these competitive activities have increased the strength of all the companies and resulted in an ever-higher standard of living.[3]

Today management men expect cotton and wool companies to compete not only among themselves but also with a lot of new synthetic materials: rayon, made from wood pulp; nylon, made from petroleum or natural gas; and others. Railroads must compete with automobile, bus, airplane, and water transportation. Glass must compete not only with the tin beer can and the coated-paper milk "bottle" but also with fabric companies that make nylon and with chemical companies that make plastics.

This attitude on the part of management men toward competition, which has developed in the last 50 years, has been described by Frederick Lewis Allen, editor of *Harper's Magazine*, as follows:

> Consider another factor in the big American change that I have been describing; what I should like to call the *professionalizing of business;* the steadily increasing number of people in business and industry who are working, not just to make a quick buck, but to improve this process or that; to solve this problem or that with the aid of surveys, reports and statistical studies, produced with an almost professional precision. And how business men are constantly meeting in conventions and associations—just as we are meeting here—to compare notes on methods and techniques; not telling *everything* to be sure, but in total effect pooling our knowledge for the benefit of ourselves and our competitors alike. I call this phenomenon the *professionalizing of business* because the spirit in which we meet is less like that of the old-fashioned business men of the dog-eat-dog days than like the members of the American Chemical Society or the American Bar Association, let us say, combining their knowledge to advance their science or profession.[4]

[3] See "Competitors You Never Thought About," *Service*, Cities Service Company, January, 1952, p. 31.

[4] From an address by Frederick Lewis Allen before the 32d annual meeting of the Magazine Publishers Association, Pocono Manor, Pa., May 28, 1951.

This professionalizing attitude has permeated American marketing management to the extent where it is even appearing occasionally in national advertising. Procter & Gamble, for example, ran a full-page advertisement in *Life*, addressed to men, which included the statement, "If your wife wants moondust, we'll try to make it for her first. If we don't please her, we know our competitors will."

Management watches competitors constantly. Those who do not know American marketing think that watching what competitors are doing is something akin to being a low-grade variety of gumshoe hireling. This is not the correct interpretation. Although intelligent managements do keep a sharp eye on the activities of competitors, they avoid merely copying their product designs, selling methods, and services. Instead, they let customers' needs and problems stimulate them to outdo competition in providing answers for them. These principles of marketing and management have been well-stated by numerous industrial leaders, for example, Robert L. Chambers, President of Magna Engineering Corporation.

> Constant awareness of competitive activities, and prompt reaction when necessary, are obviously vital to the success of any company.
>
> Insofar as research and design of new products are concerned, we believe it is equally important to avoid a defensive attitude. The company which is constantly following the latest moves of its competition is likely to lag behind in sales and public esteem as well.
>
> Consequently, in our research and development, we try to keep our attention on basic unsatisfied needs of potential customers rather than on the latest moves of competitors. A clear conception of need requires a clear conception of competitive products, of course, but it is important that this knowledge not be permitted to guide thinking into conventional channels which cannot produce a basic contribution.
>
> A case in point is Magna Drill, an industrial drilling machine introduced to the market by our organization this year. When development work started, our engineering department did not set out to design a better drill press. If they had, it is unlikely that they would have been able to produce anything much different or better than those already designed by the engineers of our leading competitors.
>
> Instead, they addressed themselves to the problems of multiple drilling in industrial plants. Then, without specific reference to any existing product, they set out to design the best possible machine for certain common types of industrial drilling problems.
>
> The result was a machine which resembled an industrial drill press in many respects but which had so many basically different features that it was really a new tool. Then, but not until then, it was checked exhaustively against the functions and features of all competitive machines. Initial results indicate that we are in a far better position with this product than we would have been if we had introduced another drill press with, at best, a few superior features.

Yet this is what we would almost surely have had if we had let competitive thinking guide ours.

The same situation prevails in the sale as well as the design of products. It is frequently necessary to counter competitive changes in prices or distribution practices, but emphasis should be placed on the establishment of leadership through new, fresh thinking.[5]

HOW MANAGEMENTS KEEP TRACK OF COMPETITORS' ACTIVITIES

Most managements do not organize spy systems to track down their competitors' activities. What really happens is that these activities are reported to management by each company's salesmen and customers. Whenever a salesman fails to make a sale because the customer has or can get a better or an equally good product at a lower price than the salesman offers, the salesman is sure to tell his sales manager.

In addition to reports from salesmen and customers, management men read the advertising of their competitors. Advertising tells the world the important advantages and services that are available in the product and its price. Published financial reports often state significant facts about a company's achievements in the marketing of their products. Trade shows exhibit their latest product developments.

A company's representatives may visit industrial planners, architects, contractors, and manufacturers to find out how their products compare with those of their competitors. Some companies find it necessary to purchase competitors' products and test them in the laboratory in order to appraise their comparative performance levels. Weaknesses in competitors' products often lead to improvements that would not have been made without systematic comparisons.

The American way of business is founded on our free competitive system. Industrial progress is stimulated by competition concerning not only the product but also the sales efforts, marketing techniques, and methods of manufacture. This makes possible the American standard of living. Without healthy competition, the consumer would suffer and our standard of living would decline.

Several commercial services are available for the analysis of competition, a few of which are listed below.

Product-testing laboratories will test and report on the performances of several products, those of competitors as well as those of the company that pays for the tests.

In the field of retailing, A. C. Nielsen Company conducts store audits and reports sales by brands (see page 134).

[5] "Watch Your Competitors, but Let Needs and Problems Decide Sales Methods," *Industrial Marketing*, December, 1952.

In newspaper advertising, the Advertising Checking Bureau reports reveal what brands competitors are pushing, the areas where they are promoted most vigorously, and the methods currently used to woo customers. A fuller description of ACB is given at the end of this chapter.

Advertising Distributors of America, Inc., is another organization used by many marketers to provide data and analyses of competitive activities. See the end of this chapter for a description of their services.

THE MARKETING EXECUTIVE WANTS TO KNOW HIS COMPANY'S SHARE OF THE MARKET

As a rule, he wants to know his company's share of the market over a period of years. The chart on page 512 is an example of this. See also Table 32–1.

Table 32–1. *Estimated Market Position of* 11 *Television Set Makers, in Percentage of Dollar Volume*

Radio Corporation of America	20	Emerson	4
Philco	13	Crosley	3
Admiral	11	Westinghouse	3
Motorola	10	Sylvania	3
Zenith	8	Raytheon	2
General Electric	5	Rest of industry	18

SOURCE: *Forbes Magazine*, Nov. 1, 1953, p. 13.

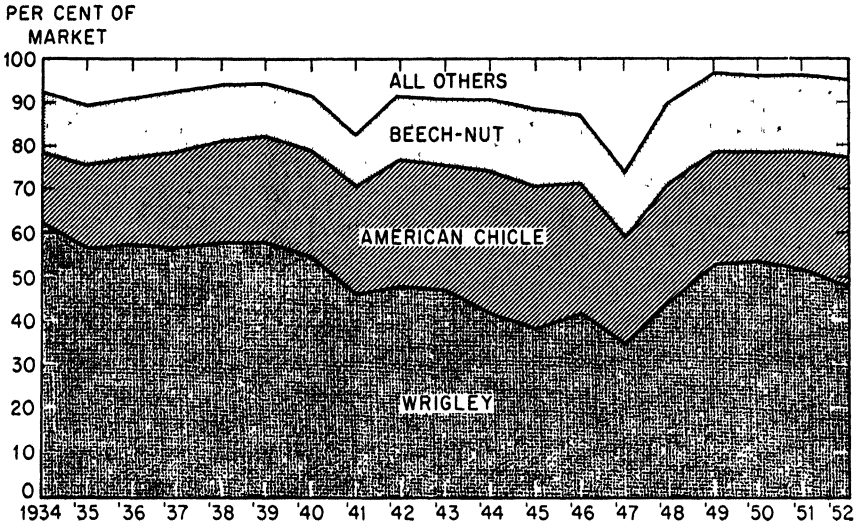
Knowledge of a company's relative share of the market nationally and the trends in this percentage are not sufficient to satisfy the marketer who seeks to improve his share. He wants to know the specific areas where sales are above and below the national percentage. He wants to know how "spotty" his distribution is and why. The "precision approach" to competition has been described as follows:

It must be remembered that business comes from three sources:

1. The orders you get from your regular customers.
2. The orders you get by taking business from a competitor.
3. The orders you get from new prospects for your merchandise or services.

Within these categories the "precision approach" to competition calls for analysis along the following lines:

1. The general strength of your sales organization and your distributing organization rated in comparison with the strength of parallel organizations of each competitor in a given area.
2. The effectiveness of your advertising and promotion rated against the effect of your competitors' advertising and promotion.



Big Three gum makers have U.S. market virtually spreadeagled, with P. K. Wrigley usually holding about 50 per cent of sales. "We cowhands," drawls Gene Autry on Wrigley's television show, "chew Doublemint becuz it leaves our hands free for bronco-bustin'." The implication is that gum-chewing is a better way to discharge nervous energy than cigaret-smoking--which gum makers consider their biggest competition.

In 1952, the average U.S. citizen chewed 35 nickel packs of gum, or 175 sticks. The figure for cigarets: 117 packs, or 2,340 smokes. William Wrigley, Jr., American Chicle, Beech-Nut Packing and 26 lesser gum makers split $160 million in factory sales, all but $15 million within the United States.

Wrigley spends $10 million a year advertising three little words: "Delicious, healthful, refreshing." Beech-Nut does likewise on a smaller scale. American Chicle sounds almost as scientific as a cigaret advertiser: chewers "exert more energy . . . experience less tension . . . suffer less fatigue . . . work faster . . . concentrate." Some dentists recommend gum as a tooth-unclogger. And the National Association of Chewing Gum Manufacturers puts its finger on the one best reason: "Probably nothing else offers so much innocent pleasure for so little money."

SOURCE: *Forbes Magazine*, Sept. 15, 1953.

3. An analysis, customer by customer and prospect by prospect, of the calls made and the selling pressure applied by your staff and that of your competitors.

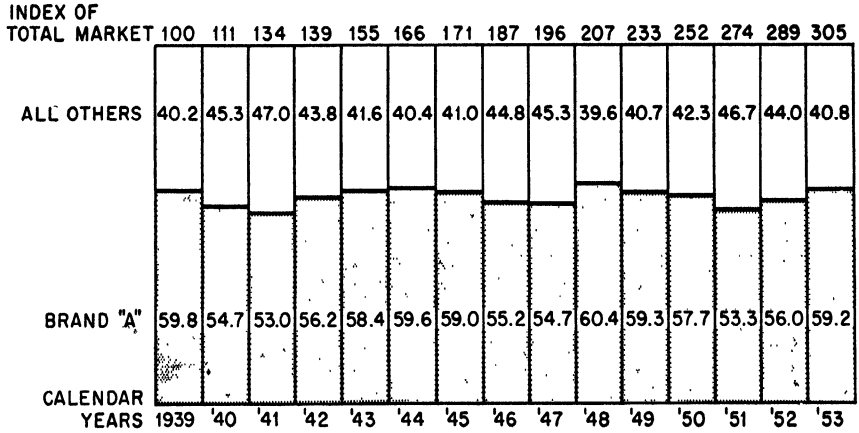
4. Special analysis of consumer, dealer or jobber buying habits, population statistics, national groups, etc., within the territory.

5. A study of the service and delivery in that territory of your own product as compared with that of your competitors.

6. A comparison between the support you get from distributors and dealers in the shape of cooperative advertising, behind-the-counter cooperation, etc., and what your competitors are getting from their organizations.

Given a situation where you have not been holding your own in volume in a territory--or where you have not been gaining equally with others while the industry as a whole is going up in volume or where you have been losing

LONG-TERM COMPETITIVE SHARE TRENDS



"I'd Rather Own a Market Than a Mill." Because a "market" is untangible –more of a concept than a thing–it's difficult for many to grasp the idea that it's capable of being "owned."

True, you can't build a fence around a market or record a deed with a guaranty of title to it. But to anyone who has ever seen an alert, well-informed manufacturer spring to defend a market which he dominates–well, the market seems very, very tangible and the ownership very real. The chart shows a 14-year record of a client who has successfully defended against at least three major invasion threats. Constant vigilance, correct marketing decisions and then constant reviews of those decisions have retained his 60% share of 14 years ago despite the fact that this market has tripled in that time. Note that each competitive threat found the going too rough and the cost too great to achieve a real foothold.

Perhaps "possess" is a more accurate word than "own." And strict definition would call it "consumer franchise" instead of "market." There is nothing fixed or permanent about it. It requires constant defending. But in cases like Brand "A," where it has the benefit of an alert and aggressive defense, it's worth far more than all of the land, buildings, machinery and equipment on the books. The consumer franchise is the company's major asset.

SOURCE: From *The Nielsen Researcher*, A. C. Nielsen Company, March, 1954. The statement (or paraphrases of it) has been attributed variously to Harrison Jones, former Chairman of the Board of Directors of The Coca-Cola Company, to E. H. Little, Chairman of Colgate-Palmolive Company, to G. A. S. Nairn, Chairman of Lever Brothers, Port Sunlight, and to D. F. Austin, Vice-President, U.S. Steel. Regardless of who originated the expression, each of them recognized its wisdom enough to recommend it to others.

ground, not only in percentages but in actual sales–the territories must be subjected to the "precision approach" to competition.

What you have to do is to pick out the competitor most vulnerable on as many as possible of the points discussed. You then set your selling staff the specific task of hitting at that weak point. You prepare, if necessary, special cooperative advertising to meet the needs of a particular national group situation or a peculiarly local buying or social pattern.

In some areas it is essential to have sales people who are basically local men. In other areas, warehouse facilities and delivery may be causing you a problem which a competitor does not have. A correction of this one situation may make a big difference.

Every sales executive, of course, knows that this type of analysis is necessary. But because of the seductive excitement of what is called "all-over sales strategy," the "precision approach" is often applied haphazardly.[6]

MARKETING BENEFITS FROM ANALYSIS OF COMPETITION

When a marketer investigates his competition, he expects the investigation to result in specific benefits to his company, some of which may be the following:

1. A knowledge of what the competition is doing often causes a company to step up its product research and development in order to design a comparable or better item.

2. A knowledge of competition is helpful to a company's salesmen. The salesman who can accurately answer questions about competitors' products as well as his own and use that knowledge tactfully is better fortified in the field. Sometimes a sales manager even requires his salesmen to use a competitor's product or service as a means of educating his salesmen. A vice-president in charge of the Chesapeake and Ohio Railway passenger traffic and public relations department did just this with his salesmen. Each man was told to get to a certain meeting by means of air line, bus, auto, or competing railroad—any way except by C & O. The idea was so successful that it has been continued. Its value is that "Our passenger representatives, as well as those whose job it is to promote rail travel through advertising and publicity, will do a more effective job if they know what they're competing against." [7]

3. Factory and office employees can be made members of the company team and effective in dealing with competition. Some sales departments ask employees to suggest customers for the product and offer bonuses for tips that pay off. Company managements that have good communications with their workers are often quite frank in discussing the importance to them of competition. Here is a straight-from-the-shoulder example by the Mullins Manufacturing Co., Warren, Ohio.

Let's lay the cards on the table. Mullins must sell enough goods each week to pay wages and salaries, pay the bills for raw material, buy machinery, pay off loans, pay dividends and put something away for a rainy day. This isn't theory—this is cold fact. Conditions have changed greatly, making it much more difficult to gather the huge number of dollars needed to keep Mullins healthy and to keep all of us working. You can help protect your job by assisting as follows: The recent wage increase you received and the steel price increase will cost Mullins several million dollars this year. Every department must absorb its share of the amount of effective saving and improving produc-

[6] Louis M. Cottin, "Who Is Your Competitor?" *Systems Magazine*, Remington Rand, Inc., May, 1953.

[7] "Editor's Page," *Printers' Ink*, Oct. 9, 1953, p. 120.

tion. This is our No. 1 project—we must earn our pay increase, we must offset the steel price boost by saving every dime, by working more efficiently.

Scrap, rework and repair work sometimes threaten to eat up all the money we receive for a product. Greater care and greater attention to quality will keep production costs down, enable us to win customer acceptance.

Competition is increasing daily. Everyone wants to get in the kitchen business. An order in the contract stamping field is sometimes determined by a fraction of a penny. If our competition gets the orders, their employees get the work. Every effort you make to keep costs down, quality up, delivery on time is an insurance premium on your job.[8]

4. Some sales managers invite executives and salesmen from competing companies to address their salesmen. This is being done increasingly because it benefits both companies.

For example, Warner-Chilcott Laboratories, ethical pharmaceutical division of Warner-Hudnut, Inc., invited sales executives from two competing firms to address its salesmen. The sales manager felt that since all manufacturers in their industry have much the same problems, the representatives from other firms would emphasize the same points Warner-Chilcott would stress. Salesmen will listen to their competitors carefully; meeting the "brains" of other firms is stimulating to them. They enjoy discovering that competitors are human too and have their own problems.

The competitor-speakers feel that they too profit from the experience. They have the opportunity to meet a field staff similar to their own with much the same problems. They can compare that staff to their own men. They also have an opportunity to make a good impression for their company and to watch other sales executives at work.[9]

5. A knowledge of competitive advertising and sales promotion can be a key to the future plans and efforts of the company's business rivals. Business papers, direct-mail promotion, and other forms of advertising indicate the particular products being given extra push, the markets which are receiving the heaviest concentration of promotional effort, and the specific sales arguments being used by the competitors. A thoughtful study of competitive promotional materials will give the sales department an up-to-date view of the competitive efforts at the moment, but this knowledge may or may not signify future promotional plans.

The actions of competitors should not dominate the marketer's thinking. He should not be a prisoner of their moves, nor should he

[8] Lawrence Stessin, "Facts of Life for Workers," *Forbes Magazine*, Oct. 1, 1953, p. 19.

[9] For a more complete discussion, see "Invite Competitors to Address Your Men?" *Sales Management*, Jan. 1, 1954, p. 16.

try to meet them with countermoves. Rather, his thinking should be creative, directed toward the needs and problems of customers and thereby able to outdo his competitors by means of superior products and services.

COMPETING WITH THE BIGGEST COMPANIES

The opposite of competition, in a sense, is monopoly. Ever since the trust-busting days of Theodore Roosevelt, the idea has grown that big business concerns are so big or likely to become so big that they can throttle competition. Sometimes politicians use this fear for their own ends. They know that it is easy to scare the little businessman by having him see the big corporation as a threat to his security and to the welfare of the average consumer. "The concentration of economic power" is a much-loved phrase among politicians.

Certain facts seem to substantiate the possibilities of danger from bigness. Industry in the United States is highly concentrated. The largest 200 employers have one-fifth of all the employees working in private nonfarm establishments and one-eighth of the total civilian labor force. Together, the largest 200 hold between a fifth and a fourth of our income-producing wealth.[10]

Size leadership among corporations is not permanent, however, as is shown by a Brookings Institution report: In a study of the 100 largest industrial corporations of 1909 (measured by total assets) over a period of four decades, it was found that only 36 of the original list still held that status in 1948. The changing positions of the firms during the intermediate period reflect the pressure of innovation in product and market development. Smaller firms have successfully challenged established leaders in the struggle for markets.[11]

The same fearful members of the American public who worry about the possible menace of industrial bigness want its benefits. They want the products such as the modern automobile which can only be produced cheaply by mass-production techniques requiring huge investments of capital. They also want the benefits of buying from large chain organizations that offer certain economies. The typical critic of bigness often finds that his criticisms do not agree with his own daily practices.

One answer to the dilemma is that the question of big and little business is not mainly a matter of opposing interests but of different eco-

[10] For further explanation of the above statement and a study by M. A. Adelman, see "Big Companies Aren't Taking Over," *Business Week*, Dec. 29, 1951.

[11] See A. D. H. Kaplan, *Big Enterprise in a Competitive System*, Washington: Brookings Institution, 1954.

nomic tasks. Big concerns can perform certain tasks more economically than small concerns; conversely, small concerns can make some products and perform certain services more economically than the large corporations. The ways in which small concerns can compete successfully with large firms are illustrated in this article by Wallace Durham, President, Durham Chemical Co., Los Angeles.

Durham Chemical is small with its market limited to California and Arizona. We are sometimes asked how we manage to stay alive and avoid being trampled under the feet of the giants in their keen competition for the farmer's insecticide business.

That's a good question.

Perhaps the simplest answer is that given in the Bible about the man diligent in his business. We cultivate a regional market with its own character and possibilities, and we hope diligently. But so do large chemical companies and many other small regional companies like ourselves.

The sales and production policies we pursue are not complicated. For one thing, we use every possible price advantage. The "big boys" have better buying power, but we try to manufacture our products less expensively. Small competitors, in fact, give us more trouble than the giants, because they shade prices to get direct orders from farmers seeking to cut costs. Word goes around. Other customers demand discounts. Presently the profit disappears altogether. Somebody goes broke. . . .

Our special processing gives quality and efficiency in the many different products needed by the farmer in battling a multitude of crop pests. This gives us definite talking points for advertising and selling.

This battle is being fought in most lines today. The end may be elimination of those people who do not know their costs. While it goes on in our line, it practically kills certain areas in our market. We find it easier to live with the majors than with the minors.

If our big competitors disappeared, we would be in a bad way. They carry on the expensive research which provides our raw materials. We could not afford to do anything like it. The life of a new "wonder" insecticide is said to be about three years. Then it is displaced by something better. The research expense has to be written off, and perhaps a plant scrapped. Our advertising states, "When a new insecticide has been proven, it's available from Durham."

This burden of research makes up a good part of the overhead which the majors have to shoulder. Thriftier management can give the smaller concern considerable advantage in overhead. It is not so likely to get topheavy.

Our regional market in California and Arizona differs from the national market. Our market has a great diversity of crops which create insecticide problems, demand close chemical teamwork.

In the Middle West a pest such as the corn borer calls for dusting within two or three weeks during the season. In the East vegetables are seasonal and need chemicals during a few weeks. These products generally can be stocked and advertised in regional farm papers at that time.

But in California and Arizona there is a year 'round succession of fruit and

vegetable crops, in addition to cotton, grain, sugar beets. Lettuce is planted in the Imperial Valley toward the end of the year, for December to March shipment, then in Salinas and other northern California areas, then in southern areas, and finally in Arizona in early fall, filling in the year. This is true of the many other vegetable crops alone, for fresh shipment, canning and freezing. Weather delays these crops, or hurries them along, and dusting, spraying, hormone treatment, weed control chemicals are needed in a hurry. Each crop requires one or more specially compounded chemicals. Each season there are new compounds. These chemicals cut down the farmer's labor costs, increase his yields in quality as well as quantity. Many vegetable growers are also shippers and are keenly aware of marketability in the retail grocery. Control chemicals with fertilizer make up a large part of marketability.

Each crop, each season, brings its own conditions, problems on the farmer's mind. Cultivating our regional market means having the necessary products on our dealers' shelves, watching the calendar and thermometer, and alerting our customers through advertising. . . .

Much of our advertising must be news for growers in a particular locality or crop, spotlighting dates and pests, calling attention to special crop treatment, or underlining the dates for regular dusting or spraying. For this we use local newspapers to bring us close to customers.

Of course, major chemical companies are fully awake to this regional market. They cater to farmers with a full range of products, with complete distribution and good advertising.

We believe that with our experience we do a better job. Our top management knows our dealers and many grower-customers. We believe that there are advantages in having friends, provided other things are equal.

An insecticide manufacturer does a drug store business, taking the old standbys such as arsenic and nicotine and the new organics such as DDT, parathion, chlordane, carrying general remedies and doing a prescription trade in special mixtures. There are no secrets. Success lies in having what customers want.

We conform to the western pattern for regional business. The West starts building a new industry, such as vegetable growing, attains volume, needs special equipment not built by large manufacturers. Local people, often growers, develop such equipment, until eventually the large companies see that volume is available, and come in.

This puts the western manufacturer to a severe test in meeting the giant's competition. If he has calculated his production on sound costs and has been aggressive in selling, and follows the requirements of his customers, he generally holds his own.[12]

Bigness varies with the industry (see Table 32–2). Concentration is relatively greater in the manufacture of telephone and telegraph equipment than in the making of fur goods and dresses. Where bigness cannot gain economic advantages, it is less likely to take place.

[12] As told to James H. Collins by Wallace Durham, "Why We Prosper in Shadow of the Chemical Giants," *Sales Management*, May 20, 1950.

Table 32–2. *Concentration in Industry*

A special House subcommittee is studying broad problems of competition and monopoly. From the Census of Manufactures, 1947, the Secretary of Commerce prepared summaries for 452 industries showing the proportion of value of shipments concentrated in the top 4 companies, top 8, top 20, and top 50.

The charts below show the degree of dominance of the top 4 in 30 industries whose annual volume exceeds $500 million. Percentages based on value of shipments.

Concentration highest here	Number of companies	Top four have	Little concentration here	Number of companies	Top four have
Telephone and telegraph equipment	50	95.7	Fur goods	2,227	2.6
Cigarettes	19	90.4	Dresses	4,165	2.6
Tobacco stemming	93	88.0	Women's suits and coats	2,464	4.8
Soap and glycerin	223	79.0	Sawmills	19,223	5.4
Synthetic fibers	22	78.4	Women's and children's underwear	1,467	6.1
Tin cans	102	77.8	Wooden house furniture	2,208	6.5
Tires and tubes	35	76.6	Cutting tools and jigs	3,531	7.2
Distilled liquors	144	74.6	Millwork plants	2,276	7.4
Biscuits and crackers	249	71.5	Men's and boys' suits and coats	1,761	8.8
Cane sugar refining	17	69.9	Commercial printing	11,810	9.1
Tractors	86	67.3	Bottled soft drinks	5,169	10.4
Blast furnaces	33	67.3	Heating and cooking apparatus	792	11.7
Copper rolling and drawing	56	60.1	Special industry machinery	2,202	12.3
Shortening and cooking oil	68	59.2	Cotton broad-woven fabrics	422	13.1
Motors and generators	224	58.6	Yarn mills, cotton	317	13.2

SOURCE: From a Marketing Pictograph by *Sales Management*, May 20, 1950. Data from Department of Commerce, *Concentration of Industry Report.*

Even though some small companies have survived, the important question is whether or not the big companies are getting bigger at the expense of the little companies. This question has been studied by M. A. Adelman, economist at the Massachusetts Institute of Technology, whose findings were published in *The Review of Economics and Statistics.*[13] These were summarized, in part, as follows:

In 1950, Attorney General J. Harold McGrath submitted a report to the President and to Congress on the "dangers to a competitive enterprise economy that are inherent in mobilization."

[13] M. A. Adelman, "The Measurement of Industrial Concentration," *The Review of Economics and Statistics*, November, 1951.

The McGrath report warned against a repetition of what happened during World War II. On the basis of Federal Trade Commission figures, the report said, "during the last war the longstanding tendency toward economic concentration was accelerated."

Adelman explodes the conclusion with facts assembled from six independent studies, most of them done under government auspices. The studies indicate that smaller companies earned a higher percentage of profit after taxes, grew faster than the big companies, and showed a larger percentage increase in their stockholders' equities. The conclusion: There was a "slight deconcentration during the Wartime period." [14]

The Department of Commerce has made several studies of the extent to which small businesses are forced to accept a decreasing share of the sales pie because of the competition from large concerns. The most recent figures indicate that for a 10-year period the small firms did a bit better than the large ones.[15]

The problem of bigness has been a preoccupation of economists for many years. Their theories concerning its dangers and benefits are complex and varied. Certainly, a proper perspective concerning large-scale enterprise is necessary if we are to preserve its benefits while we attempt to correct its faults.[16]

SOURCES

The Advertising Checking Bureau, Inc., 79 Madison Ave., New York. The Advertising Checking Bureau, Inc., was organized in 1917. Its original function (and still one of its major functions) was to receive copies of newspapers from newspaper publishers and distribute to advertisers and advertising agencies copies of advertisements placed in the papers. This provides a method of checking on whether or not the ads actually appear in the newspapers as ordered. Today, ACB furnishes this checking-proof service on more than 95 per cent of all daily newspaper circulation in the United States.

A specialized Newspaper Research Division has also been developed. This service is used by more than 1,000 national advertisers who wish to be kept fully informed of certain advertising information. A manufacturer, for example, who does not advertise in newspapers himself may want to know how dealers feature his brand in their retail advertising.

[14] "Big Companies Aren't Taking Over," *Business Week*, Dec. 29, 1951, p. 26.

[15] "Finance–How Tough Is It for Small Business?" *Business Week*, Dec. 29, 1951.

[16] The topic of monopoly is too involved for a comprehensive treatment in this book. A good summary of the competitive theories of four leading economists may be found in *Cost and Profit Outlook*, Alderson and Sessions, February, 1952.

ACB is not a press-clipping bureau and does not read or check on publicity or other types of matter in the editorial columns. Its research department reads every national or local advertisement every day in all the daily papers published in the United States. If a product is advertised in newspapers, ACB will report on it or provide tear sheets (actual pages on which advertisements appear, torn from the newspaper) for any information in which the client is interested. These tear sheets provide data as to competitor activity, the activity of dealers, test campaigns, current pricing policy, premiums, contests, and trade-mark protection.

ACB reports are issued on practically every line of branded merchandise sold through retail stores. A "brand mention" service gives all the details of how other manufacturers refer to the client's product in their advertisements. Advertised-price reports tell the client the "as advertised" price of his product in any city or territory.

Advertising Distributors of America, Inc., 400 Madison Ave., New York. This organization is equipped to make national or local surveys of jobber, dealer, consumer or industrial purchases. Companies that want to find out what is happening in regard to the sales of their own products and the products of their competitors often use its services.

A. C. Nielsen Company, Chicago. The world's leading organization for making store audits and related studies that indicate sales of a company's consumer products and those of its competitors.

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Dean, Joel, *Managerial Economics*, New York: Prentice-Hall, Inc., 1951.

Editors of *Fortune*, *Why Do People Buy?* New York: McGraw-Hill Book Company, Inc., 1953, Chap. 8.

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QUESTIONS AND EXERCISES

1. Should the alert marketer attempt to keep up with competition from the standpoint of product development? Explain.

2. Why do some firms develop internal competition? Give an example of such a situation.

3. What are the major sources of information about competitors' activities?

4. What information about the sales and marketing policy of competitors can be secured from specialized marketing research or service agencies?

5. What marketing and production benefits can come from an analysis of competition?

6. What advantages do small concerns have that allow them to compete with large national organizations?

7. Is the concentration of industry increasing or decreasing? Explain.

8. What advantages does an independent retailer have over the chain store? Under what conditions should the independent retailer be able to compete with the chain store?

9. Every businessman knows that competitors are watching his activities. He also realizes that he must constantly pass out certain kinds of confidential information to stockholders, distributors, trade associations, governmental bureaus, and others. Some company managements try to withhold as much information as possible. Others follow the policy of telling almost everything except production costs, research developments, and marketing plans for the future. Which of these two policies do you believe best in the long run for the business? Why?

Key for Self-evaluation Test for Prospective Salesmen (*on page* 422)

The answers which indicate interests or characteristics favorable to success in sales work are given below. Add up the number of your answers that *agree* with these in order to obtain your total score. If your score is *16 or above*, your chances of success in the selling field are favorable. A score *below 16* indicates that you would probably have better chances of success in some other field.

1. N	6. N	11. Y	16. N	21. N
2. N	7. Y	12. N	17. Y	22. N
3. Y	8. N	13. Y	18. N	23. N
4. N	9. Y	14. N	19. Y	24. Y
5. Y	10. N	15. Y	20. Y	25. Y

33 Government and Marketing

THE ALERT MARKETER

1. **Becomes acquainted with the basic laws and bureaus of government that regulate private business, particularly in regard to restriction of competition.**
2. **Recognizes that many services by government have aided business in the past and will do so in the future.**
3. **Watches the extent to which government has become a competitor of private business and looks for new inroads into business by government.**

The government of every country has an important influence on its marketers. Government provides the political framework within which the marketer operates. As stated by a former governor of Massachusetts:

The pretense that government has nothing to do with you or me, that politics is somebody else's game—and a dirty one at that—is no longer even a pretense.

Actually, government lives with business today. It is difficult to think of any form of business enterprise on which it is possible to embark without finding government there already, doing the housekeeping. The marriage of government and business, which would have been regarded a hundred years ago as miscegenation of the grossest kind, is now accepted, if not sanctified. And there are no recognized grounds for divorce. If you are on a payroll, government takes your pay check before you even see it and gives you back a small part of it; and if you are an executive, government tells you how many hours your employees can work, and what insurance you must have, what you can buy, what you can sell, and to whom and for what consideration.

If this picture is slightly exaggerated, it is merely to point up a very real actuality: government today, far from being the handmaiden of commerce, has suddenly emerged as the very model of a domineering, jealous, and calculating spouse. In many fields of private industry government is also a business competitor, with few holds barred.

I do not say it is for better or for worse, or even that in a complex, modern

society such a close and intimate relationship could be avoided. What I do say is that no businessman is doing justice to himself or his affairs until he has at least thoroughly exposed himself to a course in the Fundamentals of Political Homemaking, or How to Combat and Divert the Government Rolling Pin. Such a course can be studied at home or in the office and it can be self-taught; but before undertaking it the businessman must first rid himself of some of his long-standing prejudices. . . .

If there is one thought that should come out of any discussion of the modern forms of pressure which are brought to bear on government and on business today, it is that the businessman cannot sit back and assume that his relations with government will be correct but distant. There is a highly complicated, if active, pattern woven all around him, some of it obvious, some of it subtle, but all of it affecting him and his daily affairs. Everyone living in this half of the twentieth century must recognize that a democracy, even ours, cannot survive unless it is a working democracy—that is, a democracy in which everyone plays an active and individual role.[1]

In the United States, government has three major relationships to marketing that are of interest to us: those of regulating, aiding, and competing with business.

REGULATING BUSINESS

FEDERAL TRADE COMMISSION

Of the numerous governmental agencies that have influence on business, the Federal Trade Commission is outstanding in importance to marketers. In the course of its history, it has sparked congressional action on the regulation of stock exchanges and public-utility holding companies. It has influenced the growth of chain stores through its contributions to regulatory legislation such as the Robinson-Patman price-discrimination law. It has regulated discriminatory discount schedules for products like automobile tires, forced changes in promotion benefits for products like cosmetics, curbed advertising puffery for vitamins and pain killers, and played a part in establishing basing-point price systems for products like steel and cement.

A simple example of its regulatory influence in marketing took place about two decades ago. At that time, the big cigarette manufacturers had their salesmen set up displays regularly in some 30,000 preferred windows of dealers. Dealers were paid for this privilege by means of extra cartons of cigarettes. The number of cartons given the dealer was determined by the number of passers-by who passed his windows. The cigarette

[1] Robert F. Bradford, "Politics, Pressure Groups, and the Businessman," *Harvard Business Review*, November–December, 1953.

companies had about 1 million outlets and most of these could not share in the benefits of the preferred window class. Under the antidiscrimination powers of the Robinson-Patman law, the FTC forbade the manufacturers from giving some dealers a benefit that could not be given all of them. Now the cigarette companies use about 15,000 windows—unbought!

Despite its complicated process of legal operation, the FTC has effectively forced the changing of many promotional techniques, such as requiring manufacturers to include the specific facts of their guarantees and other claims. In the field of drugs, FTC has forced marketers to avoid the employment of "scare" techniques. In other fields, too, the FTC has brought about more strict adherence to completely true information about the products. For example, book publishers must state the abridgment of books, soap and tooth-paste firms must avoid claims of therapeutic benefits from their products, and cigarette manufacturers must avoid copy which implies that their brand is indorsed by a specific class of professional experts.

FTC has a vital influence on current advertising. In the course of a year, the FTC staff reads about 650,000 advertisements and sets aside about 2,500 for further examination, to consider whether, in the event they are being used in interstate commerce, they are false or misleading. About 1,400 advertisements are designated for thorough investigation. Of these, about 400 will be classified as minor offenses that will be cleared up through correspondence. About 100 cases will be docketed for formal complaint and litigation. About 90 per cent of the cases processed by the FTC staff are in the area of advertising and deceptive practices. Some 2,500 to 3,000 complaints of this kind are received each year, many of them from industry members who believe that the advertising of competitors should be investigated.

Originally, when the Federal Trade Commission Act was passed in 1914, no mention was made of advertising as such. The act grew out of the need for restoring competition in American business. At that time, the Sherman antitrust law was some 20 years old, but both political parties realized that the government was powerless to proceed against a dubious business practice unless it could prove that a monopoly existed. Hence additional legislation was necessary to deal with the problems of restraints on competition.

On September 26, 1914, the President signed the Federal Trade Commission Act creating a bipartisan agency of five members and assigning two basic responsibilities:

1. To investigate, institute proceedings, and issue cease and desist orders against "unfair methods of competition" and "deceptive acts or practices in commerce."

2. To investigate the conduct of corporations and make economic and

legal studies on broad questions affecting competitive conditions in industry and trade.[2]

On October 15, 1914, the President approved the Clayton Act, spelling out additional policy in the antitrust field.

Stanley E. Cohen has described for marketers the legal background, history, and influences of the FTC in several published articles, excerpts of which are the following:

Congress made no effort to list "unfair and deceptive practices." It visualized that these five commissioners would sit, in effect, as a continuing Congress, hunting down and eliminating unhealthy developments which threatened to restrain competition.

A long series of court cases was required, but the principle was soon established that the independent commission was the "expert" which spotted and proscribed unfair and deceptive business practices.

The role of the courts was confined to seeing that the commission provided litigants with a fair hearing and that the commission's decisions were reasonable, on the basis of the record which was accumulated.

Here are the major statutes that the FTC enforces:

The FTC Act. A basic law authorizing the commission to proceed against "unfair and deceptive" acts in commerce.

Section 2 of the Clayton Act. Prohibits tying contracts, conditions, agreements or understandings that the purchaser shall not use or deal in the goods of a competitor where the effect would be to substantially lessen competition or tend to create a monopoly.

Section 7 of the Clayton Act. Prohibits mergers where the effect would lessen competition substantially, or tend to create a monopoly in any line of commerce.

Section 8 of the Clayton Act. Prohibits an individual from serving as a director of two or more corporations which sell in competition with each other.

Webb-Pomerene Act of 1918. Authorizes U.S. exporters to form combinations, exempt from anti-trust regulation, for export purposes, provided the associations operate under the supervision of FTC.

Robinson-Patman Act of 1936. Revises and extends Section 2 of the Clayton Act. Specifies that price differentials must be based on differences in cost of manufacture, sale and delivery; prohibits payment or furnishing of services by a seller unless payments, services or facilities are also available on proportionately equal terms to all competing customers; bans payment of brokerage to representatives of a buyer.

Wheeler-Lea Act of 1938. The first "consumer statute" . . . authorizes FTC to obtain court injunctions to block false and misleading advertising for dangerous foods, drugs and cosmetics.

[2] Stanley E. Cohen, "The Federal Trade Commission: Its Small Size Belies Its Influence," *Advertising Age*, July 6, 1953.

Wool Products Labeling Act of 1941. A consumer statute that authorizes FTC to require full disclosure of fiber content in fabrics.

Trade-Mark Act of 1946. Instructs FTC to move for cancelation of deceptive trademarks.

Oleomargarine Act of 1950. Specifies that margarine shall not be advertised as a "dairy product."

Fur Labeling Act of 1951. Instructs FTC to issue a directory of fur names to be used in advertising and labeling of fur garments.

Inflammable Fabrics Act of 1953. Prohibits interstate shipment of highly inflammable fabrics, which have been used in sweaters and cowboy suits.[3]

FTC's business is handled through four bureaus, each with a number of divisions and sections:

The Bureau of Antideceptive Practices has a staff to track down and bring the commission's attention to all the cases it ought to consider in the field of false advertising and similar offenses.

The Bureau of Antimonopoly searches for cases involving restraint of trade, price discrimination, and other antitrust matters.

The Bureau of Industry Cooperation develops trade practice codes and negotiates nonlitigated settlements of deceptive practice cases.

The Bureau of Industrial Economics is devoted to economic studies which point up trends in various lines of business.

Cases originate in the FTC staff, either in the Bureau of Antideceptive Practices or the Bureau of Antimonopoly. The cases often are based on complaints from other business firms. When the staff has what it considers a prima facie case, it sends a memo to the commissioners, who meet twice a week to go over matters of this kind. The commissioners may decide that the case is a matter to be settled quietly by negotiation or perhaps on an industry-wide basis through a trade practice conference. Or they may decide there is evidence of a serious offense. In the latter case, they issue a complaint—which is somewhat similar to an indictment.

THE "LAW OF THE JUNGLE" MODIFIED BY ROBINSON-PATMAN ACT

The Robinson-Patman law did not introduce a new idea. Congress had had in mind the idea of treating buyers alike when it passed the section in the Clayton Act prohibiting buyers from discriminating in price except on the basis of grade, quality, and quantity. However, the Clayton Act had too many loopholes, and the provisions on price discrimination were easily evaded. During the great depression of the early 1930's, the losing fight of little firms in retailing against the big chains became painfully apparent and the government attempted to remedy this.

[3] Stanley E. Cohen, "FTC Helps Consumers, as Well as Business," *Advertising Age*, July 13, 1953, p. 46.

The FTC began in 1928 filing a series of reports on the unfair labor practices of big chains. After the 1936 "march on Washington" by independent businesses, both houses of Congress adopted legislation closing the loopholes in the Clayton Act.

During the House hearings, Congress was told that the Great Atlantic & Pacific Tea Co. alone had received approximately $8 million in advertising allowances, discounts, rebates, brokerage fees, and so forth from suppliers. According to Rep. Wright Patman (D., Tex.),

> The unjustified rebates received in the year 1934 amounted to more than half of A & P's total net profits. The $8,000,000 in itself was sufficient to pay all the dividends declared on the common stock that year. A & P received in 1933 from one manufacturer alone, the General Foods Corp., a total of $360,000 in the form of advertising allowances, which amounted to 5 per cent of its total purchases from General Foods. It received approximately $100,000 in allowances from Standard Brands Inc., in addition to a 10% discount which amounted to nearly $150,000 yearly.

Other big chains were enjoying preferential treatment too, according to testimony before the committee. One of the outstanding cases was in the automotive field. In a contract between Sears, Roebuck and Co. and the Goodyear Tire & Rubber Co. it was found that in the 11 years of contract, Sears had received preferential treatment with a total monetary value amounting to $41 million. Representative Patman charged:

> This $41,000,000 represented a consideration given to Sears at the expense of Goodyear's independent tire dealers. The FTC's investigation found that this contract was a private deal between the presidents of the companies and that not even the directors of the Goodyear Co. were aware of the contract. In addition, the investigation revealed a payment to Sears, Roebuck [and Co.] of a secret rebate of $80,000, plus 18,000 shares of Goodyear stock.[4]

Differing from the old law, the new law allowed price differentials for quantity only to the extent that they reflected actual differences in the cost of manufacture, sale, or delivery. Where the old law made no comments on services and allowances provided by sellers, the new law said that services and allowances must be made available "on proportionately equal terms" to all customers who sell in competition with each other. Other important provisions of the new law were as follows:

1. It was illegal to pay brokerage to persons acting on behalf of purchasers.
2. It was unlawful knowingly to receive the benefit of a discriminatory price.

[4] Quotations concerning Robinson-Patman Act taken from Stanley E. Cohen, "Robinson-Patman in Foreground as 'New' Group Sets FTC Policy," *Advertising Age*, Aug. 3, 1953. This article also gives a more complete treatment of the material that is condensed here.

3. The FTC was authorized to establish maximum discount units, where necessary, to prevent a few larger buyers from obtaining excessive price advantage, even though the favorable price could be justified on the basis of differences in cost.

In recent years, the FTC has operated its Bureau of Antimonopolistic Practices, the branch of the commission charged with Robinson-Patman enforcement. During 1952, 35 cease-and-desist orders were issued involving Robinson-Patman cases. Important basic industries were involved in such orders as those dealing with pricing systems for lead pigments. Other cases concerned the discount systems and advertising benefits in such industries as watches, books, auto accessories, and greeting cards. Several orders involving food-purchasing co-ops were designed to outlaw commissions to agents acting in behalf of purchasers.

The legal philosophy that has dominated the FTC through the years has varied somewhat with the needs of the public and of business. Sometimes the FTC has been the "irate prosecutor"; in other eras it has been a "friendly policeman," depending somewhat upon the philosophy of the political party in power.[5] On the whole, however, such differences in basic policies as the various commissioners have shown have been ideological rather than political.

Marketers fear most the FTC's power to have the courts issue temporary injunctions. The law does not authorize a temporary injunction in behalf of the commission except where a food, drug, cosmetic, or medical device (such as a brace or other therapeutic instrument) is involved.

Temporary injunctions are used by courts in appropriate situations to avoid the injustice that might otherwise occur if a defendant in an injunction action could take advantage of the delays of litigation to keep on with his wrongful activities until a final injunction, after full trial, could be granted. Injunctions can be issued at any time prior to the end of the case, and they cover the temporary period up to the final judgment.

The only justification that can be offered for giving such drastic powers as those of temporary injunction to the FTC is to protect the public against serious harm. Such a threat to the public safety is not limited to the food, drug, and cosmetic categories, since the independently exercised powers of the Food and Drug Administration are strong enough to remove harmful products from the market without further action from the FTC. The FTC's main concern, therefore, is with other types of products such as "torch sweaters," poorly constructed electrical equipment, and many other classes of commodities which may be quite hazardous. There would seem to be little reason why the FTC should not be enabled to act as expeditiously and effectively as possible to protect the

[5] See Richard Y. Giles, "The FTC: Guide? Philosopher? Friend?" *Printers' Ink*, June 25, 1954.

public against danger regardless of the type of product that occasions it. However, it is equally important that the commission not overuse its powers. Such power should be carefully controlled in order to have it remain an extraordinary procedure, used only when the need is so great that it is a last resort. An injunction of such power, used irresponsibly, could effectively put an innocent company out of existence.[6]

The history of the FTC shows that many cases languish from 3 to 10 years. Sometimes these delays betray those whom the commission is supposed to protect. But the delays are not always the fault of the FTC. Under existing law there is nothing for a businessman to gain from voluntary settlement if he is willing to incur publicity and legal expense. On matters of principle—and in some cases out of pure opportunism—a case may be litigated for years.

The marketer who wants the FTC to be fair to business and the public will ask questions such as "Will it be possible to induce businessmen to compromise matters of principle?" "Will it be possible to induce opportunists to relinquish the chance to litigate?" "Will it be possible for government officials—working in informal procedures relieved of the searching finger of publicity—to stand staunchly for settlements fair to all the business world and fair to all the public?" [7]

ANTITRUST VIOLATIONS

The standard description of the Antitrust Division, carried in the United States Organization Manual, is the following:

> The Assistant Attorney General for the Antitrust Division is charged with the enforcement of the antitrust and 30 kindred acts.
>
> The division receives complaints and, in cooperation with the Federal Bureau of Investigation, conducts investigations which, where appropriate, lead to criminal prosecutions or suits in equity designed to break up monopolies and restraints of interstate or foreign trade.
>
> The division is charged with the responsibility under section 20 of the Surplus Property Act of 1944 of advising the disposal agency (General Services Administration) whether the disposition of property including patents, processes, techniques, or inventions costing one million dollars or more would violate the antitrust laws.
>
> The Antitrust Division has temporary field establishments in Chicago, Cleveland, Detroit, Los Angeles, New York, Philadelphia, San Francisco and Seattle.

In some companies, it has become almost a daily task to avoid falling into situations that might be construed as antitrust violations. The trade

[6] See Gilbert H. Weil, "FTC Temporary Injunctions: the Big Stick for the Small Offense," *Printers' Ink*, Feb. 6, 1953.

[7] Stanley E. Cohen, "Under Chairman Howrey the FTC Follows Wilson's Guidance Idea," *Advertising Age*, Aug. 10, 1953.

association, for example, has become one of the fruitful hunting grounds of some antitrust enforcers. The appearance of joint activity is an essential factor of both trade association and antitrust functions. By simply proving membership, prosecutors can begin a case of antitrust violation against some companies.

The wise companies keep a careful check on the programs of the associations they belong to. They realize that guilt by association is, under many circumstances, a concrete legal reality in these situations, even though their membership may be more a matter of customer and trade relationships than of active interest or participation in the aims of the group itself.[8]

In general, the danger areas are where the members have the tendency

1. To lessen normal competitive activity between members
2. To place nonmembers at a marked competitive disadvantage with members
3. To withhold an appreciable amount of business from any other company or group of companies

Trade associations are, of course, an extremely important part of our modern commercial structure and normally beneficial without legal hazards. However, a company should not only check to see that what the association does is free from any dangerous involvement but that it also helps members by means of effective information to operate their businesses more efficiently.

FOOD AND DRUG ADMINISTRATION

The principal job of the Food and Drug Administration (FDA) is to enforce the Federal Food, Drug, and Cosmetic Act and thereby carry out the purpose of Congress to insure that foods, drugs, therapeutic devices and cosmetics are pure and wholesome, safe to use, made under sanitary conditions and truthfully labeled. It does *not* have jurisdiction over the advertising of such products.

Modern scientific methods are required to enforce this law. FDA was one of the first of the scientific crime-detection agencies. Laws to insure the purity of foods or the potency of drugs would be impracticable and unenforceable without methods of scientific analysis to determine whether products are up to standard.

FDA has inspectors in the field, visiting factories and processing plants and looking for samples of products which may violate the law. Sixteen District offices are equipped with laboratories which analyze the samples. In Washington are the research laboratories which are constantly working on the more difficult problems and devising new and better methods of analysis. Together the inspectors and the chemists get the evidence which is presented to the Federal courts for action. Preparation of the cases for the United States District

[8] See Gilbert H. Weil, "Check Your Trade Association Membership for Freedom from Anti-trust Implications," *Printers' Ink*, July 18, 1952.

Attorneys throughout the country is handled by a small legal staff in the General Counsel's office of the Department of Health, Education, and Welfare.

FDA court actions average 2,000 a year. The great majority of these are seizure actions, in which the purpose is to take filthy, spoiled or harmful products off the market. If the goods are in very bad condition the court may order them destroyed. If they can be reconditioned the court may release them for sorting, cleaning, relabeling, and so on, to make them comply with the law. The owner pays for the necessary supervision by FDA inspectors. These funds are deposited in Miscellaneous Receipts of the Treasury. In the 1953 fiscal year over 15,300,000 pounds of unfit or contaminated foods were removed from the market, or over 148 tons per week. Less than 2 per cent of FDA's cases are actually contested in court. Of those that go to trial, FDA wins better than 9 out of 10.

In addition to its main job of policing the purity, quality and labeling of foods, drugs and cosmetics, FDA's responsibilities include the following:

1. Enforces the law against illegal sale of prescription drugs.
2. Checks the manufacturers' evidence of the safety of all "new" drugs (about 40 each month) before they are put on sale to the public.
3. Checks the safety of all batches of coal-tar dyes for use in foods, drugs, or cosmetics.
4. Enforces the Caustic Poison Act, which requires a "Poison" label and antidote to appear on certain highly dangerous chemicals.
5. Enforces the law against bogus therapeutic devices.
6. Tests all batches of insulin and five of the most important antibiotic drugs for purity and potency before they are sold. The manufacturers pay for such tests.
7. Sets up standards which guarantee the composition and real value of food products in line with the Congressional mandate to "promote honesty and fair dealing in the interest of consumers."
8. Checks imports of foods, drugs and cosmetics to make sure they comply with United States Law.
9. Inspects foods and drugs subjected to contamination by disasters such as the Kansas City flood, where 3500 carloads of food were under water.

In a recent month FDA instituted seizure of 1,422,883 pounds of unfit foods in 81 Federal court actions. This included a 600,000-pound lot of brewer's rice stored under insanitary conditions and 144,000 pounds of potatoes that contained parasitic worms. Six seizures involved beverages and cheese contaminated with poisonous substances.

Forty consignments of food were seized to protect consumer's pocketbooks. Some were short weight; others were debased, such as cocoa "stretched" with flour, sorghum and olive oil adulterated with cheaper substitutes, and oysters containing excess water.

In the same month there were 16 seizures of a vitamin and mineral preparation which had been represented as effective for treatment of a long list of diseases, including arthritis, neuritis, failing eyesight, decaying teeth, weak back, dizzy spells, and other symptoms of serious ailments requiring competent medical attention. Six other vitamin and drug products were seized because

they did not have the potency claimed on the label. Three shipments of adhesive bandages were seized because they were not sterile, and two ozone-generating devices because they did not produce the results claimed for them.[9]

GOVERNMENT AIDS MARKETERS

Government's influence in marketing is positive as well as regulatory. Tariffs, for example, have enabled many an American company to make profits which would not have been possible under free trade.

In addition to tariffs that have benefited certain industries, the early builders of the transcontinental railroads received enormous payments in both land and money. In recent years, huge payments have continued to go to shipping, aircraft builders, and air lines.

The homestead laws were the first great subsidy for farmers. Grants of land were given to early settlers to induce them to leave their Eastern seaboard homes in order to help open the West.

Farmers have been granted billions of dollars in subsidies in the form of price supports. In order to equalize the bad years with the good, the government has bought food and stored it and later sold it to gain back some of the funds spent in the initial purchase. The government has frequently maintained a stable price on certain foods in order to encourage their production. It has sought to protect the farmer from the price-depressing effect of an oversupply of some products such as wheat, and it has also attempted to maintain his production of other products, such as milk, when the rising costs of production would otherwise lead to smaller output. The argument for such action was that the industries related to milk products would be seriously impaired if milk production failed. Therefore, the doling out of subsidies to farmers has been considered a sound application of economic statesmanship.

In today's economy, the word "subsidy" implies a government regimentation and loss of personal initiative that is a fundamental "taboo" to American free enterprise. Although subsidies affect everyone, few understand the exact nature of a subsidy. Understood by all is the fact that only the government is capable of giving a subsidy, but when this leaves the realm of direct payment, confusion arises. In this area, the government can also enact laws wherein certain producers can reap higher profits.

It is true that subsidy can be thought of as something detrimental to our economy; however, despite the abuses possible and sometimes evident in its function, it often has been considered a necessary part of America's industrial strength. The railroads and industries of today have been dearly acquired through subsidies. With them we built the West, founded a

[9] "Food and Drug Administration—What It Is, and Does," U.S. Department of Health, Education, and Welfare, release dated October, 1953.

progressive agriculture, and replenished declining areas. When used in their proper intent, subsidies have raised purchasing power, helped stabilize employment, provided food supplies, stimulated industrial production, and served as a safeguard of national defense.

When we study the field of politics, it is obvious that any strong group has been able to collect subsidies of one type or another. In order to promote the economic betterment of favored interests, the cattle trade or mining, for example, politicians in Congress have formed blocs that enabled them to trade votes with politicians from other areas. The cotton bloc in Congress has been able to get subsidies for the sizable portion of the cotton crop each year stored in government warehouses. Similarly, the Northern dairy states for years maintained a high excise tax on the sale of oleo and prohibited the use of yellow coloring in its manufacture.

Often these subsidies have been nothing more nor less than political handouts. Once a subsidy has been voted, it tends to continue as long as the particular political group favoring it remains influential in Congress. When we study the limited extent to which small businesses have obtained government help, we can appreciate the importance of voting strength. Congress and the administration have frequently appeared to plead the cause of small business. The pleas have been eloquent but the results almost zero. Small business has lacked an organization with pressure-group influence, partially because small businessmen are spread out widely throughout the entire country. They have had as little influence as have some of the small farmers who have been charged with getting government benefits that they never received.[10]

Generally, giving a subsidy recognizes that an industry or activity cannot temporarily (and may never) pay its own way. We justify such payment, taken from taxes levied on all, if the industry or activity has other than purely economic value (air mail, shipping) or where the entire nation will benefit from greater prosperity of this industry (farmers), or where the low income is regarded as temporary. It is not desirable, as basic policy, to protect an industry which is inefficient. To prevent abuse of the subsidy, government must often regulate output or price, which will weaken our free enterprise system. This "cost" should be seriously considered when any form of subsidy is adopted and we should be convinced that the gains are worth the actual and psychological cost.

In addition to the numerous indirect aids in the forms of subsidies that help business prosperity, government also spends billions of dollars in collecting information that benefits marketers. The government publishes some 50,000 booklets and books. Copies are free or sold at a low cost. The

[10] Adapted from information contained in A. G. Mezerik, "What Price Subsidies?" *Sales Management*, June 15, 1950.

Department of Commerce is only one of many government agencies that help marketers in numerous direct and indirect ways.

One form this service may take is product improvement. Cotton, despite its many values, mildews and scorches readily, while synthetics such as nylon do not. In its laboratory research on the problem the Industrial Chemistry Bureau discovered that treating cotton with acetic acid would prevent easy scorching and mildewing and thus maintain its value in competition with synthetic fibers.

Another government service is that performed by the Department of Agriculture in the Production and Marketing Administration field. One of their projects is working out methods of cheaper shipping to reduce sales costs.

Furthermore, the National Bureau of Standards, which has long been conducting studies in basic research, carries on projects and studies which are valued by leading scientists.

These two aspects of government, as a source of direct assistance through subsidies and of less direct assistance through its information services, are inexhaustible subjects, far too specialized to discuss fully here. The alert marketer, will, however, try to keep himself informed of these government activities so that he may take advantage of those benefits which are in the public as well as his own interest.

GOVERNMENT AS A COMPETITOR

The government is the biggest employer in the United States and buys more products than any other customer. The business investments by the government have never been measured, but they run into billions of dollars. Here is a list of a few government activities in the field of business operation: airways, artificial limbs, bakeries, banking, barber shops, brick-making, brushes, brooms, commissaries, creameries, cafés, cattle raising, coal, cleaning, pressing, dairying, dredging, electric light and power, fertilizers, foundries, furniture, furs, golf courses, greenhouses, and many others that have yet to be publicized.

Government today has developed into one of the greatest rivals of business, since it holds the position of being the nation's largest landlord, grain owner, and shipowner. It possesses the newest and possibly most important potential industry—atomic energy. Government has evolved as a rival to business largely through the necessity to meet the demands for materials which only government could supply in times of war, when certain materials from other countries become unavailable. Such a situation was the one that prompted President Andrew Jackson to produce hemp here in the United States rather than depend upon Russian hemp.

That was more than 100 years ago but the government production venture he established still goes merrily on, even though private ropemakers could easily supply all the Navy's needs.[11]

Another reason is the close relation between some obviously necessary government functions, such as controlling floods and improving navigation on rivers, and some others not so obvious, such as the production of electric power at river dams as in TVA.

The Committee on Government Operations of the House of Representatives has compiled four thick volumes of testimony showing how incredibly broad the government's competition with private business has become. Government enterprises even compete with each other: the Pentagon's printers claim that they can print twice as cheaply as can the Government Printing Office!

Government is engaged in everything from tire recapping to coffee roasting, from binding books to freezing ice cream (162 plants) and making brooms and spectacles. It owns some 122,000 housing units and, by the Comptroller General's estimate, rents them at a loss. Every Washington agency operates its own fleet of motor vehicles, although one central motor pool (not to mention privately owned taxis) could handle the job. The government in some years has spent an average of $625 per lot to store the effects of overseas servicemen in government warehouses when the same result might have been attained at a cost of $97 by keeping them in private warehouses.

Previous to the Second World War, the Army and Navy depended upon private industry to supply them with tugs and barges for delivery jobs. After the war began, these services were developed by government with the result that private industry lost the business. Today, the national government is the largest electric power producer in the country, the largest insurer, the largest landlord, the largest tenant, the largest warehouse operator, the largest shipowner, and the largest truck fleet operator.

Some people believe that government should get out of business as much as possible. Others believe that to take government out of business entirely would be difficult for many reasons. The economic ramifications would be greater deficits, periods of unemployment, and damage to foreign relations. Even though it might be economically very desirable, it would seldom be politically expedient. Alert marketers, however, keep a watchful eye on any trends in the direction of more or less government-owned and -operated businesses.

[11] For further explanation, see Roland S. Vaile, E. T. Grether, and Reavis Cox, *Marketing in the American Economy*, New York: The Ronald Press Company, 1952, Chap. 34.

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QUESTIONS AND EXERCISES

1. What are the general ways in which the alert marketer might view governmental activity as it relates to marketing?

2. What are the basic sources of the authority exercised by the Federal Trade Commission?

3. Distinguish between the Wheeler-Lea Act and the Robinson-Patman Act.

4. What are the conditions under which a price differential between different customers of a manufacturer might be legal?

5. Why is the temporary injunction such a powerful enforcement weapon when used by the Federal Trade Commission?

6. Why are trade associations so aware of governmental activity in the field of antitrust action?

7. Contrast the duties of the Federal Trade Commission with those of the Food and Drug Administration.

8. What are some of the ways in which government has materially aided particular industries?

9. Is government in competition with business? Explain.

PART NINE

MARKETING AS YOUR CAREER

34 International Marketing

THE ALERT MARKETER

1. **Thinks of exporting as a phase of international marketing and as a mutually beneficial relationship to both the United States and the foreign business firm.**
2. **Becomes acquainted with the many unique difficulties and pitfalls that may beset the American businessman who markets his product abroad.**
3. **Learns about the traditional business procedures of business firms and people of other countries in order to understand why the American standards of living and productivity are higher.**

Many young Americans have a strong urge to go into foreign trade. Our Department of Commerce receives about 1,000 inquiries a week from Americans who ask, "Is there something for me to do abroad? Where can I go? Can I start a business or get a job and make a better living than I can here at home?" [1]

Obviously, there are no standard answers to these questions. The correct answer depends upon the individual who asks it. Many young men have answered the question for themselves as a result of their wartime experience overseas. Those who decided to make their careers in a foreign land and succeeded there probably had a great deal of adaptability, practical imagination, self-reliance, and a lot of other qualities more characteristic of the old-time American pioneer than the modern city dweller, whose only adventures are obtained from a television screen.

Fortunately, international marketing has received strong stimulus recently by attracting young Americans who have the pioneering outlook.

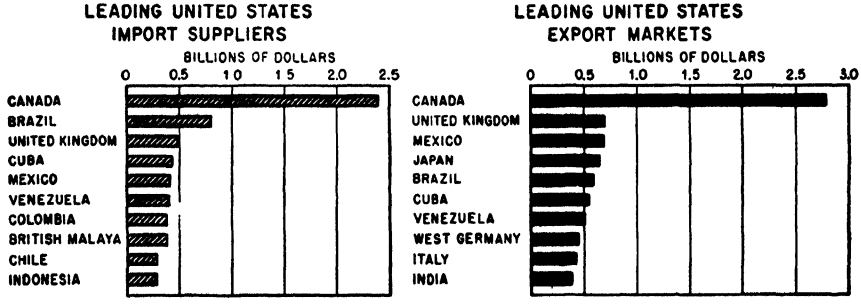
[1] "Go Abroad, Young Man! If You Have Gumption and Know-how," *Changing Times, The Kiplinger Magazine*, February, 1953.

Many are Second World War veterans. They have traveled widely, know customs and superstitions, and have seen the poverty and misery of people who need help in order to rise to a higher standard of living. Economically, many of these young men have not made their lives better or easier, but they have given a freshness and enthusiasm to possibilities in foreign trade that have caused some of our staid managements to increase their interest in the field.

Exporting has become more exciting. Many areas of the Old World were destroyed by war and now the old hand-operated machines can be replaced with modern power equipment. The fear of change is fading a bit here and there. Taboos are fewer.

For some, working in foreign countries has proved very profitable. Dollar incomes abroad, in some areas, have greater buying power than here. An annual income of $5,000 in some countries may leave more money available for the purchase of extra products than an income two or three times greater in New York or Houston. On the other hand, there are many countries where living costs are relatively high, and anyone considering a job abroad should carefully investigate the situation in the area where he will be working.

Anyone who wants to work in foreign trade, either here or abroad, should become as fully acquainted as possible with basic facts about other countries. Those men who are in some phase of domestic marketing also benefit from a knowledge of international marketing. For example, the American who works in a supermarket here but visits or



These two charts by the U.S Department of Commerce show the countries that were the principal customers and suppliers of this nation's export-import industry in 1952. As usual, Canada was tops in both categories, showing a good balance of trade. For imports, Brazil came next. Four countries: Colombia, British Malaya, Chile, and Indonesia, turned up on the list of leading import suppliers, while not appearing at all as big export markets. Taking their place in the latter category were India, Italy, West Germany, and Japan, which was the fourth biggest export market and not much behind Mexico or the United Kingdom, which is the second biggest export market.

SOURCE: "International," *Tide,* Aug. 1, 1953, p. 32.

studies foreign countries develops a new appreciation of the reasons why supermarkets have developed rapidly in this country. In foreign countries, the area that food stores can serve is limited by how much a woman can carry in a market basket. Here we have our market baskets on wheels in the forms of automobiles and we can utilize economically the large million-dollar type of supermarket.

Another benefit from a knowledge of foreign countries is that it causes us to overcome our own imagined superiority in certain respects. We gain new respect for peoples of other countries when we become acquainted with them and learn their distinctive abilities and characteristics. In Switzerland, for example, the per capita savings in a recent year were $326 compared with $280 in the United States. The telephone network in Switzerland has a density of 16 per 100 inhabitants compared with about 17 in the United States, 7 in England, 4 in France, and 2 in Italy.[2] See also Table 34–1.

The people of each country have their own standards, customs, taboos, and preferences. The American who is doing business with these people will study their ways and adapt himself to them. As he learns the cultural history of these people, he will develop a genuine respect for them which should go far toward increasing international understanding.

INTERNATIONAL MARKETING—NOT EXPORTING

Some of the leaders in overseas marketing do not like to use the word "export" because it does not indicate that the underlying concepts are "international"—between nations.

Imports are just as important as exports in United States world trade. In fact, without imports, which put dollars in the hands of potential purchasers of our goods, there would be few exports. Imports touch our daily lives as much or more than exports. For example, when we eat breakfast we probably drink Brazilian coffee and drop a lump of Cuban sugar into the cup. The can that contains the coffee very likely may have been made of Bolivian or Malayan tin and the cup itself may be from the Netherlands. Turkish tobacco is used in many of our cigarettes. Our newspapers are often printed on Canadian newsprint. We wear Australian wool, shoes of leather that originated from Argentina, and rubbers whose raw material came from Indonesia. Many commonplace articles in our homes came through the channels of foreign trade; chewing gum, cola drinks, bananas, pineapples, tea, chocolate, nickel, and platinum are everyday examples.

Progressive American managements think of exporting as an international form of marketing that benefits the foreign as well as the Ameri-

[2] "Switzerland: A Rich Springboard to Europe," *Tide*, Oct. 10, 1952.

Table 34–1. *How West Europe Stacks Up with United States*

What the customers have varies sharply. Consumption of key items per capita, U.S. dollars, 1950.

	United States	Britain	France	West Germany	Italy
Food	*324* *	276	254	217	173
Alcoholic beverages	22	19	*71*	13	38
Tobacco	*15*	10	5	5	3
Clothing and household textiles	*139*	73	52	44	33
Fuel, light, and water	*44*	28	10	6	3
Household goods	*125*	43	25	24	3
Domestic services	17	12	16	*18*	16
Barber, beauty shops, etc.	7	5	*12*	5	7
Entertainment	16	*25*	9	24	8
Hotels, restaurants, and cafés	42	*49*	36	20	16
Books, newspapers, magazines	*16*	11	8	5	2
Health	*72*	49	40	40	7
Education	*44*	27	29	18	25

"The European countries are neither so weak nor so inefficient from an economic standpoint as has often been thought." This is the conclusion of a report issued in 1954 that provides the first undistorted comparison of national production in the U.S. on the one hand and Britain, France, Western Germany, and Italy on the other. This comparison will be the basic guide for any American businessman who wants to do business in Europe.

The report shows that the per capita production of the European countries is far closer to the U.S. level than anyone had ever shown–though, to be sure, the U.S. still stands head and shoulders above them all in its capacity to supply its citizens with goods and services.

Previous estimates went astray by using exchange rates to convert national currency values of income per head, whereas the new study compares actual production and the actual prices of goods and services that make up the gross national products of the countries.

This report, called *An International Comparison of National Products and the Purchasing Power of Currencies,* was written for the Organization for European Economic Cooperation by Milton Gilbert, one of the world's leading experts on national income and statistics, and Irving B. Kravis.

Gilbert shows that the purchasing power of European currencies within their countries is a lot higher than the exchange rates indicate. Prices of durable goods are more favorable in the U.S. but not prices of nondurable goods, particularly foods and services. These are substantially lower in Europe. In fact, $1 worth of European currencies, in terms of what Europeans actually purchase, is worth from $1.57 to $1.91.

When it comes to investment, the European countries don't show up so well. The study puts per capita investment in the U.S. at $380, whereas in the European countries it is from $72 to $156.

* Italics indicate largest user.

SOURCE: Table and comments from "How West Europe Stacks Up with U.S.," *Business Week,* Mar. 6, 1954.

can country. E. R. Squibb & Sons Intl. Corp., for example, supplies raw materials to plants in foreign countries, controls the quality of the products, directs their marketing programs, trains their personnel, etc. Oil companies operating abroad frequently build complete towns in what was formerly jungle or wasteland, providing modern transportation, sanitation, and hospital and school facilities for the native population as well as for the few Americans who may work there. The current situation differs from that of the old Yankee trader who sold as fast as he could and cared nothing about the mutual benefits of a continuous working relationship. Americans now assume some of the responsibilities of the industrial colonizer who lives for years in his chosen foreign country.

Several American companies have found it advantageous to do some of their manufacturing in a foreign country because of tariffs and international financial controls. The Burroughs Adding Machine Co., for example, started making Burroughs calculating machines in Scotland several years ago. It sells 80 per cent of the machines in the United States for dollars which it uses to buy parts for other machines assembled in Great Britain and sold in the sterling-area countries. As a result, according to the president, John Coleman, who adds that "America has been export crazy and import blind," Burroughs maintained its domestic and export business—from which it now gets about 28 per cent of its total revenue and even more of its net profit.[3]

The companies that do successful foreign marketing do it on a long-term rather than a temporary basis. Unfortunately, too many American companies turn to foreign markets only when inventories pile up, and they drop out when domestic sales rise. Such a haphazard approach is not conducive to long-term planning. Errors are inevitable. A good many of these errors may be attributed to the fact that most large companies lack personnel who have foreign know-how. While the foreign end of a business may be large, chances are that it amounts to less than 10 per cent of the company's total business volume. Therefore, management neglects to furnish the funds necessary to staff the foreign department adequately.

Managements may not devote enough time to planning their foreign business and this too leads to errors. Foreign operations are generally more complex than domestic ones. To the many problems involved in domestic marketing must be added the problems arising from language difficulties, unstable currencies, foreign laws, shipping problems, tariff regulations, and many others. Some governments, such as that of Holland, try to attract capital and management from the United States by arranging liberal facilities for the transfer of profits and amortization

[3] See *Tide*, Dec. 12, 1952, p. 78.

of original investments in dollars. Others try to keep profits within the country and to hamper the foreign investor. The International Chamber of Commerce tries to have United States businessmen realize that most differences are minor and that they will find it profitable to extend their operations abroad. The Chamber has published a guidebook called *Doing Business Abroad.* This book recommends that before doing business with any country, the laws of that country should be checked for such things as the following:

May the business legally be conducted by foreigners?

Will the foreign owner be allowed to retain effective control over management?

Do the laws of the country adequately protect property rights of investors?

Will the company be permitted to hold real and other property?

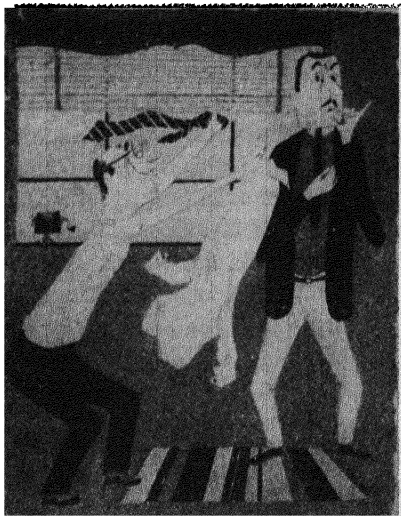
Will earnings arbitrarily be limited; may earnings and special capital be repatriated?

Will the company be able to employ necessary personnel, including nonnatives?

Can the corporation import necessary machinery and raw materials?

After Hours. Europeans often take three hours for lunch but usually work until 7 or 8 P.M. every day, including Saturdays.

SOURCE: From Cary H. Stevenson, "Licensing and Mental Attitudes Push Lindberg Sales Abroad," *Industrial Marketing,* March, 1953.



"'Es suya' really doesn't mean for keeps."

"Eventually he will show his gratitude with orders."

Consumer potential for U.S. goods in Latin America is tremendous. But before it can be fully developed the first step is to find out what makes our Spanish-speaking neighbors tick.

A cardinal rule to remember is that Latin Americans resent high-pressure tactics. They may be as eager to buy as we are to sell, but they want to have the feeling that placing the order is their own idea. They'll sign on the dotted line if you can master the art of making haste slowly.

Whatever you do, don't refer to yourself or your products as "American." People across the border are also Americans—South, that is. To them, you are a "Norteamericano." So either use that reference or stick to "United States" and play safe.

Don't take a Latin American too literally. If you compliment him on the fine appearance of his business or of some personal possession, don't get the idea that it's for keeps when he says: "es suya" . . . or, translated, "it is yours." Thank him. And tell him that it (whatever it may be) is already in far better, more capable, more deserving hands. If he should admire your wrist watch, ring, automobile or anything else that catches his fancy, don't hesitate to tell him it is his. He will profusely decline to accept and marvel at your grasp and understanding of his customs.

. . . it is important that you know how to explain your company's credit policy and terms. Latin Americans don't mind being told how they will have to pay for the merchandise they buy. It's the manner in which they are told that may rankle them and rub the fur the wrong way. Be firm, but courteous. Be explicit, but patient. That's the procedure a Latin American understands—and prefers.

Keep in close touch with your Latin-American customers and prospects.

In a simple, but sincere manner, do the little things that mean so much to most of us. Being remembered on a birthday or anniversary, a card or congratulatory message will make Latin Americans feel that you regard them as friends as well as a source of business. If you succeed in doing this, your firm will build up a wall of customer-loyalty which competitors will find difficult to swerve.

SOURCE: R. E. Mason, "How to Say It South of the Border," *Sales Management*, Nov. 1, 1951, pp. 42–43.

Do local laws afford ample protection to industrial property rights, such as patents, trademarks and copyrights?

WAYS OF SELLING: Once a country passes these qualifications, there are eight ways of then doing business. These are:

Sales made to export "brokers."

Shipments through distributors in a particular foreign country who may operate for a number of lines.

Utilization of the exclusive distributor–frequently used by companies doing a substantial volume.

Dealing with the commission merchant (in this case legal advice is indispensable).

Applying the agency device (of lesser importance in recent years).

The registration of a foreign company in the country where business is to be carried on (one of the most common ways of operating whenever business becomes substantial).

Organization of local companies.

Operation through manufacturing or royalty contracts.

BIGGEST PROBLEMS: On the other hand, however, the Chamber concedes that foreign business is not all smooth sailing.

There are exchange restrictions and tariff restrictions, which are once again significant now that most nations are sufficiently recovered from war damages to have something to sell in the world's markets. There is little consistency in taxation and labor laws frequently require a percentage of foreign personnel. There are, too, unreasonable restrictions on corporate organizations (e.g., nationals must own a certain percentage of company stock), official and unofficial expropriation of property and competition from monopolistic state trading organizations.

All of these obstacles, says the Chamber, may be manifestations of hypernationalism. The emotional state of being against "foreign devils" finds its way into legislation, but is not an element that can be independently attacked. The ideological conflict that has split the east and west has, of course, created the most serious barrier to world trade existing today.[4]

COUNTERFEITING AMERICAN GOODS ABROAD

One of the most annoying aspects of relations with foreign countries is the counterfeiting of American goods.

Counterfeiting abroad of well-known American products is on the increase: nine out of 10 manufacturers questioned reported examples of their goods being faked. A law firm in New York says its cases involving imitation and counterfeiting have climbed to more than 1,200 a year. An export executive warns, "If yours is the leading product in its field, you can be sure it's being counterfeited."

[4] Condensed from an article "Things to Watch for in Export Selling," *Tide*, Aug. 29, 1953.

In Hong Kong, for example, there is a ring which counterfeits Arrow shirts. Cheap shirts are made up without any labels. Then young, attractive girls make the rounds seeking orders from retailers and exporters for Arrow shirts. When a sale is made, precisely enough shirts to fill the order are moved from the manufacturing point to another spot, where counterfeit Arrow labels are attached. Delivery is then quickly made. The ring works somewhat like an underground operation, with no apparent contact between the selling, labeling, and delivering forces. . . .

Prior to World War II, Japan named a town Usa so that imitation goods could be truly, but misleadingly, labeled MADE IN USA. Our new commercial treaty with Japan would seem to stop that. But individual Japanese sharpies are back at their old tricks. For instance, early this year cheap staplers in packages designed to resemble those of the Bostitch stapler were picked up in both Hong Hong and India. Instead of Bostitch they bore such names as Ostrich and Boston. Four months' detective work led to the discovery that these bogus goods were being manufactured in Japan.[5]

Some of the counterfeiting has included such well-known American products as Quaker Oats, Squibb's penicillin, Vick Chemical Company inhalers, Parker pens, Wrigley's Spearmint chewing gum, Klim powered whole milk, and Auto-Lite ignition parts. The methods and amounts of counterfeiting vary from one country to another. Some especially bad examples have been found in India, Japan, and Iran.

Iran counterfeiters . . . have a fraud of their own. They get themselves named the sole authorized dealer for the very manufacturer whose products they have chosen to counterfeit. Then, making a great show of publicity materials furnished by the manufacturer, they actually employ these facilities to promote imitation products. When a drop in sales begins to worry the manufacturer, the counterfeiter tells him this is due to imitations being released on the market. The manufacturer asks him to investigate. The counterfeiter then soothes the manufacturer with a cleverly concocted reassurance, followed by a "consolation" order. Through manipulation of legal technicalities the counterfeiter may ultimately become the actual owner of the trade-mark and take legal steps to prevent the genuine manufacturer from shipping into Iran. . . .

Some countries have no real concept of what comprises "unfair competition." They approach the whole subject through narrow technical provisions. For example, Coca-Cola could do no business in Brazil until it paid off a Brazilian who had registered the name. This is not an exceptional case—there are 19 of these "pirate countries." American auto companies have often had to dicker with a foreigner who, without producing a car, had registered such names as Cadillac simply by being first at the patent-office door. Pharmaceutical manufacturers have had to wage court battles to prevent persons in

[5] Don Wharton, "Counterfeiting American Goods Abroad," *Advertising Agency*, October, 1953. Also, "Made in the U.S.A.—or Somewhere," *Reader's Digest*, November, 1953.

Japan, Iran, and half a dozen Latin American countries from trademarking such words as penicillin, cortisone, vitamin, and even suntan. Iran granted one local firm a trademark on the word "antiacid"; and until a legal battle was waged no one could ship into Iran any product using that word descriptively.

The frauds are much too complex to be ended by any simple panacea. However, help may come by focusing attention on two principles. First, the facts should be brought out into the open. A number of American concerns doing business abroad refuse to admit publicly that their goods are being counterfeited. They consider giving information on the subject "bad publicity" and have instructed their attorneys not to talk. Sherwood E. Silliman, president of the United States Trade-Mark Association, says, "American manufacturers should speak up about counterfeiting."

The second principle would seem to be more emphasis on who actually is being injured, not only by counterfeiting but by inadequate or poorly enforced laws bearing upon the whole broad field of unfair competition. The really vital injury falls upon the consumers of the offending nation, who lose through the purchase of inferior goods. Also, in the long run, they lose because such practices check the flow of goods, discourage venture capital from going into their country and curtail total world production.[6]

In spite of these and other difficulties, many export businesses operate at a profit. A *Tide* survey of 200 companies marketing abroad disclosed that 60 per cent of the respondents make a profit on foreign business equal, per unit of sale, to their domestic business, while 20 per cent make a higher profit. Nearly 90 per cent of the firms reported that their foreign sales have steadily increased. These businesses indicated that on the average 15 per cent of total sales now come from international markets. About 70 per cent of the companies do from 10 to 20 per cent of their business outside the United States; 25 per cent do more than this.[7]

BUSINESS ATTITUDES AND PRACTICES IN MANY EUROPEAN COUNTRIES

Both marketing and manufacturing procedures differ widely in various countries. In America, the average salesman has ambition and initiative. If he is any good at all as a salesman, he refuses to be treated as an errand boy or an order writer. In Europe, however, a salesman follows a dictated pattern. He contacts fixed markets, takes orders, and reports them back to his employer. The employer then buys the raw materials and manufactures what the customer ordered.

The typical European manufacturer turns out a wide variety of custom-made products. This means that he cannot take advantage of mass buying or assembly-line production. In most instances, handicraft

[6] *Ibid.*, pp. 124–128.

[7] "Marketing Abroad—A Survey of Company Practice," *Tide*, May 9, 1953.

methods prevail. Under his production system he manufactures every part of a machine, including minor parts such as leather belts, rubber pads, cloth, nuts, and bolts. He does not buy some parts from other manufacturers who manufacture on a competitive basis certain items that are sold to assemblers in the field. His company is a self-contained unit, usually a relatively small plant. It is owner-managed.

The entire capital for the typical European plant is furnished by one individual or by a family that has owned the business for several generations. The current owner-operator for the family thinks in terms of carrying on the family enterprise in a conservative manner. He is concerned about maintaining what he has rather than developing or expanding into new areas. He is not interested in borrowing money in order to expand the business because that would decrease the family's control. If the family does not have enough capital to purchase new equipment, he gets along with what he has. Furthermore, the family expects a certain amount of income from the plant and the withholding of profits for expansion does not appeal to the family members.

These basic concepts of business also mean that few European owner-managers want to hire professional managers to help them. The owner-manager performs all phases of administration from the signing of checks to the scheduling of production. His only staff members consist of a few highly skilled, technical-minded engineers. As a result, he does not have the services of executive assistants who can relieve him of details so that he may have time to dream up new products or develop new markets.

He is secretive about his business. He cannot discuss his problems with competitors nor does he reveal his methods to them. He is wary of independent management consultant firms. We have 15,000 of them in America. The European owner-manager is suspicious that a consultant might carry ideas from his plant to the plant of a competitor and that he would thereby lose some of his imagined "secrets." In recent years, slight changes in this respect have taken place. A few management consultant firms have become accepted by plant owners who realize that no one can really keep any production secrets very long. Management associations, trade publications, management training centers, and other means of exchanging information are in an early stage of development, but only a few European businessmen have, as yet, learned that "a closed door shuts more out than it keeps in."

When Europeans visit our factories they are more impressed with the factory parking lots than they are with the production lines. Their reaction to the fact that an ordinary American can ride to work in a nice car: "Incredible!"

Our visitors are surprised at another facet of American industrial life: the business publication. There is a publication for each job function and for almost

every classification of American interest. There are some 2,000 publications. They are read by millions of people. Each is full of know-how information, much of it drawn from the other fellow's experiences. This free interchange of information is part of our way of life, too. We think nothing of it—until visitors from abroad express surprise and envy.[8]

Europeans do, however, exchange information about prices and markets, the kind which American businessmen are forbidden to exchange. Although they will not exchange production techniques and methods they do get together in regard to prices and the divisions of the market. The cartel is the result. Cartels are old in Europe. Governments have often encouraged them. Cartels are believed to protect industry, especially during low periods in the business cycle. Europeans believe that the severe depressions experienced in America are a result of our keen competition between business firms. Therefore, they believe in monopolistic privileges and the stifling of competition. As a result, there is little interest in research or modernization in order to cater to an even larger market.

Governments impose networks of red tape that stifle initiative and keep trade divided into compartments. Foreign trade is regulated by quotas and by foreign exchange controls. Neither governments nor businessmen place sufficient emphasis upon raising labor's income through increasing its productivity. The idea of paying higher wages for doing more work and thus raising family purchasing power is not widely held.

The most important single difference in attitude between American and European businessmen centers on the phrase "purchasing power." The European industrialist, by and large, has not yet recognized that the vitality of his domestic market is directly related to the speed with which the purchasing power of that market can be expanded. He sees little reason (and this was true of many Americans 50 years ago) to share cost savings with either the consumer or the employee. As a result of this lack of vision on the part of management, labor rates and productivity tend to remain low, and prices to remain relatively high. The idea of making more intensive use of labor—by paying a higher wage for turning out more work and thus raising family purchasing power—is relatively new.[9]

Governments and labor unions cling to the social welfare idea even though this policy makes survival of business and the attainment of a higher standard of living more difficult. Few businesses, governments, or labor unions realize that when productivity and wages are both increased, the markets and standards of living improve. "In Europe mass

[8] *Sales Management*, Jan. 15, 1954, p. 27.

[9] "Europe Needs U.S. Attitudes More Than U.S. Tools," *Modern Industry*, Sept. 15, 1951.

production is looked on simply as an enormous sum of some one item. In this country business looks upon mass production as involving simplification, efficiency, and lowering of unit price." [10] Europeans do not look upon mass production for mass consumption as an accepted goal. Low productivity per plant and man-hour and a static way of life are taken for granted except by the few who want to raise the common laborer's status through political or social welfare measures. Perhaps this partially explains why only 5 per cent of British homes have electric refrigerators, as against 90 per cent of United States homes.

The typical European businessman wants to continue to get his traditional 20 to 25 per cent profit on a small volume, while his American counterpart prefers 3 per cent on a much greater volume. The European does not want to take the risks involved in expanding his domestic production, lowering his costs, and catering to a larger group of customers in the domestic market.

THE EUROPEAN BUSINESSMAN IN FOREIGN TRADE

Surprisingly, however, in foreign trade the European is more aggressive. He usually enters foreign trade on the assumption that he will remain in it permanently, in contrast to the managers of American firms who think of foreign trade as an occasional market for selling temporary surpluses. European attitudes toward foreign trade differ from ours and their methods, especially in regard to credit arrangement, often make it difficult for American firms to compete with them. When our managements turn their thoughts to continuous international marketing rather than sporadic exporting, we too can do the better kind of marketing overseas that we have done in our own country for our people.

European businessmen, particularly the British, have had many years of experience in developing foreign markets. The economic leadership of the world in the nineteenth century had its headquarters in England. The British emphasis was primarily on the establishment of foreign outlets and only secondarily on the development of the domestic markets. The economic history of the United States was in the opposite direction. Today the United States domestic market consumes an enormous share of the world's production. The part of United States production that goes into foreign markets is much smaller than the portion that goes into the domestic market.

It is small wonder, therefore, that European business firms are better established in many foreign markets than are the American companies. Will this contrast continue through the remainder of the twentieth cen-

[10] Robert C. Line, "Production Problems of Western Europe," *Collegiate News and Views*, March, 1952.

tury? Since foreign trade is of such vital importance to the prosperity of the rest of the industrialized world, and therefore indirectly if not directly to our own prosperity, we hope that our associates in Europe may be able to maintain and, what is more, expand their export markets. But that does not mean that American firms should neglect to develop international markets to the benefit of the peoples of other nations as well as of the United States. The potential markets of the world are large enough to absorb tremendous quantities of exports from both American and European sources.

OUR UNITED STATES "FREE PORTS"

Any American company that contemplates the exporting of products needs expert legal advice, especially with regard to taxation and to procedures for transferring funds to this country. Tax obligations and benefits differ widely, depending upon the country, the corporate organization, and the manner of doing business.

A typical example of the need for expert guidance is revealed by the fact that many company managements who import part of the raw materials used in products processed here and exported do not know about our six "free ports" or foreign-trade zones in the United States. These ports are New York, New Orleans, San Antonio, San Francisco, Los Angeles, and Seattle.

Full details about the ways a firm can operate to its advantage within each of these self-contained free ports are available from the Board of Commissioners of each port. Examples of these advantages are as follows:

1. An American firm can reduce duty costs by sorting out merchandise that fails to meet the United States market standards and either destroying the substandard products or reexporting them to another country where requirements are lower.

2. Duty costs can be reduced by not paying on "shrinkage" of stored merchandise, shrinkage representing the part that is lost through the evaporation or seepage which often occurs in the storing of liquors and similar products.

3. Prospective buyers may examine any sample merchandise stored in the free port. Goods can be stored without time limit and no duty or excise taxes need be paid as long as the goods are in the foreign-trade zone. Auctions may be held in the zone.

For customs-payment purposes the zones are considered to be outside the United States. The advantage of this is exemplified in the case of an importer who sells to American department stores. If he has the goods shipped to the United States and stores them in his own warehouse while he goes out to solicit orders, he must pay the duties and tie up his funds

until he can ship the goods to customers. If he does not store the goods here but takes orders and has the goods shipped from abroad, several months elapse before the customer can receive the goods. If, on the other hand, he takes advantage of one of our foreign-trade zones, he can have the goods stored there. By posting a bond, he may take out samples for selling purposes only and may then solicit orders. On receipt of an order, he can direct that the required amount of goods be shipped to the customer. This arrangement may take 6 days for the goods to reach the customer, in comparison with the old method, which often took 6 months or more.

Many American firms do not know that they can ship more cheaply taxwise through our foreign-trade zones. Goods made here and destined for sale overseas can escape a 3 per cent Federal transportation tax if they are consigned to a foreign-trade zone instead of being shipped direct by rail to the port.[11]

SHOULD YOU GO INTO INTERNATIONAL MARKETING AS A CAREER?

No one can answer the question for you; you must answer it for yourself. Perhaps you plan to study foreign trade. It is quite probable, however, that most young men who take courses in foreign trade as a preparatory step to a career in international marketing never actually embark on such a career. Such exploratory studies are nevertheless quite beneficial. If America is to perform its growing international responsibilities intelligently, more Americans should study foreign countries and our international relations. Even though they may remain here all their lives, their increased knowledge of and interest in international marketing should be beneficial to America and other countries.

If you do decide to work abroad, investigate fully the limitations and disadvantages as well as the opportunities. Textbooks should be your basic guide, but here is an excerpt from one of the many articles you are likely also to read:

> In Latin America the countries with the greatest opportunities are Venezuela, Brazil and Colombia. In the Far East, Americans do best in Japan, the Philippines and Thailand. Canada generally has better opportunities than Mexico. And in Europe, Holland and Italy make it easier for American businessmen than France and Austria do.
>
> But "best" and "better" are relative. There are good opportunities almost everywhere. Here are a few examples:
>
> Nicaragua is anxious for U.S. help in processing Kenaf fiber, a jute substitute.
>
> Africa. The entire continent is ripe for the development of its mineral deposits—iron ore, manganese, industrial diamonds.

[11] "17 Cost-saving Ways to Use Our Free Ports," *Sales Management*, Sept. 1, 1951.

Brazil has forests full of valuable hardwoods, waiting for pioneer lumbermen.

Jordan. Fine soaps are made here, but the industry needs modern refining and packaging know-how from America.

Iran grows top-quality tea, but needs someone to produce and market it in the modern way.

Burma. In the works are plans for doing everything from modernizing existing mining techniques to producing paper from bamboo.

Bolivia. A new 28-million-dollar highway will soon open up for development an area as big as Texas.

You can go abroad on your own. Or you can get yourself abroad as an employee of a big oil or industrial or mining or merchandising company which maintains branches abroad. You usually have to work for the company in this country first, but then you can apply for transfer. Most big companies admit to a need for outstanding young men as managers and technicians for their branches abroad.[12]

SOURCES

Overseas Business Services, 330 W. 42d St., New York. This is a unit of the McGraw-Hill International Corporation specializing in market surveys and commercial investigations overseas. Represented in all leading commercial cities of the world, Overseas Business Services offers United States manufacturers and exporters facilities for rapid studies of any and all factors affecting their foreign sales.[13] Every project is tailored to the individual client's specific interests or problems, and all findings become the client's exclusive property. There is no charge for consultation, and no obligation to order a survey if outline or fees are not accepted. Multilingual translation facilities also are offered, with technical and commercial subjects a specialty.

Bureau of Foreign Commerce, U.S. Department of Commerce, Washington. This Bureau fosters and promotes the foreign commerce of the United States in exports, imports, capital investment, travel, and other significant component elements in international business transactions. It provides information on world markets, developments, and trends through publications and in answer to specific inquiries. The Bureau of Foreign Commerce publishes *Foreign Commerce Weekly*, which reports new business and investment opportunities in international trade, economic conditions abroad, trade controls, commodity data, trade statistics, and other timely news and basic information for world traders.

[12] From "Go Abroad, Young Man!" *Changing Times, The Kiplinger Magazine*, February, 1953.

[13] See Russell F. Anderson, "10 Ways to Avoid Costly Headaches When You Market Abroad," *Sales Management*, Dec. 1, 1952.

International Chamber of Commerce, American Representative: Albert J. Phiebig, P.O. Box 352, White Plains, N.Y. Publications essential for practicing, teaching, or studying foreign trade, and international advertising in particular, give information in these fields:

Dictionary of Advertising and Distribution in Eight Languages (English, Dutch, French, German, Italian, Portuguese, Spanish, and Swedish)

Advertising (Conditions and regulations in the principal countries of the world)

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QUESTIONS AND EXERCISES

1. In what ways has international marketing changed over the past 25 years or so? Is the present attitude one which is in keeping with the international responsibility of the United States? Explain.

2. What countries are the leading United States export markets?

3. What aspects about a country's social and economic life should a manufacturer investigate before beginning active cultivation of the foreign market?

4. What are the usual ways of selling in foreign markets?

5. What steps can American manufacturers take to minimize counterfeiting of American goods and to secure protection of their trade-marks?

6. What are some of the basic differences in philosophy between the American manufacturer and his British counterpart? Are there similar differences in attitudes toward foreign trade?

7. Would you recommend that a manufacturer entering into foreign trade attempt to handle this within the framework of his domestic marketing organization?

35 Careers in American Marketing

THE ALERT MARKETER

1. **Considers the advantages and disadvantages of having a business of his own, most likely a business in the retail field or one that requires sales ability.**
2. **Appreciates the headaches he is likely to have continuously in a business of his own, especially if it is a manufacturing business or one that involves the marketing of a new invention.**
3. **Studies marketing by reading books and journals of value to the business leader.**

If you as a student of marketing are thinking of some phase of marketing as a career for yourself, you have certain attitudes that dominate your thinking. These attitudes increase or decrease your chances of getting a job. One of these, the lowest, may be that to you "marketing looks like a good racket." You think of it on much the same level if you call it a "game."

Actually, marketing is a serious business. Men who rise to the higher levels of responsibility in marketing, whether in their own businesses or in someone else's, believe in its values because of its services to mankind. They think of marketing as an important influence in the development of a rising standard of living for everyone. To them, the free market is a fundamental necessity in our economy of free enterprise and political freedom. It is far more than a means of making money or a good living—it is a way of life that contributes to the well-being of people in a practical and concrete manner. The personal philosophy of a good marketing man is just as admirable as that of a good doctor, preacher, or teacher. Such a philosophy of service is fundamental to growth as a man as well as advancement in a career.

As pointed out in Chapters 1 and 2, the challenging problems of

marketing have caused men with marketing know-how to take on a new stature these days as management more and more looks to them to coordinate company production, sales, advertising, and merchandising functions.

Today most college men see their best vocational future in terms of the salaried life of a business organization. Most ambitious graduates hope to reach the level of top management.

YOU MUST DECIDE WHAT YOU WANT TO DO

Executives in the fields of distribution are constantly besieged by applicants who apply for a job by saying, "I'd like something in selling," or "I'll take anything that will lead to a promotion for me." That is about as sensible as the procedure of the young man who stops every girl on the sidewalk and asks her to marry him! The applicant who wants a job in selling, advertising, merchandising, or any other phase of marketing should have definite reasons for his choice and be able to market his services intelligently.

The man who seeks a job in marketing should plan his campaign and check the results of his campaign. One senior of Syracuse University who sought a job in marketing used a campaign in which he sent a six-page processed letter to leading corporations. At the end of the campaign, his figures were as shown in the table below.

	Number
Letters of application mailed to companies	172
Replies received	131
Replies that invited an interview	32
Firms that actually interviewed	18
Firms that offered a job	6

These results suggest that when business conditions are normal, the college man should expect himself to send out 29 letters in order to get one offer of a job. Of course, if business is in a depression period, the number may have to be much greater. The details involved in conducting a job-getting campaign and the results that can be expected have been described in books that are available in almost every large library.

WOMEN IN MARKETING

Women in business work under definite handicaps. It is tremendously to the credit of both sexes that so many women succeed in business. They succeed by working harder than men, and by their team spirit and their

imagination. In the business world, many women transact business with men who believe that a woman's place is in the home and that women do not have brains. Such men are embarrassed and overpolite when dealing with women. They cannot face disagreement from another person, especially if it is a woman. Still, many women learn to deal successfully with such men. That's more of a credit to the women than to the men.

A woman working in a marketing situation can be of great value because of her knowledge of the way women customers think. Every advertising and sales department that sells to women should have at least one woman employee to guide the thinking of men in the company's marketing programs.

Many college women who want to get into marketing look forward to a career in fashion merchandising rather than marketing. This is natural. Women are fashion-conscious and the fashion industry as a whole is one of the nation's biggest industries. Five advertising agencies handle the lion's share of the advertising for the multibillion-dollar fashion business.[1]

ADVANCING ON THE JOB

Young people who enter business are given so much advice, both good and bad, that many resent rather than analyze it. This is to be expected. Since the older men want young people to avoid the pitfalls into which they themselves have fallen, they like to stress what the younger person should do. Their larger perspectives can be helpful. Sometimes a college professor's words of advice on how to succeed are quite sound even though the professor himself has sought success in teaching or science rather than in money-making.

Young people are especially likely to imagine that "whom you know is more important than what you know." This timeworn bromide has of course been discarded by the older men. They have seen too many examples of men who got jobs through "drag" but never advanced to top management levels or membership on the board of directors. In the long run, ability is far more important than influence. "It usually does not take long for the man with the push to pass the man with a pull."

Achievement requires ability and the constant development of capabilities. The president of a large and well-known New York department store who is known for his leadership in the world of fashion and civic affairs prepared himself for his position by studying 4 years at night school learning about period furniture, old silver, rugs, color, design, painting, and textile design. His store is a leader in the world of fashion and has

[1] The agencies are Morey, Humm & Johnstone, Hirshon-Garfield, Sterling, Abbott Kimball, and Amos Parrish.

had profound influence on the advertising and merchandising policies of other stores. This store has benefited from this man's preparation.[2]

The values of study on the part of the ambitious are so well-recognized today that some smart young men seek jobs only in those companies that have definite educational programs for training men for management. Companies with such programs select the trainees very carefully. They spend considerable money to select them, as indicated by the estimate that the average cost of hiring a trainee is about $1,000. This covers only such costs as travel by the interviewers, travel costs of applicants, and the interviewer's time. No wonder that companies which have training programs tend to pay trainees less than the semi-skilled laborers of the factory; the laborers are productive while the trainees are still doubtful investments who do little productive work.

Some companies have a personnel system which discovers the employees who have executive talents. Sears, Roebuck and Co. has such a management inventory system. It was started in the 1930's, although it was not refined until the 1940's. This store has a card file on 5,000 employees with capabilities up to the store management levels. From the 500 in the senior reserve group will be taken men to fill positions of management such as mail-order general managers, group managers, and Chicago staff jobs. When a man is in the top reserve group he has possibilities of going right to the top.

Many of those who are determined to win a place of marked responsibility in the business world also think that since they are willing to put forth the effort to succeed in the business of someone else, they would be better off to develop a business of their own. This ambition is an admirable one, for without it American business enterprise would not have attained its present high level. Certainly, a knowledge of marketing is just as important in a business of your own as in working for some business firm.

ARE YOU PLANNING TO HAVE A BUSINESS OF YOUR OWN?

It is easier to start a business of your own in America than in almost any other country. Some people believe that it is too easy. If you have an urge to be your own boss and a small nest egg to back your desires, you can become one of the 3 million small businessmen in the United States. About 100,000 new businesses were established every 3 months in a recent year, and there is no reason to think that this rate will decrease in the years ahead.

The man about to start a business always seems to feel that the field

[2] *Your Job and Your Future*, New York University, School of Commerce, Accounts and Finance, 1949.

is wide open. The fact that there are many pitfalls ahead does not impress him until he has fallen into them himself. It is well-established that about 35 per cent of new businesses do not survive the first year. Only 37 per cent of the new firms live to celebrate a fifth birthday. From then on, however, prospects are brighter. The chances, however, are ten to one that the 5-year-old will continue to be successful.

GETTING A RETAIL BUSINESS

Regardless of the condition of business in the current year, the outlook for new businesses appears to be good. Our population is expanding. New inventions and new methods appear every day. This means there will be more families, more workers, more buyers and, therefore, more business for new enterprises. The long-term trend in the standard of living is upward and this indicates that more people can afford to buy more goods. Luxuries of past years are considered necessities today; as our economy continues to grow the public will want better equipment, more comfort, and faster and easier services. The businessman who can supply these things is likely to prosper.

Of course, the starting of a new retail business involves many problems. One is that of capital. In retailing, the percentage of capital put up by the average owner is 56 per cent (Table 35–1). This average figure is

Table 35–1. *Where Retailers Get Their Capital*

Source	Percentage	Source	Percentage
Personal savings	56	Bank loans	14
Capital stock	7	Other	13
Supplier credit	10		

SOURCE: Data from "Want a Business of Your Own?" *Changing Times, The Kiplinger Magazine*, May, 1953.

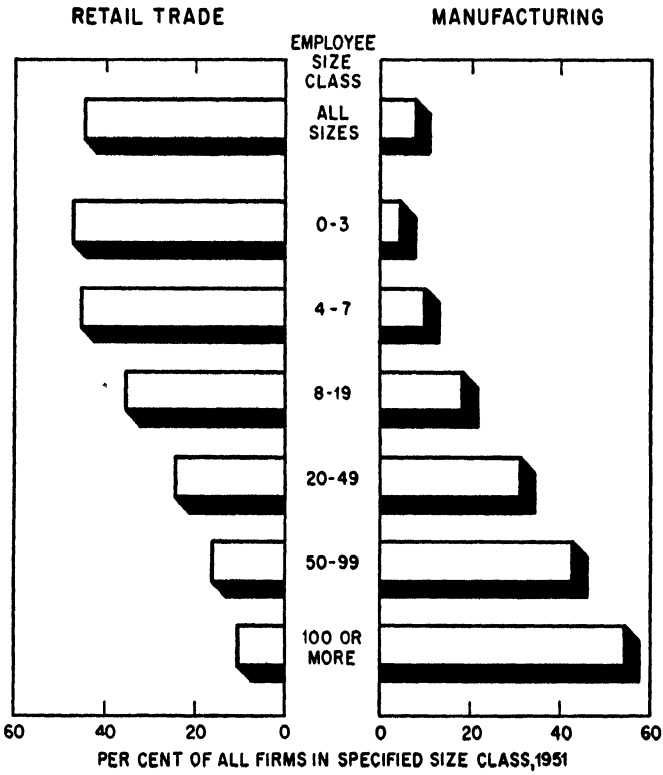
higher for many nonretailing businesses. Banks are very selective in lending money and will usually lend only to those who can supply most of the money themselves. Since few small business firms can raise money by selling stock as the larger companies do, the most common source of money is personal loans from friends, credit from suppliers, or the formation of a partnership.

Businesses have been started on the proverbial shoestring—it can be done. But the records show that lack of capital is one of the primary causes of business failure. Look at Table 35–2. The first column shows how much capital one should have before starting a business. The second

PERCENTAGE OF FIRMS IN RETAIL TRADE AND MANUFACTURING

ALMOST HALF OF ALL SMALL FIRMS ARE ENGAGED IN RETAILING

MANUFACTURING ACCOUNTS FOR MORE THAN HALF OF THE LARGER FIRMS



OFFICE OF BUSINESS ECONOMICS, U. S. D. C.

In 1951, three-fourths of the firms in business had fewer than four paid employees (roughly two-fifths of all firms had no paid employees at all), and less than one-tenth of one per cent employed 1,000 or more. The 3,200 firms with 1,000 or more employees accounted for roughly two-fifths of all paid employment.

About 5 per cent of the business population, or 200,000 firms, had 20 or more paid employees and accounted for three-fourths of all paid employment. The top 2 per cent of the firms accounted for more than two-thirds of all employment and the top 1 per cent of the firms furnished three-fifths of the jobs.

The number of business concerns in the United States has increased about 1 million, or one-third, since the end of World War II. Private employment during this period has risen by about 5 million persons. . . .

SOURCE: From Betty C. Churchill, "Size Characteristics of the Business Population," *Survey of Current Business*, May, 1954.

Table 35–2. *25 Businesses—and Facts You Should Know about Them*

Kind of business	Estimated minimum capital to start	Number of families needed to support	Failure rate per 10,000 firms	Average number of full-time employes
Appliance store	$ 7,500–$10,000	1,000	85 *	3.5
Auto parts and accessories store	10,000– 15,000	1,800	10	2.4
Beauty shop	2,000– 3,000	600	..	1.1
Bakery shop	5,000– 8,000	2,400	50	3.1
Bookstore	7,000– 10,000	12,800	29	3.8
Camera and photo supply store	8,000– 10,000	12,300	40	2.8
Drugstore	10,000– 15,000	800	22	3.8
Dry goods store	10,000– 14,000	1,250	24	4.3
Furniture store	15,000– 18,000	1,300	53 *	5.2
Frozen custard stand	6,000– 7,500	.. ..	..	2.0
Gas station	5,000– 8,000	500	5	2.0
Grocery store	6,000– 8,000	250	16	1.3
Hardware store	7,500– 12,000	1,100	13	3.1
Infants' and children's wear store	6,000– 9,000	5,500	97	1.4
Jewelry store	10,000– 15,000	1,750	36	2.7
Dry cleaning shop	5,000– 7,000	1,300	21	8.3
Liquor store	5,000– 8,000	1,100	14	1.3
Lumber and building supply	15,000– 20,000	1,900	31	7.4
Men's wear store	8,000– 12,000	2,500	41	3.2
Motel	35,000– 50,000	.. ..	..	...
Restaurant	6,000– 8,000	300	26	5.2
Shoe store	8,000– 12,000	1,900	50	2.7
Sporting goods store	8,000– 10,000	5,400	57	1.6
Women's ready-to-wear shop	7,500– 10,000	1,200	60	3.2
Women's accessory shop	3,500– 6,000	4,600	37	1.6

* 1950 figures for failure rates were used for items marked with asterisk. Others are for year 1952.

SOURCE: From "Want a Business of Your Own?" *Changing Times, The Kiplinger Magazine*, May, 1953, pp. 10–11.

column indicates the number of families generally needed in an area to support a particular type of store. A young man who wants to open a competing sporting goods store in a small town should change his mind when he learns that it takes 5,000 families to support just one store of that kind. On the other hand, another hardware store could be very successful in the same size town. The other columns in the table give information on failure rate and the average number of employees needed.

Of course, these figures are averages and include information from new as well as established businesses. They are probably somewhat weighted in favor of the established businesses and should therefore be considered by new owners as goals for future years.

The many sources of information available to the prospective new businessman should be utilized. Trade magazines, business firm associations, banks, chambers of commerce, the Department of Commerce, all have information of value to new businessmen.

Many businesses operate for years and never really fail or succeed; they just go along and never make a substantial profit. In most areas of retailing, a business must be a lot better than average if its owner is to become well-to-do. Average retailers actually earn less than an average executive working for a big business. The difference is that the owner of a business is his own boss and with a little luck and a lot of work and strength of character he *may* reach the top!

SHOULD YOU BUY RATHER THAN START A NEW RETAIL FIRM?

To compete with established firms is often difficult and costly. To start a new retail business, the owner must find a location, rent store space, hire and train employees, buy merchandise, and straighten out many legal problems before he can consider himself "open for business." Thus a fairly large investment in effort and money is necessary before the owner can begin to think of making a profit. If your competitors are slow to adopt modern methods and have lead in their feet, your effort and investment may well be worthwhile. If this is not the case, however, opening a new business is likely to be more of a risk than buying a going concern.

Caution must be observed in buying an established business. There are some "business brokers" who, while claiming to sell businesses, are actually more interested in the retainer fees they can collect than they are in selling. Such firms do not carefully check the businesses they list for sale and the buyer may be disappointed in his purchase. Anyone interested in buying a business should inquire about his prospective broker at a better business bureau, chamber of commerce, or Dun & Bradstreet.

An example of a large brokerage service is Charles Ford and Associates, of Chicago. This firm has 260 associated brokers throughout the United States and Hawaii. Ford advertises on 50 radio stations and in about 1,700 news and trade papers. Their "Business for Sale" directory lists more than 2,000 business offerings. Ford also maintains a file of businesses for sale and prospective buyers. All listed businesses are appraised and approved as good risks. Ford charges a retainer fee of 1 per cent but in return agrees to advertise a business in its publications until it is sold. When the sale is made, a commission of from 5 to 10 per cent is charged.

If a prospective buyer finds himself dealing with a broker whose practices vary a great deal from those described, he should be very careful about buying through the broker.

HOW ABOUT A SERVICE STATION OF YOUR OWN?

There are no fixed requirements for becoming a service station operator. However, it is advisable to have a year's experience in the business and sufficient capital to stock the station. If the operator leases a station, he will need about $2,000 to buy his inventory. Of course, if he buys or builds his own station he will need even more money.

The best places for a service station are in small towns with a population of about 2,500. City stations are often restricted by zoning regulations. The town should be situated in a growing area, since even with tourist trade local customers are always necessary. If the location chosen is on a highway, the prospective buyer or builder should make sure that there are no plans to reroute the highway. Pumps should be visible from 240 feet away, so that motorists have plenty of time to see them and stop at the station.

The attitude of the operator is very important in making a service station successful. Every car that drives in can be considered an order book. The operator should check the tires while cleaning the rear window. He should check parts under the hood to see if any replacements are necessary. In that way, instead of selling just gasoline, which gives him an average profit of only 4½ cents a gallon, he can sell other equipment and accessories on which he makes a 30 to 40 per cent profit. Such extra equipment is called "TBA"—tire, battery, and accessory business. Gasoline sales alone usually just cover operating expenses; it is TBA which gives the operator his worthwhile profits.[3]

To get volume business, however, a gasoline station operator must be aggressive. He must go out and talk to owners of truck fleets and taxis and convince them that his is an honest station to which to send their drivers. One station owner doubled his business volume in three months by ringing doorbells and giving potential customers facts, smiles, and free advertising gifts.

A gas station can be a very profitable business. It has been estimated that the 250,000 service stations across the country take one nickel out of every consumer dollar spent. One large oil company reports that some of its distributors and dealers who own more than one station earn more than the president of the company.

Those who fail as station operators usually borrowed too much to go

[3] "Service Stations: A Good Career for the Independent-minded Man," *Pathfinder*, Feb. 20, 1952.

into business and could not keep up their payments, or else they neglected to keep books and never knew where they stood financially. Many of them forgot that motorists tend to choose a station because of its cleanliness and pleasant service. If an operator develops and maintains good customer relations, he will probably be successful.

So, if you think you could memorize 2,500 names and faces in 4 years and if you would keep smiling while washing windshields, windows, and light lenses, inspecting the oil and checking water and battery for every customer who buys $1 worth of gas, a service station of your own may be just the business for you!

WOULD YOU LIKE TO HAVE A MOTEL?

The motor court business has grown as the number of miles traveled by the American family has increased. Motor court owners have profited from the idea that travelers prefer lodgings near the highways. Today there are more than 40,000 motels throughout the country. They provide accommodations for about half of the American traveling public. The average motel has 17 units, charges about $4.50 per night, and has a 75 per cent occupancy rate.

Years ago, an enterprising man with a little money and some carpentry ability could put up a few cabins and open a tourist court. The requirements are quite different today. In the early 1950's it was estimated that $50,000 was the minimum capital necessary for building a motel. The average motel built contained 19 units and cost $132,000. Of the cost, 15 per cent of the total was allocated to furnishings and equipment, another 15 per cent to land, and 70 per cent was spent on construction. This amounts to a cost of about $7,000 per unit. Of course, motels can be built more cheaply than that; but a minimum of about $5,000 per unit is required to meet the discriminating tastes of today's travelers. Many in the industry estimate that, in order to provide the extras such as landscaping and interior decoration, $10,000 to $12,000 per unit is not high. They feel that the motels with the extras attract the Cadillac as well as the Ford trade.

Luxuries are becoming more and more common in motels. Swimming pools are almost a must in some areas. Other motels offer TV, radiant heating, porches, and private dressing rooms. Some also provide rooms with kitchenettes. Owners feel that should a depression come along, their housekeeping motels can be converted into low-rent housing units.

Motels can be very profitable. Estimates on clear profit run as high as 35 per cent, but it must be remembered that many operators do not deduct their own salaries or depreciation from the figure. Leaders of the

industry estimate that the average operator can get a 10 per cent return on his investment, and an expert can top this figure quite a bit.[4]

Operating expenses such as hired help, advertising, maintenance, and so forth, take about 40 to 50 per cent of the total sales. Depreciation and such fixed expenses as insurance and taxes take another 25 or 30 per cent. In dollars and cents, if a 15-unit court has a 75 per cent occupancy rate at a charge of $4.50 a night, the yearly take should be about $18,500. Of this, about $3,500 to $6,000 should be profit.

The would-be motel owner should gain some experience by working in a hotel or managing a motel for a while. Running a motel is a difficult job. It requires constant attendance to the business. Midnight check-ins have to be taken care of cheerfully and couples without baggage who might injure the motel's reputation have to be handled tactfully. If the motel is to be operated by one family, a 12 to 14 court unit is about all that can be comfortably managed.

Finding a place to build a motel can be a big problem. Land prices are likely to be high. The day when a farmer would sell roadside acreage at a low price is gone. Some areas are overcrowded with motels already. Good motels, however, can usually find customers. For example, of the motels operating today, only about 7,000 can pass the inspections of the American Automobile Association and appear on its approved list.[5] Of course, some of the courts not on AAA lists are on other approved lists.

The motel associations are helpful to the beginner. Their chief aim is to raise standards and improve reputations. Certain motel associations have emblems which represent stamps of approval of their members' property. These associations invite members to join only after their facilities have been approved. Typical requirements for membership are tile baths, safe heating systems, well-built units, accessibility to roads, cleanliness, and good location.

The associations also provide services to the motorists. One of the best of these is the advance registration service. A traveler who stops at a member motel can make his reservation for the next night with the owner, who phones the reservation ahead to another association member. The motorist pays for the room and the phone charge and is thus assured of a reservation.

[4] "Motels Become Big Business," *Business Week*, Sept. 13, 1952.

[5] "So You'd Like to Open a Motel," *Changing Times, The Kiplinger Magazine*, October, 1952, p. 33.

PERHAPS A DIRECT-MAIL BUSINESS WOULD BE EASIER?

An example of an unusual success story in this field is that of Herman Schmidt, who is now the sales manager of World's Finest Chocolate Inc., a division of Cook Chocolate Co.

Schmidt's previous business experience consisted of owning and operating a cleaning and pressing establishment. Then he ran an advertisement in a Chicago paper and was hired by Cook as a divisional sales manager. Cook's president is more than satisfied with results. Says he, "We just leave Herman alone."

Most of the chocolate bars in the Cook gift line range from 1 to 10 pounds and cost from $2 to $20. They are packaged in a plain white wrapper, bearing the legend "Made especially for . . ." in bold black type. There is also a 25-pound bar which sells for $50. It was first made up as a joke but sold so well it was made part of the regular line.

Schmidt reasoned that the purchasing agent of most companies was not the man to approach when selling gift items; therefore he started writing personal letters to company presidents, board chairmen, and business executives. The letters offered a free sample of the personalizd chocolate in return for a reply to Schmidt's letter. The return on the letters averaged 20 per cent over the course of the first 15 months. Such excellent returns have raised annual sales in Schmidt's division from $12,000 to about $250,000 within a few years.[6] Actually, very few new mail-order businesses ever succeed to this phenomenal extent.

HOW ABOUT BECOMING A MANUFACTURER?

A small but very important group of students in marketing study marketing because they plan to have a manufacturing business of their own. They realize that many manufacturers fail because they are not marketing-minded. About 100 years ago there were only 7 business enterprises per thousand persons; today there are about 17 per thousand.

The vast majority of businesses today are small ones. At the end of the nineteenth century about 50 per cent of the manufacturing firms who hired employees had fewer than 5 workers; only 20 per cent of the firms had more than 20 employees. Though industrialization completely changed the techniques of manufacturing within the next 50 years, at mid-twentieth century about 30 per cent of manufacturing firms still had fewer than 5 employees. Less than 18 per cent had 50 or more workers. Though the average manufacturing firm doubled in size in the first 50 years of this century, the relative proportion of small, medium, and

[6] "An Amateur Writes a Lesson in Selling," *Tide*, Oct. 3, 1952.

large firms remained about the same. In fact, among the 240,000 manufacturing companies in the United States, only one five-hundredth, or 504, employ more than 2,500 men and women. That means that there are 480 little companies for every big one.

Even though some small manufacturers do succeed, many also fail. All have a never-ending series of problems. Take the case of the E-Z-Paint Corp. started by A. L. Touchett. Mr. Touchett had discovered that lamb's wool tied on a stick made an excellent substitute for a paintbrush. The soft fibers held a large quantity of paint and would work well with oil paint. So Touchett and his three brothers organized E-Z-Paint to sell a lamb's-wool roller paint applier.

The product seemed like a natural. It could be made at a low price, sold through regular channels, and almost every homeowner should be a potential buyer—or so the brothers thought. Then they met their first problem. Distributors were just not interested in their product. Touchett instructed the salesmen to give demonstrations to the distributors and orders began coming in.

After a few months, however, orders began to decrease. The retailers refused to buy the product from the distributors. So again the company salesmen began their demonstrations—this time to the retailers. Touchett also backed the retailers with a money-back guarantee. Then he discovered that the customers would not buy the product. Finally, after financing store demonstrations, Touchett's product began to sell.

In the first two years selling costs were 39 per cent of income. If a profitable side line had not been developed, the E-Z-Paint Corp. would have had to cease operations. During the days of the steel shortages the company received a shipment of flat-end barrels made of galvanized sheet. This metal could not be made into rollers but it was fine for certain building-construction products such as ventilating louvers. Making these products kept the firm solvent until their rollers showed a profit.

The Touchetts also approached paint makers and soon built up a private-brand business which now amounts to about one-third of company sales. Giveaways to institutions and churches also helped to acquaint people with their product.

When, however, E-Z-Paint tried to get into the professional painter market they met opposition from the unions. This opposition eventually was overcome and now some professional painters use the roller.

All went well with the company for a short time, until the new latex-base paints came along. These paints turned the lamb's-wool rollers into mops with matted fibers. So the company had to find a material made from a synthetic fabric to use on their rollers. Sales doubled in the year following the innovation.

This one example [7] has been cited to point out the fact that anyone who contemplates going into a manufacturing or other business is likely to have many new and unexpected problems, problems often apparently insurmountable. The man who goes into business for himself never runs out of stimulating difficulties; throughout many of his business operations, whether in business for someone else or himself, he discovers repeatedly that he ought to know more about marketing.

GROWTH MUST CONTINUE AFTER COMPLETION OF FORMAL COURSES

A textbook course opens new mental horizons, improves perspectives, and, most of all, arouses a desire to improve on what was learned. Growth must continue. Those who are still climbing up the ladder must attend numerous educational meetings, conferences, and conventions.

Leading business executives recognize the need for reading that brings about further growth. Many top executives are avid readers of books and business publications. *Harvard Business Review* made a study of the reading of 20,000 of its subscribers. Some of the findings were as follows:

> If there is one major conclusion that emerges from our investigation, it is that the kind of executive we are discussing does a great deal of reading related to his business interests. He is likely to take a business newspaper. More often than not he reads a trade publication specifically devoted to his own field. On the average he subscribes to four magazines of general business interest.
>
> *Business Newspapers.* Information was secured on three representative business newspapers. The following tabulation of returns from the cross-section sample shows the percentage who subscribe to the individual newspapers and the extent of duplication:
>
> 46% subscribe to *Wall Street Journal*
> 24% subscribe to *Journal of Commerce*
> 19% subscribe to *Barron's*
> 63% subscribe to at least one of the three
> 34% subscribe to at least two of the three
> 6% subscribe to all three
>
> One of the interesting findings is that, the more successful the executive is (judged by position and size of company), the more he apparently subscribes to such papers.
>
> *Trade Publications.* Some 75% of executives take one or more trade publications. As a matter of fact, the average executive subscribes to 2½ such magazines. It is clear, however, that there is a marked variation in the way in which trade publications are used and valued. Despite the multiple possibilities, only

[7] "Rolling Up Roller Sales," *Business Week*, Jan. 10, 1953.

44% of all executives gave any ranking at all to any trade publication, but those who did so usually assigned a high one. This implication is that the quality or usefulness of trade magazines is uneven—or at least is unevenly appreciated—so that either they are taken without being read much at all, or else they are read with extreme care and with what their readers judge to be highly useful results.

As might be expected, the readership of this type of publication is less among executives at the top of the ladder. Presumably these men are less concerned with the technical, specialized problems of their own industries and more concerned with the general problems of administration and the whole economic environment.

Books. Executives do read books; by their own report 91% read business books on a fairly broad basis. And only 11% of these men restrict their reading to business books written for their own field of endeavor. Perhaps the general feeling about books was best revealed by the many comments which can be summarized in the one statement, "There just isn't time to read one-tenth of all I would like to read."

Digests and Information Services. Commercial digest and information services, as mentioned by respondents, fall roughly into four categories: (1) the letter type; (2) loose leaf services; (3) trade association bulletins; and (4) commercial services particularly addressed to one certain industry.

The growing use of commercial digest is, of course, an indication of the fact that many executives feel strongly a need for some "boiling down" of the great amount of published material.

One fact is clear beyond dispute as a result of our investigation. Business executives demonstrate—by their reading practices if not by their protestations—that they are avid for information and help through the medium of published material; and the nearer to the top they are, the more avid. They read a lot despite difficulties and time pressures.[8]

One of the reasons why ambitious men in business do a great deal of reading is that they recognize the problems and opportunities ahead of them. As stated in a General Electric Co. message to its employees: "In the next five years, 45 per cent of all supervisory jobs in the company—from foreman to president—will be open because of promotion, retirement, or present jobholders leaving the company." Opportunities such as these are characteristic of the kind of dynamic economy that we have in America.

SOURCES

If interested in correspondence courses of study given by colleges and universities, write W. S. Bittner, Secretary, National University Exten-

[8] Edward C. Bursk and Donald T. Clark, "Reading Habits of Executives," *Advertiser's Digest,* October, 1949.

sion Association, Indiana University, Bloomington, Ind., for *A Guide to Correspondence Study* (25 cents).

If interested primarily in vocational training, elementary or high school courses, write the National Home Study Council, 1420 New York Ave., N.W., Washington.

U.S. Department of Commerce offers information about operating the kind of business you may want to start. Pamphlets, ranging in price from 15 cents to $1, tell how to establish and operate a grocery, year-round motor court, service station, hardware store, beauty parlor, and other small businesses. Write to the Superintendent of Documents, Washington, for a list, *Publications Relating to Small Business.* If you already are in business, get these guides. One good tip may be worth many times the cost and trouble of securing the booklet.

Changing Times, The Kiplinger Magazine, Reprint Service, 1729 H St., N.W., Washington. *Going into Business for Yourself* is a booklet containing reprints of ten articles with advice on specific problems you will encounter. This collection of the *Changing Times* going-into-business series covers such subjects as "Pick the Right Location," "Where to Get the Money," "Are You Sure You're Legal?" "Ten Ways to Go Broke," "Insurance," and others. Price of each booklet is 50 cents.

National Association of Manufacturers, 2 E. 48th St., New York. The National Association of Manufacturers is industry's national organization. It was formed in 1895 and today about 20,000 industrial firms in every state, Hawaii, and Alaska are members. These firms employ about 75 per cent of the industrial workmen in the country. Most members are small companies; 46 per cent employ fewer than 100 persons, 28 per cent fewer than 50. Dues are paid on a sliding scale which varies according to the size of the member companies. In a given year, these dues amount to almost $5 million.

The National Association of Manufacturers endeavors to promote industrial interests in the United States; to foster the domestic and foreign commerce of the United States; to improve relations between employer and employee; and to support legislation in furtherance of these principles. From the turn of the century on, NAM backed plans for many forward-looking projects, including such things as parcel post, the Federal Reserve System, the Panama Canal, the Workmen's Compensation Act, and the 1906 Food and Drug Act. It was one of the main supporters for the establishment of a Department of Commerce.

In order to cary out these endeavors, the NAM is organized into various subdivisions. The one of primary interest to most members of management is the Policy Committee Division. The committees in this division

meet regularly during the year to study current problems and work out solutions, which become NAM policy on approval of the board of directors.

Among the subjects studied by these committees are conservation of natural resources, employee benefits, Federal subsidies, government contracts, industrial health and safety, industrial relations, international relations, patents, taxation, research in industry, and distribution.

The last-mentioned is of particular interest to students of marketing for it studies the entire range of government regulation of distribution policy, including pricing and the so-called antitrust regulations; it determines through research the significant trends in distribution and publishes these trends bimonthly in a bulletin sent to all interested parties; it carries on a continuing study of legislative decisions and judicial interpretations with respect to such matters as pricing policies, dealer discounts, etc.; and it renders advisory assistance in regard to clinics on marketing and distribution that may be held periodically by various regional offices of the NAM.

NAM's Public Information Division in New York releases movies, speeches, magazines, booklets, community program outlines, leaflets, posters, and advertisements, dealing primarily with inflation, taxation, big government, free enterprise, and so forth. An appeal to young people is made by some items dealing with opportunities in business, industry, and science. Items are available not only to member companies and their employees but also to civic and social groups, trade associations, and schools.

COLLATERAL READINGS

Duncan, D. J., and C. F. Phillips, *Retailing Principles and Methods*, Homewood, Ill.: Richard D. Irwin, Inc., 1947.

Gasoline Service Stations, Cost of Doing Business Survey, New York: Dun & Bradstreet, Inc., 1953.

Jones, F. M., *Principles of Retailing*, New York: Pitman Publishing Corporation, 1949.

Robinson, O. Preston, and Kenneth B. Haas, *How to Establish and Operate a Retail Store*, New York: Prentice-Hall, Inc., 1952.

Retail Policies, Washington: Department of Commerce, 1946.

QUESTIONS AND EXERCISES

1. Should the recent college graduate who wants to go into marketing take a job in some other field for a few years because the other field pays better? Or should he try to enter marketing upon graduation even though he can get only a low-paying job in the first few years? Should he, for example, take an office boy's job in an advertising agency, or should he work at higher pay in a factory in the expectation that after a few years of factory work he can transfer to an agency job?

2. Should an applicant seek a job "where there is chance for advancement" or ask for a job "where he can learn the business"?

3. The statement is often made that there are many problems in every field that await the ingenuity and efforts of young people. List some of "the worlds still to be conquered" in the fields of marketing.

4. Discuss the advantages and disadvantages of "drag" in getting a job and advancing to the higher positions. Do you agree with the following statement by J. Elliott Janney?

> . . . From the experience of my colleagues and myself as psychological consultants to industry, I can assure the young man eager to marry business today that his aptitude on a love seat will not win him a chair in a board room. He might just as well marry the boss's secretary; at least she could give him a tip or two on how a business leader behaves at work. . . .
>
> Exceptions notwithstanding, these days a board of directors thinks a long time before appointing a relative of the top executive to operate any sizable organization, unless, of course, it is definitely a family-run business or the candidate is clearly qualified. . . .
>
> Among the 200 presidents of these client companies, please note, only six are sons of presidents, and not one is a son-in-law. Another six employed by these are sons or grandsons of presidents; they have responsible jobs and are doing well, but they do not expect to become presidents. . . .[9]

5. One interviewer of applicants for jobs in marketing said that college men usually do a poor job of marketing their potentialities. The typical applicant sits silently before the interviewer and expects him to convince himself that he should hire the applicant. To overcome this common criticism, do some role playing before the class. Have one member act the part of the interviewer and another the role of the applicant. The other members can offer their suggestions after the skit has been completed.

6. How are most new retail business concerns financed?

7. Assume that you live in a town of 12,000 people. How many of the following types of stores: (*a*) drugstores, (*b*) grocery stores, (*c*) hardware stores, (*d*) appliance stores, would you expect to find in the town? Which of these stores would be most likely to fail?

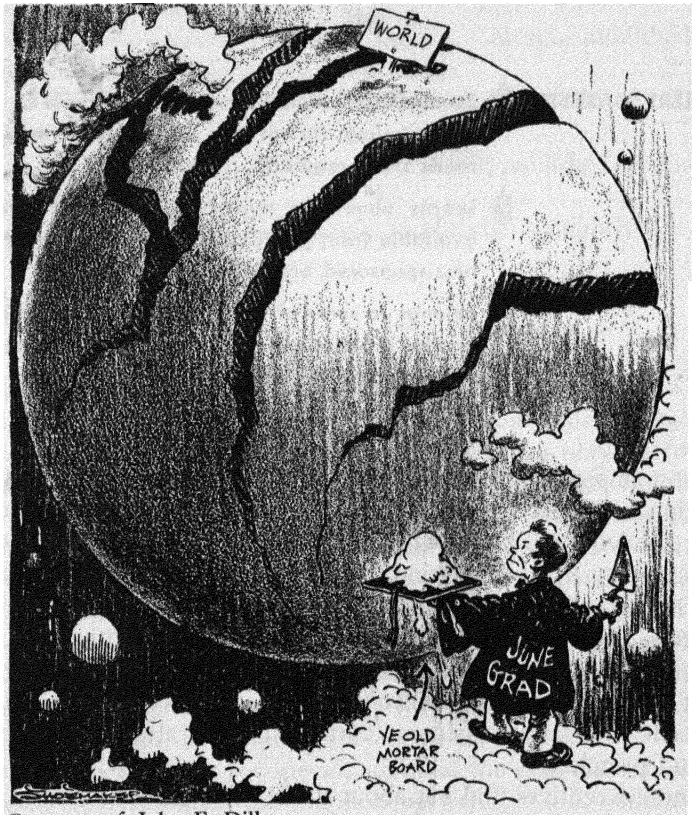
8. Prepare a list of the advantages and disadvantages of going into business for yourself. Prepare a list of the advantages and disadvantages of working for a large national organization.

[9] "How to Get to Be Boss," *The Saturday Evening Post*, Mar. 1, 1952, p. 25.

9. What are the advantages and disadvantages of working for a very large retail organization with an active personnel department which collects an abundance of personnel data concerning each college graduate who works for the company?

10. Compare the advantages and disadvantages in operating as your own each of the following businesses: a retail store, a service station, a motel, a direct-mail firm, and a manufacturing establishment.

Good Luck, Kid



Courtesy of John F. Dille.

PART TEN

SOURCES OF INFORMATION

36 Sources of Information for the Marketer

THE ALERT MARKETER

1. **Becomes acquainted with the periodicals in the field of marketing. He not only subscribes to them but also reads them regularly.**
2. **Learns about the numerous sources of information available from governmental bureaus and from business-sponsored organizations.**
3. **Belongs to some of the professional associations such as The American Marketing Association and the National Society of Sales Executives.**

The most important factor in developing a knowledge of sources of information is an alert mind. If you have learned to think of yourself as a marketer, you will know where to find the many clues to the dynamic influences that affect marketing. You will not only study marketing but also visit stores, offices, and wholesale firms where you will meet other marketers. You will find out about and keep in touch with every possible source of information. You will attend conventions and meetings where market-minded men and women gather in order to become acquainted with each other and to become better informed about marketing practices and principles.

Business executives find out about the services that are used in marketing through many sources.

BUSINESS PERIODICALS

If you really want to know what goes on in marketing and want to keep abreast of events, you will subscribe to the periodicals that give you current information. These periodicals are the following, arranged in alphabetical order:

Advertising Age, 200 E. Illinois St., Chicago, published weekly by Advertising Publications, Inc.

Advertising Agency, 48 W. 38th St., New York, published monthly by Moore Publishing Company.

Advertising Requirements, 200 E. Illinois St., Chicago, published monthly by Advertising Publications, Inc. It conducts a Reader's Service Department; it includes postal permit reply cards in each issue to make requests for specific reports easier.

Industrial Marketing, 200 E. Illinois St., Chicago, published monthly by Advertising Publications, Inc.

The Journal of Marketing, 1525 E. 53d St., Chicago, published quarterly by the American Marketing Association.

Printers' Ink, 205 E. 42d St., New York, published weekly by Printers' Ink Publishing Company.

Sales Management, 386 Fourth Ave., New York, published semimonthly by Sales Management, Inc.

Tide, 232 Madison Ave., New York, published fortnightly by Magazines of Industry, Inc.

YOUR LIBRARY

Frequently, obtaining the information you are seeking is only a matter of reading the right book. A first step is to consult your library.

Should you be interested in information which can only be found in periodicals, you must consult the periodical indexes, which list the contents of selected magazines. General periodicals are listed in the *Reader's Guide to Periodical Literature*, which indexes the contents of more than 100 of the nation's most popular magazines. It covers only periodicals of general interest, not specialized ones. All articles are entered under specific subjects, making it as easy to find any one article or what has been published on any one subject as it is to find a word in the dictionary. Cross references indicate all pertinent information on any subject. Maps, portraits, illustrations, and bibliographies are also noted.

There are other indexes for specific areas as, for example, the *Agricultural Index*, the *Art Index*, the *Engineering Index*, *Public Affairs Information Service*, and others. The *Industrial Arts Index* is a monthly cumulated subject index to more than 200 periodicals covering engineering, science (chemistry, physics, geology), industry (metallurgy, textiles, aeronautics, electronics, railroads, ceramics, rubber, plastics, paper, etc.), economics, business and finance, public administration, management, and insurance. Each of the indexes mentioned lists in the front the magazines indexed and the abbreviations used and explains how to use the index. Entries are arranged in alphabetical order by author, title, and subject.

To obtain a periodical from the shelves of a library you must put on the call slip the name of the author, title of the article, the name, volume, and date of the periodical, and the page on which the article begins. This information will be found in the index you have consulted. The call numbers of the magazines can usually be found in a special listing of magazines available in the library.

Should you be looking for a book not in your library, consult the *Cumulative Book Index.* This volume, kept up to date by monthly supplements, lists all books published in this country. *Publishers' Weekly*, a journal of the book trade, describes new books. Selecting the right book on a subject is not always easy, but if you want an introduction to a subject new to you, get a survey book. A general textbook on the subject will furnish a bibliography, sources, and selected guides for further reading.[1]

The Vertical File Service Catalog, The H. W. Wilson Company, 950 University Ave., New York, publishes a subject catalog which records current, available pamphlets, with descriptive notes and price or conditions under which they may be obtained. It is issued monthly except August, with annual cumulations. A title index, giving the subject heading under which each title may be found, is included in every issue.

New York Times Index is published semimonthly and annually by The New York Times Co., 229 W. 43d St., New York. It summarizes and classifies news alphabetically by subjects, persons, and organizations, material under each heading being arranged chronologically. The index can be used as an independent reference work and as a guide to locating complete stories in *The Times* and other newspapers. It has been published continuously since 1913.

The New York Public Library, Fifth Ave. and 42d St., New York. The library has extensive holdings of periodicals in business and industrial fields. It endeavors to collect all available publications on marketing. Census reports, statistical reports, and government publications from all countries are exceptionally complete and there are good collections of industrial directories and maps. The economics division, one unit of the library, has almost a million volumes in its subject areas. The library also maintains a very complete collection of telephone directories for various localities in the United States and for many foreign countries.

GOVERNMENTAL SOURCES

Anyone who wants data or suggestions on any marketing problem should find out what is available in Washington. The Federal govern-

[1] For a very understandable guide to fact finding, see "How to Look Something Up," *Changing Times, The Kiplinger Magazine*, July, 1953.

ment has so many divisions and kinds of reports, guidebooks, directories, etc., that no one knows all its resources. The Department of Commerce is a vast gold mine of information on marketing for the prospector who can locate it.

The individual units of the Bureau of the Census issue catalogs which are available to industry. The Department of Commerce publishes a weekly *Business Service Check List* which names every item published that week by Commerce and defense agencies. A year's subscription may be had at a nominal price from the Department of Commerce or the Superintendent of Documents, Washington.

The *Selected List of Publications of the Department of Commerce of Interest to Those Engaged in Distribution*, published by the Business Information Service, may be obtained from the Department of Commerce. This publication, compiled by the Office of Distribution, includes such categories as general business statistics, domestic marketing problems, establishing and operating a business, industry studies and reports, foreign trade, business and government regulations, trade associations, and numerous other items of value to the marketer.

Information and publications can also be obtained from field offices of the Department of Commerce. The inquirer is asked to contact the field office of his area where his request can be serviced. Some of the divisions concerned with marketing are listed below.

1. Office of Business Economics, U.S. Department of Commerce, Washington. This office furnishes current analyses of the economic situation and business outlook; computation of the national income, gross national product (GNP), and balance of international payments of the United States. It publishes a monthly magazine, *Survey of Current Business*. It has information on the current business situation, statistics on national production, breakdowns of foreign transactions by major areas, data on the size of the business population, plant expansion, and national income statistics. Weekly supplements keep the data current.

2. Office of Distribution, Business and Defense Services Administration, Department of Commerce. This office prepares *Distribution Data Guide*, a monthly, an annotated bibliography of new materials pertaining to distribution and particularly to various phases of marketing. It contains a brief summary of pertinent publications from governmental and nongovernmental sources, covering 50 to 100 items each month. Most of the creative marketing help which manufacturers receive from the government is likely to come from this office.

3. Bureau of the Census, Department of Commerce, Washington. The Bureau of the Census is the general fact-finding and principal statistical service agency of the Federal government. It takes periodic censuses of population, housing, agriculture, irrigation, drainage, manufactures, min-

eral industries, business, transportation, and state and local governments at intervals of 5 or 10 years.

The marketer can find a wealth of information in the publications and files of the Bureau of the Census. The Bureau divides its information into five major categories. The first of these is the *Census of Population* which contains an enumeration of age, sex, race, nativity, occupation and employment, and family composition for all residents of the United States. Next is the *Census of Housing*, which classifies each of the nation's dwellings as to type of construction, age and condition, number of rooms and inhabitants, value and rental, etc. The *Census of Agriculture* gathers information on the size and yield of every farm in the nation, as well as facts about farm value, mortgage status, and ownership. The *Census of Manufacture* includes facts on number of establishments, quantities of products made, number of employees, and types of operation. And finally, the *Census of Business* reports on wholesale, retail, and service establishments in counties and cities of 2,500 population or more.

The Bureau of the Census issues monthly, quarterly, and annual reports covering such subjects as manufactures, retail and wholesale trade, government finances and employment, foreign trade, labor force, employment, unemployment, and income.

Statistical Abstract of the United States is a basic statistical reference volume, issued annually; it contains a selection of statistics on industrial, social, political, and economic subjects from most of the important statistical publications, both governmental and private (price, 1953 edition, $3.50).

County and City Data Book, small-area supplement to the *Statistical Abstract*, presents data for all counties and for all cities of 25,000 or more, taken principally from the 1950 Censuses of Agriculture, Population, and Housing but also from other sources. Data are so organized as to facilitate making comparisons between items and between areas, developing indexes and rankings, obtaining percentages and averages.

For other publications, see the *Catalog of United States Census Publications.*

The census provides figures on the population characteristics of almost any area in the nation. This is valuable information for the marketing man trying to locate a new business or compute sales potentials.

When a survey was made by the American Marketing Association [2] on the uses to which census data are put by business, it was found that regardless of type or size of organization, 96 per cent of the responding companies use census data in their marketing operations. The major mar-

[2] Neil H. Borden, Stanley Frame, William C. Gordon, Jr., and Charles W. Smith, "An Appraisal of Census Programs for Marketing Uses," *The Journal of Marketing*, April, 1954.

keting purposes were analysis of market potentials, economic or sales forecasting, analysis of distribution, analysis of sales performance, layout of sales territories, and the locating of plants, warehouses, and stores.

4. *Small Business Administration*, Washington. This agency issues, cooperatively with the Department of Commerce, "Business Service Bulletins," basic information sources on topics of value to the marketer such as *Statistics and Maps for National Market Analysis*, *Shopping Centers*, *Training Retail Salespeople*, and other bibliographical material.

Governmental information available on marketing statistics, studies, and analyses is vast. When a marketer wants to figure sales potentials, reshuffle territories, or look for new outlets he may be able to get pertinent information by consulting SBA field offices for free publications and specific advice. Or for charge publications, he should write to the Superintendent of Documents, Washington, sending check, money order, or postal note payable to Superintendent of Documents, or cash (at sender's risk). Stamps are not acceptable. Information requests should be separate from order and should contain name and address.

DIRECTORIES

Directories of manufacturers of many areas are available to sales managers, purchasing agents, and advertising managers. These directories list all manufacturers and processors who are or should be prospects in a given area. Usually prospects are categorized into three general headings: geographical location, alphabetical order, and product handled.

Some directories include information such as full name and address of the company, number of employees, products manufactured, and names of key personnel. Companies may be listed alphabetically and by products, and these lists are often cross-indexed to the main geographical listing.

Such directories are very helpful in enabling marketing men to obtain coverage of the area by salesmen and mailing lists. Many offer a complete list of manufacturers and processors for direct-mail campaigns. Sales areas can be more realistically allocated with the help of the geographical information the directories contain. Generally a good directory offers much information not available from a classified telephone directory, such as the number of employees in each company.

Association of North American Directory Publishers, 244 Madison Ave., New York. The Association maintains a library of current editions of city directories published throughout the United States. A single reference to one directory is free; there is an hourly charge for more extensive use of the library.

Donohue's New Directories of Chicago and Suburban Chicago, Donohue's Directories, Inc., 14 E. Jackson Blvd., Chicago.

Conover-Mast Purchasing Directory, 205 E. 42d St., New York. This is wholly an industrial buying guide; nonindustrial listings are rigidly excluded. A modern indexing system does away with duplication of listings; all the listings and all the advertisements of a given product appear in just one place—under the product's primary name.

MacRae's Blue Book, MacRae's Blue Book Company, 18 E. Huron St., Chicago. This is an industrial directory in which thousands of advertisers describe their products—a comprehensive directory of American industry, complete in one volume. Manufacturers are listed in the product classification section under the various product headings. In the address section leading manufacturers are listed in alphabetical form; invested capital rating is given when supplied. The third section contains over 60,000 trade names of products used in American industry. The publisher maintains a service department which locates sources of special materials and unusual products. The directory is reedited and published annually.

"Annual Market Data and Directory Number" of *Industrial Marketing*. This directory contains the latest data on sales production, consumption, number and geographical distribution of companies, and buying trends. Business papers and trade association names and addresses are classified according to markets served.

Poor's [Annual] *Register of Directors and Executives*, Standard and Poor's Corporation, 345 Hudson St., New York. This register gives 21,000 corporate listings of nationally known companies, showing titles and duties of all leading officers and directors, technical personnel, traffic managers, sales managers, advertising managers, and purchasing agents, also number of employees and nature of products manufactured. It includes histories of 80,000 top-flight executives throughout the country with their home addresses, educational background, year and place of birth, and interlocking connections. Also included is a breakdown of 203 classifications of industry and a products index of more than 2,500 commodity and service items. All information is kept up-to-date through quarterly cumulative supplements.

Informational Directory Co., 200 W. 57th St., New York. This company publishes *Sources of Information and Unusual Services*, a guide to organizations and agencies: where to find out, things to write for, and where to find the unusual.

Thomas' Register of American Manufacturers, Thomas Publishing Co., 461 Eighth Ave., New York. This book contains product classifications, an alphabetical list of manufacturers, capital ratings, trade names, etc.

In addition to the above, there are directories of advertising services, marketing research specialists, and other subjects useful to the marketer, some of which can be found in libraries. Many trade magazines publish annually an issue on statistics of value to the marketer. For example, *Advertising Age* magazine devotes space once a year to worthwhile market data information. This issue is a single reference source of all current available media-issued market data, featuring over-all market analyses, interpretations, and trends. This material is particularly useful to advertisers in making their advertising and marketing plans.

The Standard Advertising Register, published by National Register Publishing Company of New York and Chicago, tells who makes a product, where it is advertised, how much is spent on advertising, and the name of the agency handling the account. It has listings on about 14,000 companies.

McKittrick Directory of Advertisers, 108 Fulton St., New York. This directory publishes a list of more than 14,000 national advertisers and the advertising agencies with which they are associated. The list includes personnel and the agency placing the account.

Dun & Bradstreet, Inc., 99 Church St., New York. This firm issues credit reports (detailed description of business, including management, ownership, history of business, background of principals, line of business, products, description of plant or store, financial statement and other financial information, sales and profit trends, payment record) on small and large businesses. These are available on an annual contract basis only.

Reference Book of Dun & Bradstreet, Inc., contains coded descriptions of 2,700,000 American businesses. The listings indicate whether manufacturer, wholesaler, or retailer, products, business name used for buying, length of time in business under present management, size, and credit standing; special symbols call attention to newly listed businesses and to changed financial and credit ratings. Revised editions are published every two months. The *Reference Book* also is available on an annual contract basis only.

Dun & Bradstreet also furnish "packaged" sales and marketing data useful to many companies; "custom" sales and marketing data and statistics compiled to meet a specific need of a particular business; store audits of given products by model, pattern, brand, etc.; ethical drug audits for the drug-manufacturing industry.

Publications of Dun & Bradstreet are as follows:

Dun's Review and Modern Industry (monthly; $5 per year in the United States and Canada, $10 elsewhere). This magazine contains articles dealing with business behavior, new developments in techniques and methods of industrial production, new products, a regular monthly series on "The Trend of Business," and special articles of general business interest.

International Markets (monthly; $5 per year in the United States and Canada; $7.50 elsewhere). It publishes "how to" articles on international selling, advertising, marketing, shipping, finance, etc.; studies of local market conditions abroad; analyses of dollar-exchange situations and relative positions of specific imports and exports in leading world markets; *International Trade Inquiries* from firms throughout the world wishing to buy from, sell to, or represent American business concerns.

Dun's Statistical Review (monthly; $2 per year in the United States; $2.50 elsewhere). This presents a detailed breakdown of statistical and "regional trade barometer" information, compiled by the staff of *Dun's Review and Modern Industry* and summarized in that publication.

The Dun & Bradstreet business library assists business people in finding published information on business subjects. The collection includes 14,000 books, 15,000 pamphlets, 300 periodicals, 215 file drawers of press clippings and press releases (classified by subject), trade, industrial, and biographical directories. The library answers telephone and mail inquiries on business conditions, credit economics, business failures, industries, operating and financial ratios, and business management.

TRADE ASSOCIATIONS

You can become acquainted with the leading sources of information on almost any activity by getting in touch with the trade association or professional group serving its interests. The Trade Association Division, U.S. Department of Commerce, Washington, can supply lists of associations.

The benefits that can be derived from membership in trade associations are many. For example, product or technical research conducted by some of the active trade associations tends to benefit the entire industry. Some associations conduct research on new uses for old products or uses for waste materials, improvements in standards of operation, and similar problems. Some provide information and services on cross licensing and patent pooling. The adoption of industry-wide standards has been successful in a number of associations. A trade association is especially helpful in fields characterized by fast-moving technical developments. Many associations collect data on relations of costs to sales, stock turnover rates, bad debt losses, collection ratios, and net operating profit.

More than 100 trade associations have undertaken joint trade promotions that have been successful in building demand for new products.

National Associations of the United States, Department of Commerce, Washington. This directory lists trade and other associations. Each of the some 2,000 largest associations of businessmen in the United States is among the 4,000 associations listed in this 700-page directory and handbook. Among these are the more than 200 national associations of wholesalers and almost 100 retailers. Also the associations of manufacturers, advertising companies, etc., are included.

The Chamber of Commerce of the United States, Washington, frequently called "The National Chamber," is a federation of more than 3,100 organization members—local, state, and regional chambers of commerce and trade and industrial associations—and more than 21,000 business members—firms, corporations, and individual businessmen. The National Chamber publishes *Nation's Business*, a monthly magazine; *Washington Report*, a weekly newspaper that goes to members and to the press, libraries, universities, and congressional offices; *The Legislative Daily*, *The Legislative Outlook*, and *You and Your Congress*.

Basically, the National Chamber is a policy-making organization, its policies reflecting the consensus of opinion of the 1.6 million businessmen and women who constitute its underlying membership.

American Management Association, 330 W. 42d St., New York. AMA is a nonprofit, educational association composed of some 18,000 individual and company members. Its sole purpose is to keep its members in touch with the growing body of management knowledge and management problems and practices. A broad interchange of information and experience is made possible by means of such services as conferences, workshop seminars, management school, expositions, periodicals, publications, management information service, executive compensation, and executive referral service.

The National Industrial Conference Board, 247 Park Ave., New York, with a membership made up of business executives, is a nonprofit, business-sponsored organization which acts as a clearinghouse for facts and figures on business practices and studies the economic conditions under which business operates. Its objective is to furnish facts, not opinions. Many modern business firms rely on statistics and surveys which can be furnished by the National Industrial Conference Board, such as its *Marketing Practice Studies*. These and the *Studies in Business Policy* are of specific interest to marketing men. Many of them deal with marketing problems such as training dealers, measuring sales performance, and organization of the market research department. In addition, periodic

articles in *Business Record* and *Management Record* discuss particular sales problems. For example, a recent issue of *Management Record* contains two such articles, "Training Salesmen for Competitive Selling" and "Automobile Allowances for Salesmen." In addition, the Board conducts round-table meetings from time to time that deal with specific marketing problems. "Cutting Distribution Costs," "Training Dealers," and "Long-range Planning" were three recent meetings.

The Board's services are available to all associate companies (some 3,500, which include the majority of the more important industrial firms). As an executive of an associate firm, the individual benefits from the Board's services in two ways. He can request information which the Board has developed on particular problems on which he may be working; staff members will work with him in locating available information on the problem. Secondly, by receiving all Board publications, he is kept informed on a wide range of management problems and should be aware of major trends and developments in other areas of business.

Should the student go into the consulting field, he may become an associate and use the Board's services as a means of offering better service to his own clients. If, however, he is especially interested in forecasting markets, he will consult the Board's many aids to forecasting.

National Sales Executives, Inc., 136 E. 57th St., New York. NSE serves sales executives, who regularly receive selections of pertinent talks, articles, studies, and reports on every phase of marketing and distribution as well as sales management. NSE also conducts research with leading universities on special sales problems. Findings of these studies are available to members through the Sales Executives Library service. *NSE News* is published monthly; it serves as a means of communication throughout the organization and provides a medium for an interchange of ideas and information concerning sales management, marketing, and advertising. Another publication, the *NSE Digest*, published monthly, contains selections of the material and publications available on selling.

NSE serves the public by increasing the effectiveness of sales executives so that a high volume of sales may be maintained in order to consume the national production, reduce unemployment, and maintain a generally healthy economy.

The Educational Project of NSE serves youth by bringing to thousands of high school and college students the story of the competitive enterprise system and the importance of selling in our type of economy. The national "Selling as a Career" essay contest seeks to impress upon students the importance of selling to our economy.

The Boston Conference on Distribution is a national forum and annual appraisal of the economic trends affecting the business of distributing

goods and commodities. The conference, held in Boston, was originated by Daniel Bloomfield and has been under his direction for many years. Admission is free and the only income received is from the sale of reports of the sessions.

OTHER SOURCES

American Marketing Association, 1525 E. 53d St., Chicago. This is a national association "for the advancement of science in marketing." Membership includes persons in business and academic fields and leading business concerns. It has 37 active chapters in most large cities. It publishes *The Journal of Marketing* (quarterly), *Monthly News Bulletin*, *National Roster*, and other special booklets on marketing topics. It also conducts regular national conferences. It maintains a full-time headquarters staff and has 24 operating committees.

The Brookings Institution, 722 Jackson Place, Washington. This is a nonprofit, private organization doing research and preparing publications in foreign affairs, economics, business, finance, labor, health and welfare, education, government, and other areas.

Bureau of Business Research, Harvard University, Graduate School of Business Administration, Boston. This bureau prepares bulletins concerned primarily with the operating expenses of retail and wholesale businesses. During recent years, bulletins of the Bureau have been of necessity confined to studies of department stores and variety chains, but when opportunity offers it is expected that similar studies will be undertaken in other fields.

Bureau of Business Management, University of Illinois, College of Commerce and Business Administration, Urbana, Ill. The Bureau answers inquiries on all phases of business management; it conducts applied management research and works with individual business firms or associations on business problems and management appraisals; it publishes and distributes bulletins on business management; and it also conducts conferences, seminars, and short courses with or for business groups.

The Twentieth Century Fund, 330 W. 42d St., New York, is a foundation which has functioned for the past 20 years, not in the usual foundation pattern of making grants to agencies or individuals but as an operating research institution conducting its own work and publishing and disseminating the results of that work. It has limited the scope of its research program chiefly to the field of economics, broadly interpreted.

The Fund has no program of its own to promote. It simply designates a problem or field of study, finances and facilitates the investigation, and then publishes the results of the study together with a committee's conclusions.

One of its widely read books is *America's Needs and Resources*, by J. Frederic Dewhurst and associates, which was first published in 1947. An entirely rewritten study, *America's Needs and Resources—A New Survey*, was prepared by Dr. Dewhurst and staff for publication in late 1954.

Marketing men are especially interested in the Fund's studies on distribution costs. In the fall of 1953 the Fund began preliminary work on a survey of the costs of distributing goods in the United States. In some respects this completely new study, with a new research staff directed by Reavis Cox, is regarded as a sequel to an earlier study, *Does Distribution Cost Too Much?* by Paul W. Stewart and J. Frederic Dewhurst, which was first published in 1939 and received a good deal of attention from both the general public and specialists in the field. The new study is planned as a two-year project.

COLLATERAL READINGS

Coman, E. T., *Sources of Business Information*, New York: Prentice-Hall, Inc., 1949.

Sources of Information for Sales Executives and Specialists in Marketing, prepared by the Sub-committee on Bibliography, Committee on the Teaching of Sales Management, American Marketing Association, in cooperation with National Sales Executives, Inc., New York, 1951.

QUESTIONS AND EXERCISES

1. How many of the journals on marketing listed at the beginning of the chapter have you seen? How many do you read regularly? To how many do you subscribe?

2. If you wished to start a small business of your own, to what governmental source would you write for information?

3. If you wished to obtain a list of corporation executives for a mailing list in a job-getting campaign, what source or sources would you consider useful?

4. If you wanted to suggest an idea or theme for advertising a consumer product, what source would you consider most helpful for getting the names and addresses of firms that might consider your suggestion?

5. What trade association meetings—national, regional, state, or city—have you attended? What should one expect to gain from attendance at meetings?

6. To what associations do most alert marketers belong?

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