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INTRODUCTION TO SALES MANAGEMENT

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INTRODUCTION TO SALES MANAGEMENT

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PREFACE

The year 1940 marks the twentieth year during which the subject of sales management has been included in the curriculum of the Harvard Graduate School of Business Administration. During that period vast changes have taken place in the marketing field in teaching method and in the availability of teaching materials and instruction in management problems. The embodiment of these advances, together with the effort to cover the steadily broadening field, has resulted in increasing the size and complexity of each succeeding edition of the sales management problem books, prepared primarily for the use of advanced classes in the Harvard Business School.

The problem method of teaching sales management has, in the opinion of the author, proved its worth in stimulating straight thinking in a field in which there has been much intellectual looseness. The more or less complete use of problems in courses in scores of educational institutions constitutes evidence of the fact that that belief is shared by teachers in widely scattered sections of the country. The present volume is an attempt to meet the requests of those teachers who, in person and by letter, have expressed their strong desire for a briefer series of problems in sales management which might more easily be adapted for shorter courses in the subject.

The plan of this volume is a simple one, consisting of concise textual statements of general principles, followed by groups of carefully selected problems which should serve as a basis for study and thought by the student and for discussion in class sessions. Supplementing these is a series of questions intended to provoke thought and discussion upon practical, technical, social, and economic aspects of sales management. A thorough revision in the problem and question material has been undertaken in this second edition. The introductory text materials have been amplified at certain points but not materially changed, and no attempt has been made to make the volume primarily a text on sales management. The number of cases has decreased somewhat, but the average length and fullness of case presentation have been greatly increased in response to requests from instructors. A number of the cases continued from the first edition have been revised; some have been included without revision; but over one-half of the cases are new to the *Introduction*. Most of these have not appeared before in print.

Any problem book requiring field contact with scores of manufacturing and wholesale enterprises is necessarily the work of several persons and requires the cooperation of many. Many of the more recent problems were collected by Dr. Harry L. Hansen and Dr. Robert W. Chambers, as research agents in sales management, working under grant of funds from the Two Hundred and Fifty Associates of the Harvard Graduate School of Business Administration. Among those to whom the author owes grateful acknowledgment are his colleague, Professor Edmund P. Learned, who gave valuable assistance in securing problems in the textile field; Mr. Adolph Ullman, who furnished several problems in the radio and electrical fields; the members and executive committee of the Boston Sales Managers Club, who have generously contributed short problems and questions on their experiences; and especially Dean Wallace B. Donham and Professor John C. Baker, who suggested and encouraged the preparation of this volume. Its completion is due largely to the faithful assistance of the author's secretary, Miss Virginia B. Fales, who assumed the responsibility of preparing the manuscript for publication, correcting the proof, and preparing the index.

HARRY R. TOSDAL.

SOLDIERS FIELD,
BOSTON, MASSACHUSETTS,
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INTRODUCTION TO SALES MANAGEMENT

I

INTRODUCTORY—THE FIELD OF SALES MANAGEMENT

The principal task of business is to provide for consumer wants and needs. These wants shape the structure of business enterprise and the operation of business concerns. Wants of the ultimate consumer for commodities and services determine the demand for industrial equipment, for raw materials, and for the whole range of articles in the intermediate and industrial markets. The main function of business, therefore, is to create or procure desired goods or services and to furnish them to consumers in proper quantities at proper times and at satisfactory prices. The responsibility of the business manager is to administer all of the operations within an enterprise, including the activities of production and marketing and of such auxiliary functions as finance and transportation.

The portion of the field of business management which relates to the performance of the marketing functions is commonly termed sales management. While the term marketing management might be somewhat more accurate, business usage favors the term sales management, including in its broadest interpretation both foreign and domestic marketing operations. Sales management, using advertising as one of its means of creating demand, includes the management of advertising, although in business organizations the development of advertising has caused many companies to accord it a coordinate position with other portions of the field of sales management. While the principles of sales management may be applied to retail stores, the scope of this book is limited to sales management in wholesale and manufacturing enterprises. Nevertheless, it cannot altogether ignore retail selling because fundamentally sound sales management must be consistent with the interest of the consumer who may purchase from retailers. Sales management, however, is not coextensive with marketing, primarily because in common usage the management of retail enterprises, certain phases of merchandising, and the study of marketing functions and institutions which deal with raw materials are excluded.

Functions of the Sales Department of an Enterprise

From an economic point of view, sales management involves productive effort in the creation of utilities; time and place utilities are created because

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

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

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

Profit the Basic Objective of Sales Management

Since the business enterprise is founded for profit and since no business enterprise may persist indefinitely without it, the objective of the sales

department should contribute directly to the attainment of net profit. No apology need be offered for this as the objective either of the enterprise or of the sales department. In the majority of cases net profit is entirely consistent with the social point of view. In a minority of cases, however, this is not true. There are problems to be solved in which the long-run interest of the public and the immediate interests of the enterprise appear to be inimical. Any type of human effort may be misdirected. Consequently, one must expect that occasionally marketing effort will be misdirected. The amount of misdirection in any activity will depend in part upon the standards of conduct approved by the social group in which these activities are carried on. That the standards in some fields of business are not so high as desirable may freely be admitted, but the extent of these abuses does not obscure the fundamental service which is performed.

Profit is derived from selling operations by maintaining satisfactory relationship between volume of sales, gross margins, and operating expenses. The sales or marketing departments must, therefore, strive to secure that volume of sales which yields the most satisfactory net profit considering both the margin upon each unit of sales and the operating expense involved in procuring and maintaining sales. Every problem in the field of sales management has a direct relationship to one or more of these three fundamental measurements in the determination of net profit. A new sales method affects volume and possibly costs; a new pricing policy may affect volume and margins; a new product may affect volume, margins, and operating expense.

Characteristics of Modern Sales Management

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

The modern sales executive must perform his work with very imperfect equipment—imperfect, partly because of the incomplete development of other sciences, notably psychology; imperfect, largely because of the lack of scientific development along the lines of distribution. It seems strange to the observer that marketing, when understood as including the creation of time and place utility, should have suffered such neglect when, from the viewpoint of public interest, such distribution is always important, and since distribution frequently takes up a larger portion of public

income than production of form utility. In other words, for many commodities the costs of distribution are greater than the costs of manufacture, including the cost of raw material. Although production costs have been cut down materially in the course of the last two or three centuries, no sober examination of present-day facts would lead to any conclusion other than that of the need of applying every means to the reduction of distribution costs.

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

To develop the habit of passing judgment and taking action upon the basis of tangible and intangible facts in accordance with correct principles is the goal of scientific business training. It is our conviction that this training—this habit of making decisions upon facts and evidence rather than upon guesswork—can best be acquired through considering and discussing problems of the type which actually confront the businessman in the course of his activities. It is evident that there are an infinite number of possible combinations of circumstances; furthermore, it is not possible through the description of circumstances to convey all the variations in the personal factor.

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

Sales Management in the Business Organization

Sales management now occupies a definite place in our business structure. That place is, broadly speaking, a recent development due to the recognition of the essential need for functional specialization in performance of marketing functions and to the growing competition both within

and between industries. When the producing organization was unable to furnish even the elementary goods which the buying public was willing to purchase and pay for, the performance of the selling function could be handled by a small organization, as the work to be done was relatively small in amount and simple in type. With the growth of industry, the increase in the number of commodities, larger incomes, rising standards of living, and multiplication of the number of buyers, the task of getting wanted goods to those who desired them became increasingly complicated. Concurrently numerous marketing developments have taken place—in the replacement of the itinerant merchants and peddlers by the traveling salesmen, the growth of new classes of middlemen, the commencement and spread of advertising and, more recently, the full recognition of merchandising as the fundamental basis for sales operations.

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

More frequently a part of the marketing function is transferred through sale to the intermediate market, through wholesalers or direct to retailers, but in either situation more or less work needs to be done in effecting sales contacts, that work requiring the provision of a person or persons to take responsibility for its performance. A firm manufacturing consumer goods and selling its output to two or three chain store distributors may find that its selling work takes only a part of the time of an executive; it may spend relatively much more time on the task of designing and testing products to be introduced through chain outlets. On the other hand, another manufacturer of similar products may employ a large salesforce to visit retailers widely scattered throughout the nation.

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

One is safe in making the statement that sales management has within the last half century come to occupy a definite place in the business structure, and that its relative importance has increased steadily until

today certain functions with which the sales manager is concerned are considered fundamental to the existence of the enterprise.

The importance of sales management may be measured broadly upon several different bases: for instance, that of cost to the consumer and amount of employment furnished. From the viewpoint of cost to the consumer, the total costs of marketing amount to a substantial portion of the entire national income. Any estimates of the exact cost are subject to wide margins of error, but an estimate which takes the retail margin of 25% of total retail sales, which includes 10% of wholesale sales and 5% of sales by manufacturers, will give a figure large enough to impress even the most skeptical with the importance of careful study of management problems in marketing. At another point an estimate has been made of the costs of personal selling alone, in which was ventured a figure in excess of $3,500,000,000.[1] The expense of installment credit may easily be estimated as 10% of the total annual credit sales, which implies a minimum average cost of over $500,000,000 during the past 10 years. Advertising expenses have been estimated at $1,500,000,000 per year. From whatever angle one approaches the problem of determining costs of marketing, a strikingly large proportion of national income is involved. The sales management of wholesale and manufacturing concerns is responsible for one-quarter to one-half of total marketing expense—a sum which is certainly sufficient to warrant serious study by students of the social aspects of business as well as by the students and managers of business enterprise.

Any estimate of the amount of employment for which sales management is responsible is likewise of little value except as a basis for impression as to social importance. No government census reveals the number of persons employed directly in the performance of the functions for which sales management is responsible. The wholesale trade of the United States employed 1,607,704 persons in 1930, of whom 294,770 were women. Manufacturers' sales departments are not segregated for purposes of census enumeration; consequently any estimate of the total number of persons engaged in the marketing activities of manufacturing enterprises would be of little value. However, these figures should not be needed to convince the student of the economic and social importance of sales management.

Problems of Sales Management

The incomplete development of business science is clearly demonstrated by a study of sales management. The absence of generally accepted principles is shown by the number and variety of problems which present themselves to sales executives and by the utter lack of anything

[1] Tosdal, H. R., *Principles of Personal Selling* (McGraw-Hill Book Company, Inc., New York), 1925, p. 14.

approaching a scientific standard of practice. Because there is such a broad field in which complete facts cannot be secured, there is no single correct solution for many of the problems in sales management. A successful solution in one enterprise may be unsuccessful in another.

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

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

The study of sales management seems to have arrived at a point where, in the arrangement of problems, one is justified in emphasizing the need for adjusting organizations to the work to be done instead of giving emphasis to the subject of organization at the outset of the study of the field. The major groups of problems are presented in the following order:

1. The market. Sales and market research.
2. What to sell; merchandising policy and merchandising organizations.
3. To whom shall products be sold? Market channels; market research and analysis.
4. At what prices and terms shall products be sold? Prices and credit terms.
5. How shall the product be sold? Sales methods; sales promotion; sales campaigns.
6. By whom is the work to be done? Sales organization; management of salesforce.
7. Planning and control of sales operations.

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

therefore, encountered in widely varying sizes of companies, just as they are encountered in widely varying types of products.

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

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

In studying the problems which follow, therefore, one must remember that decisions on action may be changed by personal factors slightly or in more important degree, depending upon the situation. The justification for studying them under such conditions is twofold: (1) Many problems depend upon market conditions over which a specific personality has no control; (2) the more logical the decision, other things being equal, the better the chance that it will be successful when administered by personalities commonly available for such work.

The Solution of Sales Management Problems

The truth of the statement made by the Committee on Recent Economic Changes that the prime characteristic of the previous decade was an acceleration of pace of change, rather than of kind, has been amply borne out in the field of sales management. Solutions of sales management problems which were satisfactory yesterday may not be appropriate today. The solution of today may not be applicable tomorrow. Some funda-

mental principles remain or change much more slowly, but the methods of applying these principles to specific situations may undergo rapid shifts, to the great embarrassment of those executives and those firms who confuse principle with method.

The businessman uses facts and opinions, imagination and judgment, to solve his problems, and seasons his consideration with experience. It is not easy for the businessman to keep in touch with fact and opinion. There are three sources which he ordinarily utilizes: (1) his own experiences and those of his enterprise, (2) the experiences of other men and of other companies, (3) facts and opinions collected by various agencies—scientific, government, editorial, which are usually embodied in printed material. To put it more briefly, the businessman gets information to help him in his business through experience, through observation, through correspondence and conversation with others, and through reading.

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

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

and similar organizations bring about an interchange between members of different trades or industries.

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

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

Plan of This Volume

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

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

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

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

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

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II

SALES AND MARKET RESEARCH; SALES PLANNING

The changes in marketing structure and function during the nineteenth and twentieth centuries have not altered the essential fact that producers and consumers are separated in an industrial structure composed to a considerable degree of large-scale enterprises which cater to large numbers of more or less geographically dispersed buyers. The development of general and specialized wholesale institutions, the introduction of various types of intermediaries between manufacturer and wholesaler, the rise of newer types of wholesaling and retailing institutions, the continued expansion of large-scale industries, and the development of large-scale distribution organizations have added to the efficiency of the performance of many necessary functions. They have added also to the complexity of the market structure and to the complexity of the seller's problems involving demand, whether that demand emanates from industrial or intermediate purchaser, or from ultimate consumer. That increased speed of communication and distribution and the tendency to decrease the number of middlemen by integrating marketing institutions in large-scale enterprises have not solved the problem is apparent after brief reflection, for the consumer demand for goods and service has likewise kept pace with these developments.

The need for greater knowledge of consumer demand and of markets is shared by all sound business enterprise. The manufacturer needs adequate information of many types if he is to operate most satisfactorily. The length of the production process compels many manufacturing businesses to start planning for production months in advance of the time when the consumer expresses clearly his preferences or dislikes for products. In the men's clothing industry it is necessary to plan styles or factory production several months previous to the beginning of the selling season. The process is shorter for production of women's garments. Fabric producers must plan for new fabrics several months in advance of the purchase and manufacture by garment makers. To get a new design of an automobile into production may take six months or more. To develop new machinery, it is customary for seasoned production managers to double or treble the most conservative estimate of time which those working on the task of development may give. While production processes

have in a measure been shortened and production organizations have been made more flexible as the pressure of rapid change has taxed the ingenuity of management, the fact remains that the fullest realization of present production techniques requires preparation and time for production in advance of any concrete expression of consumer demand. Market knowledge is essential but at best inadequate.

Likewise upon the basis of inadequate market knowledge, retailers, wholesalers, and other middlemen must choose goods made available by manufacturers or special types of middlemen. If they deal in consumer goods, they must choose products which consumers want and must likewise have the goods ready for delivery in the quantities required and at as low prices as are consistent with certainty and stability of supply. Furthermore, consumers' desires must be predicted with at least a moderate degree of success if the business is to succeed. The need for research to improve the accuracy of those predictions is obvious to every student of marketing problems.

Transportation enterprises likewise have found that change in price and that improvements in service to meet consumer desires have been profitable, and they have learned that they need information about consumer demand and have begun to question the public in detail to acquire that knowledge. Financial enterprises which aim to supply capital to other business enterprises have found that the soundness of financing factories may be intimately bound up with the trend and stability of market demand. Commercial banks have learned, at times to their sorrow, that the extension of loans to industries marketing products for which consumer demand is declining may prove unsound. Greater knowledge of the basic requirements of markets would obviate many banking errors.

Sales Research and Sales Planning. The difference between the modern scientific sales management and the older "rule-of-thumb" sales management lies particularly in this sales research and in sales planning. Formerly, it was customary to try to sell the production of a plant, or to sell what had been purchased, without careful study of the work which had to be done and the way in which it ought to be done. Salesmen were sent out with a valise full of samples but with no training that would help them to make the best use of their time. Aside from his own earlier experience, the sales manager was not in a position to help his salesmen; nor was he in a position to utilize advertising and other means of selling in effective combination.

To plan sales before plunging into the work of selling a product is nothing more or less than common sense. Planning of sales prevents costly mistakes and makes the sales organization more effective. Sales planning

involves thinking before acting, and it is needed at every stage of the marketing process. Planning is needed to provide an organization which will be adequate and yet not too large for the selling work which is to be done. Unless some planning is done, there will be too many or too few clerks, too many or too few salesmen. Again, planning is necessary to enable work to be accomplished successfully and effectively by the sales organization. If advertising is to be used, it must be planned long in advance, so that it will appear at the most favorable time. Furthermore, the work of the salesmen must be so planned as to enable them to take advantage of the force of advertising.

If a product is to be introduced, decision must be arrived at as to whether effort should be made to secure distribution prior to an advertising campaign or whether an advertising campaign should be used as one means of securing that distribution. In either case, careful planning is necessary. Planning is also necessary when considering a new product for the market.

Good planning for marketing and selling operations requires knowledge and skill. Facts are needed about markets. It is the objective of market research to secure the facts required for skillful planning.

Market Research. Research for business enterprise may be grouped into five classifications:

1. Major economic research to furnish the basis for action where such action requires knowledge of economic trends affecting business as a whole.
2. Major research in consumer demand to furnish the basis for action where such action requires information as to the expansion, contraction, or change in the broad plans of business which might result from changes in demand.
3. Major research in the development of products to furnish a factual basis for meeting changes in demand, changes in intra- or inter-industrial competition.
4. Research to secure the basis for current adjustment to market and customer demands and organization capacities; this may require analysis of experience, both general and detailed.
5. Research to secure information and periodic appraisal of work done by the sales department and to secure a basis for possible change in the work plan.

Market research is concerned with all of these, but particularly with the second, third, and fourth classifications above. In order to plan sales properly, the sales manager must reduce to the lowest possible point the amount of guessing which he has to do. To plan without facts which reduce guesswork to the minimum is to assume unnecessary chance of making expensive mistakes. While it will rarely be possible to get all of the facts which might be desired for establishing definitely every detail in a comprehensive sales plan, yet the greater the range of pertinent, useful, and usable facts, the more likely the sales manager is to be able to show successful sales operation.

Several factors have combined to increase the emphasis placed upon market research. Among them is the growth of competition, based partly upon overextension of facilities for production and partly upon rapid changes and developments in consumer and industrial demands. A growing number of firms have experienced what once was popularly called "profitless prosperity," a condition whereby a large volume of sales was combined with a disproportionately small profit. Market research was, therefore, emphasized in the endeavor to find ways and means of meeting the problem. It has become constantly more difficult for a firm to keep up with the procession of changes, price declines, and market shifts without making special provision for market research and market planning.

There is no magic in market research. In spite of the former attitude of many businessmen toward research activity, more mature and critical opinion has developed to guide the businessman away from uncritical explanations of market research and toward the reasonable use of scientifically justifiable research methods. Businessmen are beginning to realize that market facts are complex, voluminous, and difficult to interpret, but that they may no longer be ignored. The problem, therefore, which now confronts the business executive is not so much whether to use market research and market planning but how to make them best serve his purpose at reasonable cost.

What facts are needed? It is obvious that in the collection of facts as a basis for sales planning some limit has to be placed upon the efforts to collect facts.

First, only those facts should be collected which are pertinent to the questions that have to be decided in making a sales plan. But it requires imagination to know what facts may be pertinent; for instance, in establishing quotas over a period it may be necessary to have information not only as to past sales but also as to the future of economic conditions and their probable effect upon the purchasing community. It may be necessary, further, to have facts concerning probable changes in buying habits. It does not require much thought to make it apparent that any broad sales problem breaks down into smaller constituent problems about each of which some facts may need to be collected.

As a second proposition, the sales manager will not deny that the facts that are pertinent, and therefore useful, should be in usable form. Many organizations have facts of utmost importance for those who are planning their selling work, but those facts are not in usable form. They are not collated; nor are they so located that they can be used in connection with the making of plans.

It is neither possible nor ordinarily necessary to collect all the facts which might bear upon the solution of a particular problem in planning.

In the first place it is not desirable because of cost; to get the facts about the buying habits of all the consumers of a particular commodity would be extremely expensive, if not impossible. Fortunately, it has been found by experience that a smaller number of facts, taken at random, or taken with care to assure impartial selection, yield the same conclusions, or essentially the same conclusions, as may be secured from much larger masses of facts.

Sources of Market Information. There are three principal sources of market information. The first is business itself, including in that term both one's own business and other businesses, both allied and competing. Business records and personal contacts of executives with the market furnish information which no wise executive will ignore. Nevertheless, there is in many cases a tendency to overestimate the value of one's own experience and one's own contacts. Much market information relating to the practices and attitudes of buyers has not been developed or definitely formulated. Many experienced business and market executives know too many things which are not true. The sphere of observation and experience of most men engaged in business is relatively narrow. Furthermore, observations within a business made by businessmen are likely to be influenced by bias or by current attitudes toward competitors. Personal contact and experience may be enhanced and enriched by contact with other executives in trade associations and other similar organizations.

The second chief source of market information consists of those compilations of knowledge and of fact which are available to businessmen in various forms. These sources are usually classified as library sources, although one should conceive of them as a collection of facts of more or less use to those who are endeavoring to carry on market study. Useful facts may frequently be secured from books, government reports, trade journals, and other printed sources. Year by year the importance of printed sources of information is increasing. The day has passed when the executive in any sizable business can afford to ignore what such sources offer. However, there is a limit to the type of information which can be secured through desk or library research; the facts are mass facts and are available usually only on points which are of particular interest to general industry or to the public in general. The more detailed facts which may be of special importance to a given company are in many cases not available.

The third chief source of market information is the market itself. This should be regarded as the primary source, but there are difficulties in securing information from the market which render it of less value and which usually make it advisable to exhaust other sources before attempting to go direct to the market. In the first place, the market itself, con-

sidered as an organization of consumers or buyers, may be a source of doubtful value, for buyers may not know, or may not be willing to tell what they know, about their own buying practices, attitudes, and habits. Furthermore, buyers may not act as they say they will act. Turning to the supply side of the market, one finds that the information which may be secured about or from competitors in the market may be very limited or undependable. The market as a source of information may be too large to be studied at reasonable cost without employing the sampling method and careful selection. It is expensive to get scientifically valid sampling, while the results of questioning may yield only information already available. Nevertheless, techniques are in process of development by market research workers, psychologists, and others, which promise to give considerably more assurance in the use of the market as a source of information.

A. MARKET RESEARCH METHOD; SALES RESEARCH

A useful distinction has sometimes been drawn between sales research and market research, based primarily upon the source of information utilized. Sales research is based upon the information found in the internal records and reports of an enterprise—accounting records and reports, statistical records and reports, reports of salesmen, executives, and other members of personnel. Only a minority of sales departments fully appreciate the value of this apparently obvious source of data.

Market research, on the other hand, is the term applied to the collection and interpretation of facts in which the source of information is external to the business enterprise, that is, information secured from the market itself. There are three principal methods of securing and collecting information in connection with market research. The first is that of personal contact with those who, directly or indirectly, are sources of information; the second is through correspondence, which may be more or less personal in its nature; the third is through reading.

Personal contact may be conducted by the sales executive directly, through employees responsible primarily for market research work, or by outside organizations which carry on market research for business enterprises. The interviewing method, which characterizes personal investigation, is in process of development, relatively little being known about the uses, technique, and limitations of the method in securing market information. Certain general advantages appear, however, upon examination. Contacts of competent interviewers are likely to yield more information

than will correspondence. The competent investigator secures a greater number of responses in proportion to calls made than does correspondence in proportion to number of inquiries mailed. The competent interviewer may make up for the defects of the plan under which he is operating and may incidentally gather information which is more important and significant than the questions which have been planned as the basis of the interview. Furthermore, while generally more expensive, the interview may conceivably be more economical per completed report than the cruder and apparently cheaper mail questionnaire method. On the other hand, personal investigators may not be competent; their work may not be well planned; they may not be conscientious or industrious. In such cases, the costs are high in relation to the value of the results.

A considerable amount of market research is carried on through correspondence, which ranges from the informal letter to an elaborately planned and printed questionnaire sent to a large number of persons. Most research workers tend to think in terms of questions presented to miscellaneous groups by mail. In order to secure any satisfactory proportion of desirable replies, it is necessary to select the list carefully, to formulate the questionnaire properly so that it may be answered easily and intelligibly, and to interpret the results in a manner scientifically consistent with the previous conduct and scope of the survey.

When the data have been collected, the work which remains to be done includes the testing of the data as to accuracy, adequacy, and quality. Next, the data must be so organized and arranged that they become useful for the purposes intended, because only then will they begin to have significance for the scientific worker. With adequate and pertinent data properly arranged, the stage of interpretation and conclusion has been reached. Many logical errors tend to creep in at this stage. There is a tendency to draw conclusions on the basis of insufficient or improper samples; there is danger that in drawing conclusions important considerations have been ignored or have been given insufficient weight. Another common fault is the failure to distinguish between data which represent fact and data which represent opinion. Moreover, there is the tendency to favor conclusions which meet with the preferences or prejudices of the investigator and of the executive for whom the investigation is made. Finally, research conclusions should be pertinent to the objective of the research project, to the needs of the business, and should be presented to executives in such a way as to enable them to be studied with accurate knowledge both as to what the accomplishments of the research have been and as to the limitations of coverage.

1. GLEDHILL COMPANY—MARKET INFORMATION FROM SALES RECORDS

The Gledhill Company, of St. Louis, Missouri, manufactured and sold belts, men's and women's garter products, suspenders, and arm bands. The company's products were sold to wholesalers and retailers throughout the United States by a salesforce of 25 men. These men were divided into three groups, one group covering New England under a branch manager in Boston, one covering New York and a wide surrounding vicinity under a branch manager in New York City, and one covering the rest of the United States under the control of the sales manager at the plant. Besides watching their sales volume and trying to maintain favorable relations with them, the company did little to guide their sales efforts. In searching for measures which might be adopted to combat the effect of depressed business conditions, however, it was proposed that an examination be made of the company's sales records. Six types of reports were compiled regularly to aid in controlling the salesforce:

1. A weekly report in dollars of sales by salesmen, which showed sales for the past week and for the week previous.
2. A report of sales by products every 10 days, both in dollars and in the number of dozens sold, for each individual item of the company's line and totals for each of the types of product.
3. A monthly accounting report for each salesman, showing his commissions for the month, his drawings for the month, and his credit or debit balance for the month and up to date for the year.
4. A monthly summary of gross margin by type of product, showing the total sales of the products less the approximate manufacturing costs.
5. A monthly summary of sales by states.
6. A monthly summary of sales by the various classes of customers, such as wholesalers, department stores, smaller retail outlets and various types of chain stores.

In addition, the officials had other reports made up from time to time as the need for them appeared—for instance, a listing of customers who had stopped buying from the company.

What information could the Gledhill Company get concerning its market from these records? What other sources of information upon its market could the Gledhill Company use to measure the potential demand for its products?

2. MARSH CHEMICAL COMPANY—MARKET ANALYSIS TO DETERMINE SALES POTENTIAL

The Marsh Chemical Company of Chicago, Illinois, manufactured a high-price, nonvolatile, antifreeze solution for use chiefly in automobile

radiators, and also a large line of general chemicals. The company distributed the antifreeze through hardware and automotive wholesalers and chain filling stations. For purposes of sales administration, the country was divided into four districts, in each of which worked from two to eight salesmen under a district manager. Each salesman, except for those in the larger cities, was assigned a definite territory in which he called upon the jobbers and did missionary work among retailers. The district offices were sales offices only. The districts followed county lines rather than state lines, since they were based upon trading areas as revealed by the Department of Commerce studies of the trading areas of wholesale grocers, each district usually being made up of several wholesale trading areas.

All salesmen were paid salaries and traveling expenses plus an annual bonus for sales larger than quotas set in each of the five lines. If a salesman sold 105% of his quota in any one line, he received a bonus of 1½% of his annual salary. If the district also reached 105% of the quota for the line, each salesman received an additional 1½% bonus. Consequently, if a salesman reached 105% of his quota in all lines and the district did likewise, the salesman would earn 15% of his salary as a bonus.

The setting of the quotas for the salesmen in the different lines was therefore of considerable importance. Up through 1929 these quotas were set merely as percentage increases (or decreases) over sales of the previous year as judged expedient by the sales executives. All salesmen, except in special cases, received the same percentage increase or decrease. This system of setting quotas did not work out satisfactorily because it penalized the salesmen who were consistently doing the best selling job; furthermore, inaccuracies in the forecasts for total sales in some lines made the quotas practically unattainable for all salesmen. Such a system did not take into account differences in business conditions in local areas.

In 1929 the executives of the company decided that a study should be made leading toward the development of market potential factors for each of the major lines of products. These relative potentials were desired not only to enable the executives to judge with some degree of accuracy the extent of the market in different parts of the country but also to enable them to set sales quotas which were based on something more than past results.

The sales research department considered a wide variety of factors which seemed to measure the potential market for each of the lines. Of course, the factors had to be available on a county basis in order that the figures might be accumulated for district potentials. The factors finally considered of most importance in measuring the potential market for antifreeze solution were: (*a*) number of cars over $1,000 in value, (*b*) number of cars under $1,000 in value, and (*c*) climate, particularly the

severity of winter weather. Florida, southern Texas, Arizona, and southern and coastal California were not considered in the analysis because of their warm climate. The factor of climate was incorporated into the analysis by arbitrarily assigning the different belts on an isothermic map weights varying from 0.3 to 1.6, the belt containing New York being assigned a weight of 1.

The members of the sales research department realized that the two other factors were not of equal importance but hesitated to assign weights arbitrarily to them. In order to determine the most satisfactory weights, various combinations were tried, and the potential arrived at in the various districts was correlated to actual sales in the districts. Both the potential and actual sales were expressed for each district as a percentage of the national total. The weights of 7 for the number of automobiles over $1,000 in value and 2 for the number of automobiles under $1,000 in value were found to give potentials which correlated most closely with actual sales. The weights assigned to the two factors were assumed to measure the variation in the values of the factors caused by differences in radiator capacities of automobiles in the two classes, and also differences in the ability and willingness of owners of automobiles in the two classes to purchase Marsh antifreeze solution.

The potential figures derived from the analysis proved valuable to the district managers in pointing out to salesmen those sections of their territories which offered the greatest possibilities for the expansion of sales of particular lines. In some districts the sale of Marsh antifreeze solution was increased over 50% through the concentration of sales and promotional effort in areas where the company was not receiving its proportionate share of the potential business.

Late in 1930, however, the sales research department again took the preparation of the potentials into consideration in an effort to improve them and to avoid the estimating necessary in the method used. Of the various methods proposed to determine market potentials the "correlation process" used by Dr. L. D. H. Weld was considered most logical and was adopted. The correlation process was based on the theory that, provided an article had been on the market several years and had had unhampered distribution, past sales offered the best guide to market possibilities in a general way. In this process, past sales were to be used to select those factors which were to be employed in determining the potential. If a factor had any appreciable influence on the sale of a product, the variation in sales would necessarily follow the variation of that factor to some degree. Of course, the factor necessarily had to be one that could be secured for small units of territory. In addition, a factor chosen on this basis had to have some practical justification to avoid the possibility

of mere chance correlation. After all available justifiable factors were found which showed a fairly high correlation with sales in a particular line, they were averaged by the multiple correlation method which determined what weight each factor should have in order to give the combination of all of them the highest possible coefficient of correlation with sales; this final average was considered the potential index.

Although the results were expected to be more accurate as more subdivisions were used to break down sales and factors, for practical purposes there was no need to determine potentials for areas smaller than salesmen's territories, since the principal objective was the setting of quotas. It was not logical to go even that far in all cases. The company had records showing jobber purchases by salesmen's territories, but in some cases the salesmen's territories did not extend to the limits of the areas covered by all their jobbers. In order to be certain that jobber purchases were a good measure of consumer purchases, 44 subdistricts were established, a subdistrict being the smallest number of contiguous territories which comprised a generally self-contained jobbing area or group of areas. Of all the subdistricts, 30 were individual sales territories, and 14 were combinations of 2 or more sales territories. The combination subdistricts usually contained larger cities where several salesmen worked in the same wholesale trading area. The breakdown of the subdistrict quota among several salesmen was to be done on the basis of past sales.

The actual method used to select and combine the proper factors in the market analysis consisted of nine steps:

1. Tabulate sales of the antifreeze and all factors by sales districts.
2. Reduce sales and factors to a per car[1] basis for each sales district.
3. Determine the percentage of each per car amount to the United States average.
4. Plot these percentages on charts, using one chart for sales and a separate one for each factor.
5. By visual comparison select that factor whose graph correlates most closely with sales.
6. Plot the discrepancies or "residuals" between these two to make subsequent selection easier.
7. By visual comparison select other factors which correlate with the residual graph.
8. By multiple correlation combine all selected factors into one average, which gives the potential on the basis of per car percentage of United States average.
9. Multiply each potential by the corresponding number of cars, find the total of these products, and determine the percentage that each bears to this total. This is the potential on the basis of percentage of total United States.

[1] Ordinarily "per capita" basis would have been used but, since automobile figures are published and since the sale of this antifreeze was definitely limited to automobiles, "per car" basis was used.

Because of the tremendous variation in the sale of the antifreeze solution per automobile in different areas, it was difficult to find any factors which fluctuated as widely. The variation in sales (shown in Exhibit 1) extended from less than 1% of the United States average per car in Florida

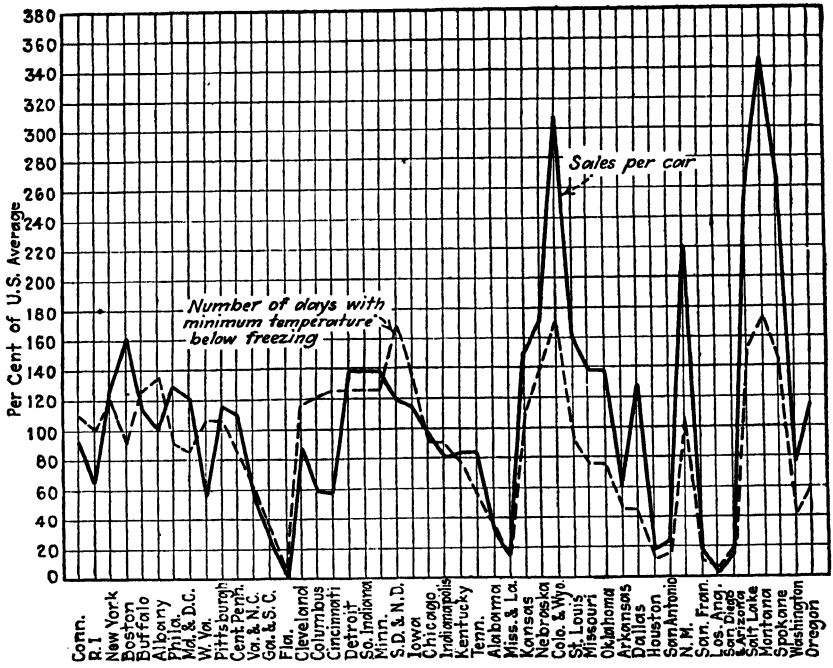

EXHIBIT 1.—Marsh Chemical Company. Antifreeze sales and number freezing days, 1930, per car basis.

to almost 350% in Montana. The following factors were examined in an effort to decide which had the closest correlation with sales:

Winter temperature.
Altitude.
Average daily range of temperature, January.
Average minimum temperature, December, January, February.
Number days continuously below freezing.
Date of first freeze.
Number days minimum temperature below freezing. Snowfall.
Percentage of automobile registrations in 1928, 1929, 1930 models.
Telephones.
Country Gentleman circulation.
Percentage of automobile registrations over $1,000 in value.

Exhibit 1 shows the correlation between 1930 antifreeze solution sales per automobile expressed as a percentage of United States average and

the number of days minimum temperature below freezing expressed in the same way. This appeared to be the principal climatic factor affecting antifreeze solution sales and indicated two characteristics of buyers of that product: (*a*) Minimum rather than average temperature influenced buyers most in determining whether or not to use an antifreeze solution and also the amount of the solution used, and (*b*) the number of days that cold weather lasted materially affected the sales of a high-price antifreeze solution. The only other climatic factor considered important was the average daily range of January temperature, which indicated that the nonvolatile feature of Marsh antifreeze solution was recognized. The

EXHIBIT 2

MARSH CHEMICAL COMPANY—CALCULATION OF POTENTIAL SALES OF ANTIFREEZE SOLUTION IN SELECTED SUBDISTRICTS

	Subdistricts					United States Average
	1	2	3	4	5	
Number of Days Minimum Temperature:						
Below Freezing:						
Actual Days	105	120	135	95	130	110
Percentage of United States Average (X_2)	95.45 %	109.09 %	122.73 %	86.36 %	118.18 %	100.00 %
Average Daily Range in Temperature in January:						
Actual Range	16°	18°	16°	12°	16°	17°
Percentage of United States Average (X_3)	94.12 %	105.88 %	94.12 %	70.59 %	94.12 %	100.00 %
Number of Automobiles over $1,000 in Value:						
Percentage of United States Average (X_4)	139.0 %	116.8 %	129.4 %	158.7 %	136.1 %	100.00 %
$1.247392X_2$	119.1	136.1	153.1	107.8	147.4	
$0.915328X_3$	86.1	96.9	86.1	64.6	86.1	
$0.026415X_4$	3.7	3.1	3.4	4.2	3.6	
Potential per Car:						
Percentage of United States Average (X_1)	111.2 %	138.4 %	144.9 %	78.9 %	139.4 %	
Potential Index:						
Percentage of United States	2.18 %	4.33 %	2.91 %	4.77 %	3.29 %	

percentage of cars valued at over $1,000 was found to correlate to some extent and was used as a factor to indicate ability to buy. Other factors, such as altitude, were found to correlate with sales but did not add anything to the factors used. The three factors finally used and the weights determined for each by multiple correlation were as follows:

1. Number of Days with Minimum Temperature below Freezing..... 1.247392
2. Average Daily Range of Temperature in January..... 0.915328
3. Percentage of Automobiles over $1,000 in Value..... 0.026415

Each factor expressed as a percentage of the United States average was multiplied by the previously determined weights, and 97.9 was subtracted from the sum of the weighted factors as called for by the multiple

correlation formula (Exhibit 2). The result was the potential sales per car in the subdistrict expressed as a percentage of the United States average. To find the potential existing in each subdistrict expressed as a percentage of the total for the country, the potential per car (expressed as a percentage of United States average) in each subdistrict was multiplied by the number of cars in the subdistrict and the result expressed as a percentage of the sum of similar results for all districts (Exhibit 3). Each sales territory was assigned the same percentage of the national quota for anti-

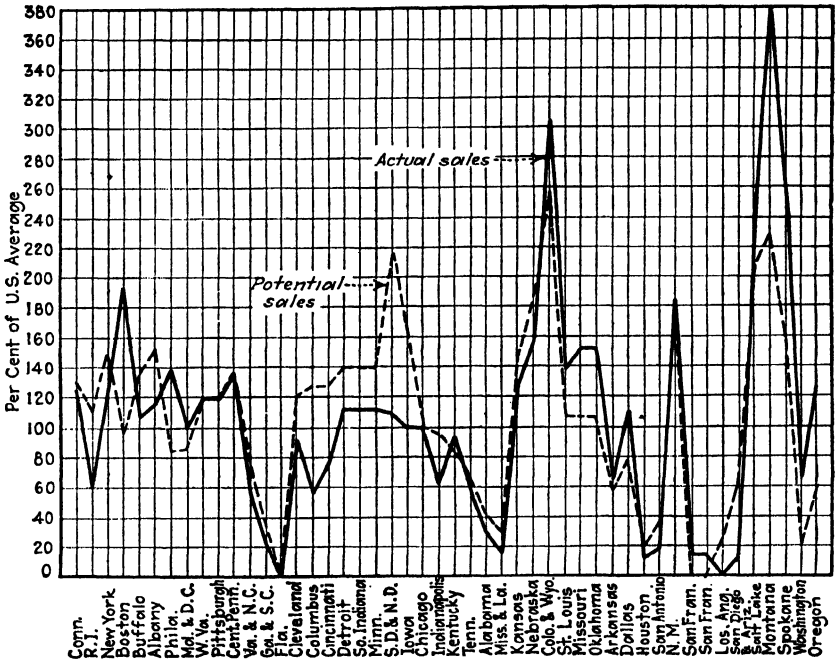

EXHIBIT 3.—Marsh Chemical Company. Actual and potential antifreeze sales, 1930, per car basis.

freeze solution as the percentage of the national potential contained in the territory.

3. DUANE COMPANY (A)—USE OF QUESTIONNAIRES TO ASCERTAIN DEMAND

The Duane Company, a large manufacturer of batteries, had annual sales of radio "B" batteries of over a million dollars. The product was of high quality, selling at retail at from $2.95 to $4.25 a battery according to the size. Distribution was effected through wholesalers who were

EXHIBIT 1

DUANE COMPANY—TABULATION OF RETURNS FROM QUESTIONNAIRE

	Iowa	Oklahoma	Illinois	New York	California	Texas	Ohio	Minnesota	Michigan	Wisconsin	Total
1. Do You Have a Radio Set?											
Yes	175	279	255	175	269	40	207	220	108	216	1,944
No	50	281	3	68	142	94	133	110	155	206	1,242
Total	225	560	258	243	411	134	340	330	263	422	3,186
2. What Kind?											
Battery Set?	160	188	214	130	73	29	149	201	84	157	1,385
All-electric Set?	15	91	41	45	196	11	58	19	24	59	559
Total	175	279	255	175	269	40	207	220	108	216	1,944
3. If a Battery Set, Is it Operated by											
Dry Cells?	27	30	23	15	18	6	22	22	9	13	185
Storage Battery?	133	158	191	115	55	23	127	179	75	144	1,200
Total	160	188	214	130	73	29	149	201	84	157	1,385
4. How Many "B" Batteries Do You Use in Your Set?											
One	2	4	5	10	7	3	5	6	1	4	47
Two	98	96	138	69	40	17	99	101	62	90	810
Three	47	73	54	44	15	7	33	81	16	53	423
Four	7	9	3	3	1	2	3	9	1	5	43
Five	1	1	...	1	...	...	...	2	...	...	5
Six	...	...	...	...	...	...	1	...	...	...	1
Eight	...	...	...	...	...	...	1	...	...	...	1
Total	155	183	200	127	63	29	142	199	80	152	1,330
4a. How Often Do You Purchase New Ones?											
Less than 6 Months	18	26	25	10	5	3	8	16	6	10	127
6 Months	54	48	56	28	17	10	36	73	23	39	384
6 to 9 Months	18	15	24	14	8	4	13	17	5	15	133
9 to 12 Months	10	10	17	10	3	2	8	14	5	14	93
12 Months	42	54	61	43	14	5	50	59	22	51	401
12 to 18 Months	6	14	5	4	3	2	4	2	2	5	47
18 to 24 Months	2	...	2	4	2	...	3	7	2	3	25
24 to 36 Months	...	...	...	1	1	...	1	1	1	...	5
36 to 48 Months	...	...	...	...	2	...	...	...	...	...	2
Total	150	167	190	114	55	26	123	189	66	137	1,217
5. What Make of "B" Battery Do You Buy? (Fifteen Leading Brands of 101 Mentioned.)											
Brand											
Duane—High-grade	62	79	66	62	42	19	67	65	38	55	555

A Competitor	15	14	22	10	2	4	14	39	8	23	151
B Competitor	3	6	43	13	2	1	13	9	7	13	110
C Competitor	4	21	6	9	4	1	8	17	5	13	88
D Competitor	1	4	21	6	...	3	...	6	2	4	47
E Competitor	...	8	3	7	...	1	...	15	2	5	41
F Competitor	...	...	16	...	1	2	2	12	2	3	38
G Competitor	4	10	1	4	4	1	...	1	3	...	28
H Competitor	6	...	3	...	...	...	...	10	...	2	21
Brand											
Duane—Second-grade	6	2	3	...	...	...	1	4	...	2	18
I Competitor	...	1	10	...	1	1	1	...	...	3	77
J Competitor	1	2	3	1	...	...	...	4	...	2	13
K Competitor	3	2	1	...	...	...	1	3	...	1	11
L Competitor	10	...	...	...	...	...	...	...	...	...	10
M Competitor	...	2	...	4	...	...	3	1	...	...	10
"Various" competitors	24	17	11	8	2	1	12	16	8	11	110
Actual Number Answering (Some Mentioned Two or More Brands)	154	115	191	115	58	27	131	200	84	152	1,228
6. How Much Do You Pay for "B" Batteries?											
Less than $2	2	8	23	10	5	2	12	12	2	12	88
$2	1	3	7	3	2	...	2	2	1	3	24
$2.01 to $2.49	12	11	17	5	3	4	13	15	5	10	105
$2.50	20	7	24	6	2	1	6	18	6	9	99
$2.51 to $2.99	10	13	23	11	4	2	10	31	5	10	119
$3	8	6	7	7	3	2	4	13	3	5	58
$3.01 to $3.49	7	8	10	7	1	3	8	7	2	8	61
$3.50	16	12	8	8	2	1	15	13	8	8	91
$3.51 to $3.99	14	16	15	19	3	1	10	19	9	20	126
$4	26	22	11	15	5	2	16	16	5	12	130
$4.01 to $4.24	.....	.....	1	.....	.....	.....	.....	.....	.....	1	2
$4.25	7	17	10	7	6	1	2	9	4	10	73
$4.26 to $4.49	.....	.....	.....	1	1	.....	.....	.....	.....	1	3
$4.50	11	3	3	4	6	1	6	6	1	6	47
$4.51 to $4.99	2	.....	.....	.....	1	.....	.....	.....	2	1	6
$5	4	2	4	2	1	.....	1	1	2	1	18
$5.01 to $5.99	.....	4	4	.....	.....	.....	3	3	1	2	17
$6	.....	2	1	1	.....	.....	2	.....	5	1	12
Over $6	1	18	7	.....	4	2	9	10	8	8	67
Total	141	152	175	116	49	22	119	175	69	128	1,146
Average Price	$3.43	$4.03	$3.21	$3.23	$4.00	$3.26	$3.59	$3.44	$4.04	$3.62	$3.55
7. In Purchasing "B" Batteries What Interests You Most?											
Price	41	60	58	46	12	8	40	21	18	35	339
Better Reception	104	123	136	84	42	17	86	102	48	107	849
Long Life	113	125	145	91	42	23	102	98	53	95	887
Actual Number Answering	154	170	201	119	59	29	129	189	72	144	1,266

expected to carry no competing lines. Besides some general advertising of all the company's lines, about 6% of net sales was spent annually in advertising "B" batteries in magazines of general circulation, farm papers, and newspapers.

During the last few years many manufacturers had undertaken the production of "B" batteries, especially those of poor quality which were sold at prices as low as $1. In order to give the wholesalers a battery that could compete with these cheap batteries, the company began production of a second-grade "B" battery, which sold at from $1.65 to $2.50, according to the size. The battery carried a separate trade-mark but bore the company's name. Sales volume of this battery expanded rapidly, although the entire advertising appropriation was spent on the first-grade battery line.

With the introduction of the all-electric radio sets into cities, the demand for "B" batteries was apparently receding into the rural sections where electric current was not available. Convinced that the large "B" battery market lay in the rural areas, the company desired to know if farmers wanted high-quality "B" batteries rather than the inferior ones. The company was planning to discontinue the direct advertising of "B" batteries in media reaching largely urban areas and to rely on the general advertising of all the company's products to maintain distribution in that market. The entire appropriation was to be spent in the direct advertising of "B" batteries in farm papers and magazines. Some executives believed that, since the market was apparently demanding the cheaper types of batteries, the prices for the high-grade batteries should be lowered in order to narrow the differential between the two lines.

In order to determine the situation in the farm market the company made arrangements through its advertising agency to have 20,000 questionnaires sent out to subscribers of farm papers in 10 states.

After 3,186 returns were received, the results were tabulated as shown in Exhibit 1. The important conclusions drawn from the results were summarized as follows:

a. Approximately three out of five subscribers reporting owned radio sets.

b. Approximately seven out of ten sets reported were battery sets.

c. Approximately eight out of nine of the battery sets used storage batteries.

d. Of the sets using "B" batteries, two out of three used two "B" batteries, and one out of three used three "B" batteries.

e. Owners of "B" batteries purchased a new one on an average of every nine months, one-third of those reporting purchasing a new battery at the end of six months and one-third at the end of 12 months.

f. Approximately four out of nine of those reporting the make of "B" battery purchased Duane high-grade "B" batteries, while the nearest competitor sold to only 12% of those reporting.

g. Prices paid varied greatly, ranging from $1 to $13.50 with an average of $3.55.

h. Regarding the factors which interested the purchaser most, two out of three mentioned both better reception and long life, and only one out of four mentioned price.

Should the company proceed with its plans to advertise high-grade "B" batteries in the farm market? Should the price of the high-grade "B" batteries be lowered in order to reduce the price differential between the high-grade and second-grade lines? Does the research procedure comply with the requirements of scientific method?

4. MORLOCK CANDY COMPANY—ESTABLISHMENT OF SALES RESEARCH DEPARTMENT

The Morlock Candy Company of Brooklyn, New York, manufactured a full line of candies, including penny pieces, 5-cent bars, bulk candies, expensive package goods, and seasonal specialties. The company's plant had an annual capacity of 75,000,000 pounds and was considered one of the most efficient in the country. The total sales of the company were normally about $6,000,000 a year, 90% of which were sales to jobbers and the remainder sales directly to chain stores and department stores. A force of 20 salesmen sold to jobbers and large retailers, and 5 missionary salesmen worked among retailers. The salesmen were assigned definite territories and received credit for all sales in those areas. Each salesman was paid a salary plus a commission on all sales over a reasonable quota.

The Morlock Candy Company had done considerable research on products and production methods and maintained a product research department to continue this development. The manager of the department, who was responsible to the production manager, and his two assistants devoted their full time to developing new products, improving old products, and making the manufacturing processes more effective. The executives believed the manufacturing operations of the company were as efficient as those of any company in the industry.

Before September, 1931, very little research had been done by the company concerning problems in distribution, and no one person in the organization was given responsibility for such work. Increasing sales expenses and excessive competition led the executives to realize the desirability of organized fact-finding and study concerning the marketing problems of the company. An outside firm of consultants was engaged to recommend the type of organization that would best fulfill the requirements of the company. The excerpts quoted below are from the report submitted by the consultants.

Purpose of Sales Research Department. The importance and the needs of sales research justify, and require, undivided attention. A separate department,

charged with this work, is the only practical way to conduct sales research within a concern.

A sales research department will be the company's *sales laboratory.* This laboratory, broadly, will do three things: (1) it will provide an organized and skilled method of driving for answers to current sales problems; and (2) through organized search and study it will generate new ideas bearing upon both current and long-range needs, together with recommended ways and means of coping with them; and (3) it will provide a definite method of turning into account many ideas that the executives get and which, frequently, they do not have the time or facilities to test fully and refine.

Personnel Requirements. At least for a time it may be possible for the department to operate with the manager as the only full-time worker. He will, from time to time, doubtless, require part-time assistants to help in conducting field work, and later on the company may decide to add a full-time male helper for this work.

The clerical and stenographic work can be supplied by other departments at first.

Location and Equipment of the Department

Office Quarters. This type of department does not necessarily have to be located close to any other particular department. It is much more important that the department be isolated sufficiently so that it will not be disturbed by normal business activities. The work of this department requires concentration and it should be so situated that it will be free from interruption as much as possible.

Office Equipment. Outside of the necessary chairs, desks and a table, the only items of furniture required are a letter file and a bookcase. The letter file is to house general data files, "case books" on past studies and copies of reports. The bookcase is to take care of the nucleus of a library and future additions to it. No mechanical equipment is needed, as that now available in the general office will answer all purposes.

Miscellaneous Equipment. A small drawing board, drawing instruments, ink, chart papers, ring binders, etc., should be added to the equipment of the department as need arises.

Library. This is the most important equipment of a sales research department.

As a nucleus for this library the following books, magazines and catalogues are recommended.

Books:

"Market Analysis"—Percival White (McGraw-Hill).
"Sales Management Handbook"—Hall (McGraw-Hill).
"Investigation of Business Problems"—Eigelberner (McGraw-Hill).
"Charts and Graphs"—Karsten (Prentice-Hall).
"Report Writing"—Fitting (Ronald Press).
"Statistical Abstract of the United States" (Department of Commerce).
"Commerce Year Book" (Department of Commerce).
"U. S. Biennial Census of Manufactures" (Government Printing Office).
"World Almanac" (*The World-Telegram,* New York).
"Market Research Agencies" (Department of Commerce).
"Market Data Handbook" (Department of Commerce).
"Economics of Consumption"—Nystrom (Ronald Press).
"Commercial Research"—Duncan (The Macmillan Company).
"Recent Economic Changes" (National Bureau of Economic Research, New York).
"Wholesale Prices of Commodities" (Department of Labor).

"Economics of Retailing"—Nystrom (Ronald Press).
"Business Research and Statistics"—Frederick (D. Appleton & Company).

Magazines:

Survey of Current Business (United States Department of Commerce).
Sales Management Magazine.
Printers' Ink Weekly.
Nation's Business.
Trade Magazines.
Federal Reserve Board Bulletins.

Catalogues:

Sears-Roebuck Catalogue.
Mailing List Catalogues.
Competitors' Catalogues.
Allied Manufacturers' Catalogues.
Thomas' Register of Manufacturers.

Relationship of the Management to the Department

Under Whom the Department Should Function. It is recommended that the department report directly to the general sales manager, both on organization matters and for the designation of subjects for research.

Preparation of the Work Docket. While it is recommended that the research manager receive his assignments from the general sales manager, it is believed that the selection of these assignments should be made by the executive committee, composed of the president, the treasurer, the production manager, and the sales manager. Most of the subjects will involve other departments of the business to some degree and the importance of the various subjects should be appraised from the standpoint of the company as a whole.

For the present the executive committee will have to outline the tentative subjects as well as make the selection of the ones to be attacked first.

The department should keep a complete docket of possible studies, and this docket should be submitted in full to the executive committee when a new subject is to be assigned. Only in this way can there be assurance that the most urgent subjects are given precedence.

It is unwise practice to load a sales research department's docket with too many items at any time. This basic principle should not be violated.

A suggested docket of problems on which the research department should work is presented below. The first section alone is given in detail.

I. Problems of prices and products.
   A. Should the company depart from its present one-price policy in respect to jobbers?
      1. Should the price be based on type of account regardless of dollar volume?
      2. Should the price be based on dollar volume, regardless of type of account?
      3. Should the price be based on possible dollar volume?
      4. Should the price differential be on the basis of periodic settlement or as a straight price reduction?
   B. How much additional discount is necessary to assure concentration on the company's lines?
      1. How much can the company afford to pay?
         How much additional volume is possible?

2. Should a graduated scale of discounts be used based on dollar volume or type of account?

C. Should the company adjust the size of candy package to the raw material market?

II. Marketing problems.

III. Sales organization problems.

IV. Advertising problems.

V. General policy problems.

Supervision of the Department's Activity. It is important that the department manager be encouraged to feel that he has considerable latitude of action.

At the same time the management has every right to a working knowledge of what the sales research department is doing, and this is provided by the following means:

1. The fact that the management designates the problems to be worked upon.

2. Through the medium of monthly progress reports rendered by the department manager.

It is the obligation of the department manager to insure that the cost of the department be converted into a constructive asset of the business and it is equally the manager's obligation to keep the management apprised as to how the company's time and money is being currently expended. The latter obligation can best be discharged by making a regular monthly report of the work completed during the month, and suggested long-range plans for the months ahead; the obligation first mentioned can be satisfactorily met only by bringing sound answers to the problems entrusted to the department.

Cost. The annual cost of the sales research department outlined in this report will not be over $6,500, including necessary traveling expenses. The manager is expected to spend from one-third to one-half of his time in the field.

Should the recommendations of the consultants have been adopted in whole or in part? What changes would you recommend?

QUESTIONS

1. A Pittsburgh manufacturer of gas meters merged with a company manufacturing water meters. The gas meters were sold largely to private companies manufacturing and selling gas, while the water meters were sold largely to city authorities because the majority of plants were municipal. The use of meters could be general within a city or only partial. A city which had been operating on a flat rate might suddenly decide to meter its entire output. The number of houses connected with water and gas could be secured and ordinarily changed but slowly.

How could the manufacturer measure the market for water meters as a basis for determining the possibility of merging manufacture of both gas and water meters in a single plant?

2. The Vulcan Corporation with several plants in Pennsylvania and Ohio manufactured firebrick for use as lining material wherever intense heat was enclosed. Since firebricks were bulky and heavy, the company's market was limited to the area east of the Mississippi River. The product was sold directly to industrial users without the aid of dealers. It was known that in a blast furnace the approximate average consumption or utilization of firebrick was two bricks per ton of pig iron produced; in the case of steel ingots it was eight bricks per ton of ingots produced, and in the case of gray iron or

malleable castings it was six bricks per ton of castings produced. But the total demand was not known, and for consumption in other fields there were no such definite measures.

Should the Vulcan Corporation attempt to measure its potential market accurately? If so, should the company employ an independent research organization or set up its own research department?

3. The sale of sectional farm buildings is comparatively new. The floor, side walls, and roof of these buildings are cut up in sections so that they can be easily handled and moved about the farm. These sections are securely fastened together with bolts when the building is set up. Such buildings as garages, small granaries, corn cribs, wash houses, poultry houses, brooder houses, and hog houses can be advantageously built in this manner because they do not require the heavy type of construction necessary for barns, large granaries, machine sheds, or hay sheds.

How would you go about making an analysis of the potential demand for sectional farm buildings in a particular state, *e.g.*, Kansas?

4. The Webster Company of New York City operated as selling agent for a group of southern cotton mills and, in addition, converted, manufactured, and exported cotton and acted as cotton broker on its own account. It handled a number of different types of goods, including gray goods which were converted into prints, particularly for draperies, and sheets and sheetings which it sold for one of the important southern mills. The company's chief market included large retailers, jobbers, cutters, and brokers. Business in the cotton goods line had not been particularly satisfactory for several years, and the vice president of the organization had proposed that the company start two research departments: one a sales research department, the other a more or less technical research department.

The sales research department was to have as its function the study of market conditions, but more particularly the study of undeveloped markets for cotton goods. It was proposed that this department first study the sales operations of the Webster Company in the past and then, as quickly as possible, study the whole cotton goods field to determine what course of action should be taken in selling various types of products. The department was to make an effort to determine the trend of distribution as well as the trend of use for the product. The company, for instance, was not sure that it should continue to sell to jobbers and confine its sales to retailers to a few of the very largest retail organizations. It was known that other mills had departed from generation-old practices in order to get a larger share of business.

Should the proposal be adopted?

5. A company which frequently sells new products through its salesforce's calling from house to house on regular schedules found that attempts to determine in advance whether housewives would buy certain products, if asked to do so, had been misleading. From a research point of view, what are the defects of questionnaires asking the attitude of prospective buyers toward a product before that product is offered for sale?

6. How large a sample should be chosen to give a reliable picture of the consumer market for hand tools, such as hammers and saws, in the territory east of the Mississippi River?

7. A marketing agency has been retained to study the market for spectacles and eyeglasses. How large a sample of consumers, retailers, and optometrists should be chosen for the study?

8. Discuss the points of similarity and of difference between market research and industrial scientific research. Should the same standards apply in market research as in industrial scientific research? As in research in pure science?

9. A company manufactured a limited line of high-quality pharmaceuticals which were advertised and sold nationally. The company maintained a statistical department but had from time to time engaged the services of outside market research agencies, particularly for field investigations. In view of the costs of such services, it had been proposed that a sales research department be established with a permanent field organization, which could be augmented for special extensive investigations. Under what conditions, if any, should the proposal be adopted?

10. Should a soap manufacturer who is contemplating the introduction of a new soap powder comparable to Lux and Ivory Soap Flakes determine the wants of housewives by mail-questionnaire methods? Should the company hire an advertising agency to carry on the investigation? What are the advantages and disadvantages of advertising agencies as market research agencies.

11. A recent report of the National Resources Board upon population trends discussed the approaching stationary population and the changing age composition. What is the significance within the next ten years of these developments to the following manufacturers:

a. A manufacturer of a specially compounded infant's food?
b A producer of bicycles?
c. A producer of electrical appliances?
d. A manufacturer of building materials?

12. A group of small capitalists have agreed to finance the manufacture and sale of a household dish-washing apparatus, to retail at about $50, provided they can be convinced first that the apparatus meets the requirements of the market and second that the market is extensive enough to warrant substantial investment. They are willing to allow the time and furnish funds for a convincing survey. How large a field sample would be required if consumers are to be questioned? What information may be secured from library sources?

13. How is the size of sample related to the degree of accuracy required? Is it possible to determine a mathematical relationship between size of sample and degree of accuracy?

14. What psychological problems are involved in the framing of the questionnaire?

B. MARKET ANALYSES AND MARKET SURVEYS

To many business executives, market research refers particularly to market surveys, that is, to studies of the market demand, ranging from brief studies on the basis of printed statistical sources to elaborate field investigations involving scores of investigators and an expenditure of tens of thousands of dollars. All market surveys have the same object, namely, that of increasing knowledge concerning the market by the collection, interpretation, and analysis of facts in order to permit executives to arrive at decisions, with respect both to the goods to be sold and to the selling policies and methods to be used, which will be more accurate and more profitable than decisions arrived at without adequate informa-

tion. The market survey usually takes up one or more of four groups of questions:

1. Questions with reference to the product and the shaping of the product to the consumer's needs. More correctly, this should be termed merchandising research.

2. Questions concerning the nature, characteristics, and quantity of demand. Market analysis has been used more commonly in this field than in any other. When one says there is a good market for a product, he usually means that there is an adequate demand for the product at a profitable price. Not only are new products made the subjects of market analyses, but market analyses are utilized to uncover new fields of demand for old products.

3. Market analyses frequently include studies of the demands and needs of middlemen, in order to determine channels through which a product is to reach the ultimate consumer.

4. Market surveys may include study of the market to determine the methods by which the market is to be reached, whether through advertising, personal selling, or otherwise.

There are two general methods of attempting to determine potential demand for a product, both of which rest upon consideration of prior users of a product. For products which are widely used by the general public, it is customary to start the study of demand with figures of the total population, refining such figures by rejecting that part of the population which is apparently not in the market for the product. And, second, there is the method of building up information as to potential demand by a process of accumulation, starting from specific customers or classes of potential customers, to arrive at a total.

Difficult questions of purchasing power and purchasing willingness crop up frequently to confuse the investigator. Consumer demand is the resultant of many influences so intricately interwoven that any research plan to be at all feasible from a business point of view must be artificially simplified. One assumes that the study of the past will enable one to predict the future, but one knows that the study of the past is not complete. Influences unnoticed or unmeasured in that study may emerge to make forecast worthless.

5. RENSHAW COMPANY—USE OF FIELD SURVEY TO DETERMINE CONSUMER PRACTICE RELATING TO BUYING HABITS AND USE OF MOTOR OIL

The Renshaw Company manufactured a complete line of petroleum products, of which the major items were gasoline, automotive and industrial oils, and naphthas. Gasoline and automotive oils were sold through a large number of company-owned, leased, and independent automobile service stations. Although it was a local concern, the Renshaw Company had competed successfully with national oil distributors and maintained a sales volume in its territory at least equal to that of its competitors.

Newspaper and billboard advertising had been used from time to time but, unlike its national competitors, the company did not use radio for advertising purposes. During 1937 and the early part of 1938 the company's advertising had stressed institutional appeals as well as the special features of Renshaw products. In an endeavor to persuade Renshaw executives

EXHIBIT 1

RENSHAW COMPANY—NUMBER OF COMPLETED QUESTIONNAIRES BY CITY

City	Population (unit: 1,000)	Number of Questionnaires	% of Total
A	306	398	4.87
B	28	72	0.88
C	28	265	3.25
D	9	238	2.92
E	19	241	2.95
F	126	104	1.27
G	541	834	10.22
H	1,080	1,005	12.31
I	349	599	7.34
J	241	447	5.48
K	28	259	3.17
L	31	268	3.28
M	63	155	1.90
N	51	116	1.42
O	53	131	1.60
P	40	118	1.44
Q	17	269	3.29
R	37	234	2.87
S	17	85	1.04
T	32	94	1.15
U	36	96	1.18
V	37	31	0.38
W	51	286	3.50
X	30	132	1.62
Y	82	331	4.05
Z	43	163	2.00
AA	349	780	9.55
BB	49	116	1.42
CC	204	80	0.98
DD	44	218	2.67
	4,021	8,165	100.00

to increase the size of the annual advertising appropriation, the company's advertising agency conducted a field survey in May, 1938, to determine consumer buying habits for motor oil, to gauge further what mileage elapsed before oil changes were made, and to measure the importance of the Renshaw Company in the motor oil market. The cost of the investigation was borne completely by the agency, but the agency representatives

hoped that the Renshaw executives would use the results of the survey in preparing future advertising programs and in pointing up general marketing policies.

The survey was conducted in 30 cities in the Renshaw territory in which the company had used newspaper advertising. Population in these cities ranged from 9,000 to 1,080,000, and geographically the survey was believed to represent a good cross section of the Renshaw territory. A total of 8,165 interviews was obtained, and while they were not distributed according to any definite plan, relatively more interviews were held in the larger cities. The number of completed questionnaires by city is shown in Exhibit 1.

In performing the actual field work, the advertising agency enlisted the aid of employees of 40 newspapers in which the Renshaw Company had advertised from time to time. The employees were all members of the newspapers' advertising departments and often aided advertisers in doing this type of work. In some instances this service was provided gratis by the newspapers, and in others the cost was borne by the agency. The employees were asked to interview car owners at random, no specific directions being given as to where the interviews were to be obtained. Presumably a large number of persons were stopped on the streets in downtown business sections, and if they were found to own an automobile, they were asked to answer the stipulated questions. Friends of the interviewers were undoubtedly included in the group of interviewees. The advertising agency had no definite check on the interviewing procedure used by the newspaper employees, but since the latter had had much experience in this type of work, the agency did not feel concerned over this lack of control. The interviewers were not informed of the name of the company for whom they were working, but, since they had ample opportunity to learn the names of the large oil companies advertising in their papers and since the survey had probably been discussed at some time or other in the newspaper offices, the agency did not doubt that the interviewers were quite aware that the investigation was being made for the Renshaw Company.

Interviewers were asked to fill in answers to questions listed on a combination questionnaire and tabulating card. (See Exhibit 2.) Upon receipt of the completed cards at the agency office the answers were coded and punched in the space on the right half of each card. The cards were then tabulated, and the results submitted to the Renshaw executives. The report submitted is reproduced in full here, and, with the exception of disguised names, use of tables rather than charts, and the condensation of data shown in the Appendix, the material has not been altered from its original form.

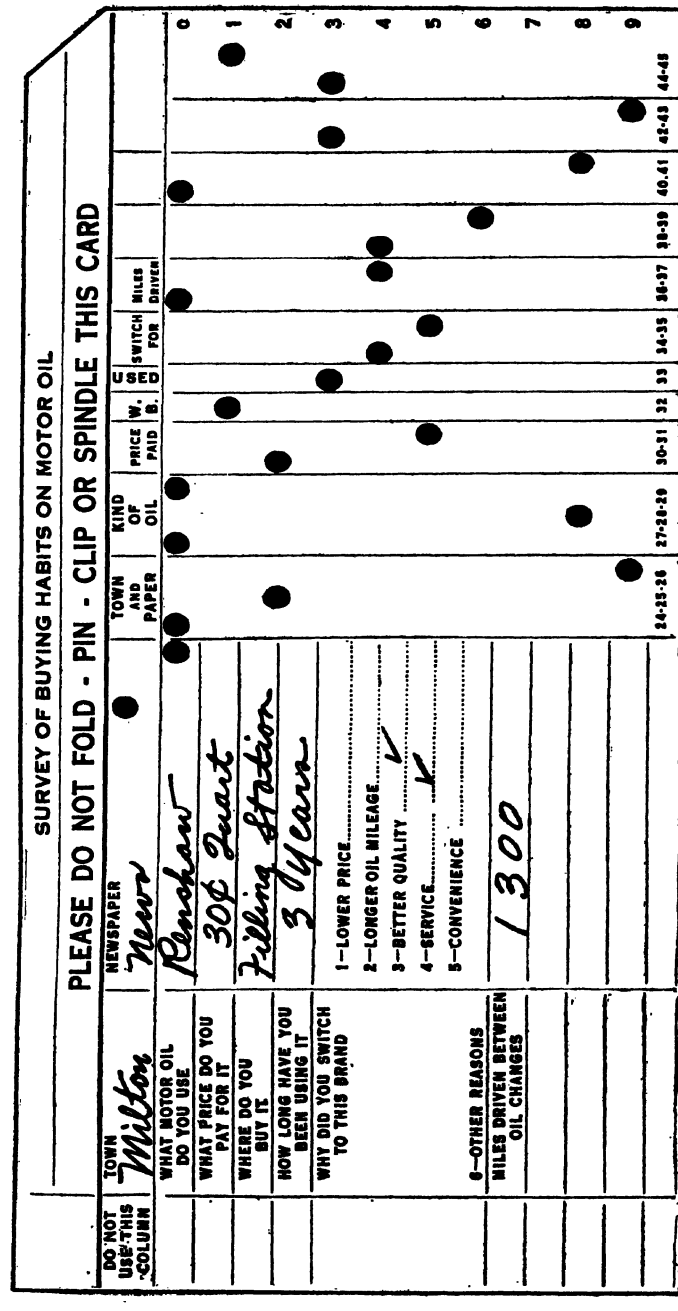

EXHIBIT 2.—Renshaw Company. Combination questionnaire and tabulating card.

Interesting Facts to Be Found in This Survey[1]

(1) More motorists depend upon the protection of Renshaw's motor oils than the next four company brands combined (Companies A, B, C, and D).

(2) Renshaw motor oil is nearly three times more popular than the next most popular brand (Company A).

(3) Where do Renshaw motorists buy their motor oil? Here is the answer:[2]

At service stations	75.57%
At car dealers	14.39
At garages	5.75
Mail order	1.62
Bulk—wholesale	1.00
At grocery stores	0.69
At department stores	0.53
Through a factory	0.44
At drugstores	0.01
	100.00%

(4) The importance of Renshaw service is illustrated by the fact that 20% of all motorists who switch to Renshaw do so because of "service"; only 13.6% of motorists who switch to other brands do so for this reason. "Quality," "long mileage," and "convenience" reasons for switching brands are about equal when you compare Renshaw to other brands.

(5) The "average" Renshaw customer changes his oil every 1,494 miles. The average for all companies is 1,594 miles so that the Renshaw dealer profits from more frequent changes. The Renshaw dealer has nearly a 30% greater opportunity for crankcase drain profits than has the dealer of Company F motor oil, because the user of Company F motor oil does not change until 1,917 miles have elapsed.

(6) One out of every three Renshaw motor oil users does not change until after he has gone over 1,500 miles—and up to 3,000 miles. It might be possible to "spot" such individuals so that the serviceman could present a sales story directed toward changing their habits.

(7) Since it would be possible to rerun the questionnaires to determine what per cent of motor oil business Renshaw secures in each city, it might be considered advisable to take off such information to spot market weaknesses. In doing this, however, it would be necessary to determine whether size of sample is adequate when applied against each city or town rather than against the entire state, as is done in the present results.

How Renshaw Company and Competitors Share Motor Oil Volume

(Resulting from the question "What motor oil do you use?" asked in this survey)

(Explanation of Table 1a)

(1) Table 1a is an indication of the relative sales positions enjoyed in these cities by the various companies selling motor oil, as indicated by preferences of those interviewed. It should be of considerable interest since this information is not available from any other sources.

(2) Renshaw exceeds the next four companies combined—Companies A, B, C, and D—and three of the four are the most highly advertised national major oil brands.

[1] Detailed tabulated results are shown in the Appendix.
[2] According to a city survey.

(3) Renshaw motor oil as a brand showed almost three times greater acceptance than the next most popular brand—Company A. The figures were 1,451 to 510. Renshaw led Company B almost four to one—1,451 to 393.

(4) In a similar survey conducted in April, 1934, the Renshaw Company had only 22.48% of total compared to 25.05% in 1938. The following comparisons show changes in position in the four years among the first twelve companies.

Company	1934 Percentage of Total	Company	1938 Percentage of Total
1. Renshaw	22.48%	1. Renshaw	25.05%
2. Company H	8.55	2. Company A	7.53
3. Company A	5.84	3. Company B	5.81
4. Company E	4.83	4. Company C	5.79
5. Company B	4.57	5. Company D	5.60
6. Company J	4.41	6. Company E	4.91
7. Company D	4.05	7. Company F	4.61
8. Company K	3.78	8. Company G	3.51
9. Company C	3.74	9. Company H	3.26
10. Company G	3.20	10. Company I	3.25
11. Company L	2.69	11. Company J	3.10
12. Company F	2.17	12. Company K	2.67

TABLE 1a

HOW RENSHAW COMPANY AND COMPETITORS SHARE MOTOR OIL VOLUME

Renshaw Company	25.05%
Company A	7.53
Company B	5.81
Company C	5.79
Company D	5.60
Company E	4.91
Company F	4.61
Company G	3.51
Company H	3.26
Company I	3.25
Company J	3.10
Company K	2.67
All other companies, no choice, and miscellaneous	25.91
	100.00%

* * * * *

MOTOR OIL BUYING HABITS—BASED ON PRICE

(Explanation of Table 1b)

(1) Since this survey was made in cities and towns, this analysis of price habits is likely to be colored by urban habits. Relative comparisons, however, can be made in considering Renshaw oil versus competitors in the matter of buying habits based on price.

(2) This table shows 49.44% of all motorists surveyed pay 30 cents or more per quart for motor oil. Only 40.57% of the motorists who say they use Renshaw motor

oil stated they bought an oil costing 30 cents or over. This would seem to indicate that Renshaw oil is not securing a proportionate share of the higher priced (30 cents and 35 cents) oil business.

(3) If, however, buying habits are analyzed among those who pay 25 cents or more per quart for motor oil, Renshaw's position is reversed. Only 88% of all motorists surveyed pay 25 cents or more per quart for oil and 94.05% of Renshaw motor oil customers stated they pay 25 cents or over for Renshaw's motor oils.

TABLE 1b

MOTOR OIL BUYING HABITS—BASED ON PRICE

Company	10¢	15¢	20¢	25¢	30¢	35¢
Renshaw Company	0.06%	3.24%	2.65%	53.48%	25.71%	14.86%
All other companies excluding Renshaw	3.61	5.63	4.71	33.65	34.69	17.71
All companies including Renshaw	2.72	5.04	4.19	38.61	32.44	17.00

* * * * *

RENSHAW PERCENTAGE OF MOTOR OIL BUSINESS IN EACH PRICE CLASSIFICATION

(Explanation of Table 1c)

(1) This table shows how Renshaw shares the various price markets with total competition.

(2) One out of every three motorists who pay 25 cents for motor oils buys from the Renshaw Company.

(3) Renshaw's lowest share of the price market is in the 20-cent grade where only 15.85% of the total buyers at this price are secured for Renshaw oil.

TABLE 1c

RENSHAW PERCENTAGE OF TOTAL MOTOR OIL BUSINESS IN EACH PRICE CLASSIFICATION

15¢ motor oil	16.30%
20¢	15.85
25¢	34.68
30¢	19.85
35¢	21.89

* * * * *

WHERE IS MOTOR OIL PURCHASED?

(Showing territory's motor oil potential by type of retail outlet)

(Explanation of Table 2a)

(1) This analysis provides valuable information on the territory's motor oil marketing picture. Likewise, it furnishes a comparison of Renshaw's sales by outlets within the territory.

(2) Renshaw shows a lower percentage than combined competition in percentage sold by dealers. The higher percentage of "all other" brands sold by car dealers would prove the wisdom of Renshaw's current promotion campaign in this marketing field.

(3) It is noteworthy that only 1% of combined brand sales are made in bulk. The difficulty of changing oil apparently is the factor which holds down this percentage.

TABLE 2a

WHERE IS MOTOR OIL PURCHASED?

(Showing territory's motor oil potential by type of retail outlet)

Type of Retail Outlet	Renshaw	All Others*	Total†
Service station	81.31%	73.61%	75.57%
Car dealer	12.07	15.17	14.39
Garage	6.09	5.62	5.75
Mail order	.....	2.18	1.62
Bulk	.....	1.21	1.00
Miscellaneous	0.53	2.21	1.67
	100.00%	100.00%	100.00%

* Excluding Renshaw.
† Including Renshaw.

* * * * *

RENSHAW PERCENTAGE OF TOTAL TERRITORY MOTOR OIL BUSINESS BY TYPE OF OUTLET

(Explanation of Table 2b)

(1) Of all the motorists who buy their motor oil at service stations 27.38% buy at a Renshaw service station according to the survey.

(2) 26.99% of those who buy at garages buy Renshaw motor oil at such outlets.

(3) 21.36% who buy at car dealers buy Renshaw motor oil at this type of outlet. This table (2b) again points out the wisdom of further cultivation of car dealer business.

TABLE 2b

RENSHAW PERCENTAGE OF TOTAL MOTOR OIL BUSINESS BY TYPE OF OUTLET

Type of Outlet	Percentage of Total
Service station	27.38%
Garage	26.99
Car dealer	21.36

* * * * *

TO WHICH MOTOR OIL BRANDS HAVE MOTORISTS SWITCHED DURING THE 12-MONTH PERIOD ENDING APRIL, 1938?

(Explanation of Table 3)

(1) 15% of all motorists changed motor oil brands in the past year.

(2) Of those changing brands, Renshaw led the parade by securing more than twice as many new customers as any other brand.

(3) Based on per cent of territory total enjoyed by Renshaw, it might be logical to suppose that Renshaw should have gained 25% of the customers changing brands. If such a conclusion is warranted, increased effort on motor oil would seem to be justified, particularly with car dealers, where, it is agreed, many customers start their motor oil habits.

TABLE 3

TO WHICH MOTOR OIL BRANDS HAVE MOTORISTS SWITCHED DURING THE 12-MONTH PERIOD ENDING APRIL, 1938?

Brands to Which Switch Was Made	Percentage of Switch
Renshaw Company	17.5%
Company A	7.8
Company D	7.8
Company C	7.5
Company E	5.8
Company J	5.2
Company F	4.6
Company B	4.5
Company G	3.4
Company I	3.2
Company L	3.1
Company K	3.0
Company H	2.9
Other companies	9.3
Miscellaneous	14.3
	100.0%

* * * * *

REASONS WHY MOTORISTS SWITCH TO ANY BRAND OF MOTOR OIL

(Compared with Renshaw customers' reasons)

(Explanation of Table 4)

(1) Quality remains the number one reason for motorists' switching to another brand of motor oil.

(2) Those switching to Renshaw brands rank "service" second, while service among all others ranks fourth.

(3) The inherent characteristics of the oil itself ("quality" and "longer mileage") account for 44.6% of all reasons for switching brands of oil. Characteristics not inherent in the oil ("service," "convenience," and "price") account for 40.9% of the reasons for switching to another brand. Comparing Renshaw and "all others" on this broad gauge analysis, we find these percentage differences:

Characteristics	Renshaw	All Others
Inherent characteristics	41.9%	45.7%
Not inherent characteristics	43.0	40.1

This would seem to point out the necessity of emphasizing the "inherent" advantages of Renshaw motor oils.

(4) The influence of Renshaw's oil checking service may be seen in the large percentage of Renshaw customers giving service as the reason for selection. The differential between 20% for Renshaw and 13.6% for all others is the biggest single variable and points out the awareness by Renshaw customers of one of Renshaw's strong points.

TABLE 4

REASONS WHY MOTORISTS SWITCH TO ANY BRAND OF MOTOR OIL

(Compared with Renshaw customers' reasons)

Reasons for Switch	Renshaw	All Others*	Total†
Quality	24.1%	26.0%	25.4%
Service	20.0	13.6	15.3
Longer mileage	17.8	19.7	19.2
Convenience	17.6	17.7	17.6
Lower price	5.7	8.8	8.0
No reason	2.7	3.1	3.0
Miscellaneous	12.1	11.1	11.5
	100.0%	100.0%	100.0%

* Excluding Renshaw.
† Including Renshaw.

* * * * *

OIL CHANGING HABITS OF CUSTOMERS BY COMPANIES

(Average is 1,549 miles)

(Explanation of Table 5a)

(1) Renshaw customers change their motor oil every 1,494 miles. The average (for all companies) is 1,549.

(2) From a sales standpoint Renshaw is doing a better job than such marketers as Companies C, D, K, L, and J in the matter of securing oil changes—a poorer job than Companies A, E, G, I, and M.

(3) From a quality standpoint it may be said that Renshaw customers do not consider it necessary to change their oil so frequently as do users of brands sold by Companies A, E, G, I, and M.

(4) Since the satisfactory mileage that a motor oil will give is a sales factor in the mind of the user, it may be said that Renshaw's position between the two extremes of Company F's 1,917 miles-per-change and Company M's 1,391 miles-per-change is squarely between the two horns of this oil dilemma.

(5) Since no company is now closely approaching the 1,000-mile oil change on the average, it may be doubtful whether any one company either through consumer advertising or point-of-sale propaganda could actually achieve this goal. But with the tendency of car maker recommendations to extend the change period, the need of some action on the part of the industry is very apparent.

(6) It is notable that Company F with its 2,000-mile change story has its users believing its advertising since Company F customers do not change until they get near the 2,000-mile mark. This fact would seem to be important as sales ammunition to present to the sales-minded dealer who would forego profits from more frequent changes by selling some other brand.

TABLE 5a

OIL CHANGING HABITS OF CUSTOMERS BY COMPANIES

Company	Average Number of Miles Driven between Oil Changes
Average (all companies)	1,549
Renshaw Company	1,494
Company F	1,917
Company J	1,654
Company B	1,613
Company D	1,601
Company K	1,570
Company L	1,557
Company H	1,529
Company C	1,496
Company A	1,485
Company E	1,468
Company G	1,467
Company I	1,462
Company M	1,391

* * * * *

HOW MANY MILES DO YOU DRIVE BETWEEN CHANGES?

(Explanation of Table 5b)

(1) With the exception of those motorists who change under the 1,000-mile mark, this table shows Renshaw doing a relatively better job than competition in the matter of frequency of oil changes.

(2) In the largest bracket in which motorists change from 1,000 miles to 1,500 miles Renshaw has 57.61% changing their oil, whereas combined competition has only 48.85%.

(3) It is interesting to note that only 6.02% of all motorists change oil under the 1,000-mile drain period and 42.90% do not change until they have gone 1,500 or more miles. Since the majority of motorcar makers now specify an oil change anywhere from 2,000 to 3,000 miles, or seasonally, it is to be expected that the tendency would be to increase the period between changes. At the present time, nearly 22% of all motorists fall into the classification of those that change above the 2,000-mile mark.

TABLE 5b

HOW MANY MILES DO YOU DRIVE BETWEEN CHANGES?

(Showing Per Cent in Each Mileage Bracket)

Mileage Bracket	Renshaw	All Others*	Total†
0–1,000 miles	5.46%	6.21%	6.02%
1,000–1,500 miles	57.61	48.85	51.08
1,500–2,000 miles	19.45	21.64	21.08
2,000–3,000 miles	12.14	17.17	15.89
3,000 miles and over	1.39	1.42	1.42
No regular period	2.73	2.71	2.71
Spring and fall	0.29	0.30	0.30
No change	0.93	1.70	1.50

* Excluding Renshaw.
† Including Renshaw.

APPENDIX

1. WHAT MOTOR OIL DO YOU USE?

(Combining Prices Paid into Price Brackets)

Motor Oil Brand	Less than 12¢ 10¢		12¢ to 17¢ 15¢		18¢ to 22¢ 20¢		23¢ to 27¢ 25¢		28¢ to 32¢ 30¢		33¢ and Over 35¢		Total		% Company to Total of Companies
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	
Renshaw Company	1	0.06	55	3.24	45	2.65	907	53.48	436	25.71	252	14.86	1,696	100	25.05
Company A	2	0.39	8	1.57	8	1.57	361	70.78	120	23.53	11	2.16	510	100	7.53
Company B	2	0.51	1	0.25	3	0.76	26	6.62	96	24.43	265	67.43	393	100	5.81
Company C	...	.....	2	0.51	1	0.26	92	23.46	240	61.23	57	14.54	392	100	5.79
Company D	...	.....	6	1.58	8	2.11	150	39.58	98	25.86	117	30.87	379	100	5.60
Company E	11	3.31	4	1.20	5	1.51	163	49.10	128	38.55	21	6.33	332	100	4.91
Company F	...	.....	1	0.32	4	1.28	26	8.33	152	48.72	129	41.35	312	100	4.61
Company G	...	.....	7	3.06	2	0.87	106	46.29	92	40.17	22	9.61	229	100	3.38
Company H	...	.....	2	0.90	3	1.36	39	17.65	130	58.82	47	21.27	221	100	3.26
Company I	...	.....	3	1.36	5	2.27	104	47.28	86	39.09	22	10.00	220	100	3.25
Company J	...	.....	2	0.95	3	1.43	61	29.05	101	48.09	43	20.48	210	100	3.10
Company K	...	.....	4	2.21	4	2.21	67	37.02	89	49.17	17	9.39	181	100	2.67
Other companies	7	.....	108	.....	90	.....	312	.....	321	.....	97	.....	935	100	29.40
No price given	153	100.00	...	.....	...	.....	.....	.....	.....	.....	.....	.....	153	100	2.26
Miscellaneous	5	1.47	92	27.06	85	25.00	86	25.29	44	12.94	28	8.24	340	100	5.02
No choice	3	1.12	46	17.10	18	6.69	115	42.75	64	23.79	23	8.55	269	100	3.97
Total	184	2.72	341	5.04	284	4.19	2,615	38.61	2,197	32.44	1,151	17.00	6,772	100	100.00

APPENDIX.—(*Continued*)

2. WHERE DO YOU BUY IT?

Motor Oil Brand	Service Station		Grocery Store		Garage		Through a Factory		Mail Order		Department Store		Drugstore		Bulk (Wholesale)		Car Dealer		Total		% of Each Company to Total of Companies
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	
Renshaw Company	1,401	81.31	..	....	105	6.09	1	0.06	...	....	1	0.06	..	....	7	0.41	208	12.07	1,723	100	25.45
Company A	453	87.45	..	....	15	2.90	1	0.19	...	....	..	....	..	....	1	0.19	48	9.27	518	100	7.66
Company B	251	62.91	..	....	53	13.28	2	0.50	1	0.25	..	....	..	....	3	0.75	89	22.31	399	100	5.89
Company C	310	76.93	..	....	16	3.97	..	....	...	....	..	....	..	....	4	0.99	73	18.11	403	100	5.95
Company D	339	86.70	..	....	3	0.77	2	0.51	...	....	1	0.26	..	....	1	0.26	45	11.50	391	100	5.78
Company E	301	89.31	..	....	4	1.19	1	0.30	...	....	1	0.31	..	....	..	....	30	8.90	337	100	4.99
Company F	201	64.01	..	....	52	16.56	..	....	...	....	..	....	..	....	3	0.96	58	18.47	314	100	4.64
Company G	213	88.75	..	....	8	3.33	1	0.42	2	0.83	..	....	..	....	1	0.42	15	6.25	240	100	3.54
Company H	157	70.10	..	....	19	8.48	2	0.89	...	....	..	....	..	....	5	2.23	41	18.30	224	100	3.31
Company I	199	88.45	..	....	6	2.67	..	....	...	....	..	....	..	....	1	0.44	19	8.44	225	100	3.32
Company J	179	82.11	..	....	15	6.88	4	1.83	...	....	..	....	..	....	1	0.46	19	8.72	218	100	3.22
Company K	146	79.78	..	....	14	7.65	1	0.55	...	....	..	....	..	....	6	3.28	16	8.74	183	100	2.70
Other companies	602	.....	37	....	57	.....	11	....	83	....	15	....	..	....	20	....	139	.....	964	100	14.20
Miscellaneous	207	59.82	9	2.60	11	3.18	3	0.87	17	4.91	15	4.34	..	....	11	3.18	73	21.10	346	100	5.11
No choice	156	54.35	1	1.74	9	3.14	1	0.35	7	2.44	3	1.05	1	0.35	4	1.39	101	35.19	287	100	4.24
Total	5,115	75.57	47	0.69	387	5.75	30	0.44	110	1.62	36	0.53	1	0.01	68	1.00	974	14.39	6,772	100	100.00

APPENDIX.—(*Continued*)

3. HOW LONG HAVE YOU BEEN USING IT?

Motor Oil Brand	Less Than 6 Months		6 Months to 1 Year		1 Year to 2 Years		2 Years to 3 Years		3 Years to 4 Years		4 Years to 5 Years		5 Years to 6 Years		6 Years and Over		No Definite Period		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Renshaw Company	63	3.7	148	8.6	268	15.6	270	15.7	236	13.7	142	8.2	162	9.4	277	16.0	157	9.1	1,723	100
Company A	29	5.6	52	10.0	100	19.3	111	21.5	63	12.2	52	10.0	41	7.9	39	7.5	31	6.0	518	100
Company B	18	4.5	28	7.0	62	15.5	82	20.7	50	12.5	39	9.8	40	10.0	56	14.0	24	6.0	399	100
Company C	25	6.2	51	12.7	68	16.9	90	22.3	60	14.9	35	8.7	28	6.9	32	7.9	14	3.5	403	100
Company D	39	10.0	42	10.7	87	22.3	75	19.2	58	14.8	26	6.8	26	6.6	13	3.4	25	6.4	391	100
Company E	22	6.5	38	11.3	69	20.6	62	18.4	46	13.6	26	7.7	18	5.3	33	9.8	23	6.8	337	100
Company F	15	4.8	33	10.5	71	22.6	68	21.7	46	14.6	17	5.4	25	8.0	24	7.6	15	4.8	314	100
Company G	12	5.2	23	10.0	52	22.4	48	20.7	35	15.2	17	7.4	19	8.2	17	7.4	8	3.5	231	100
Company H	11	4.9	19	8.5	49	21.8	47	20.9	23	10.3	17	7.6	25	11.2	23	10.3	10	4.5	224	100
Company I	10	4.4	23	10.2	42	18.8	39	17 3	23	10.2	23	10.2	23	10.2	33	14.7	9	4.0	225	100
Company J	14	6.4	39	17.9	35	16.1	43	19.7	22	10.1	22	10.1	11	5.0	26	11.9	6	2.8	218	100
Company K	9	4.9	22	12.0	35	19.1	42	23.0	23	12.6	15	8.2	11	6.0	18	9.8	8	4.4	183	100
Other companies	51	....	115	....	234	....	205	....	107	....	62	....	62	....	99	....	53	....	973	100
Miscellaneous	10	7.2	45	13.0	83	26.9	79	22.9	41	11.8	17	4.9	13	3.8	16	4.6	17	4.9	346	100
No choice	6	2.1	9	3.1	27	9.4	21	7.3	20	7.0	12	4.2	20	7.0	33	11.5	139	48.4	287	100
Total	334	5.4	687	10.1	1,282	19.0	1,282	18.5	853	12.7	522	7.7	524	7.7	739	10.9	539	8.0	6,772	100

APPENDIX.—(*Continued*)

4. WHY DID YOU SWITCH?

Motor Oil Brand	No Reason		Lower Price		Longer Mileage		Better Quality		Service		Convenience		Advertising		Reciprocity, Business Reasons		Less Carbon, Cleaner Motor		Miscellaneous		Total Reasons	Total Users
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%		
Renshaw Company	66	2.7	137	5.7	429	17.8	583	24.1	483	20.0	422	17.6	25	1.0	10	0.4	..	....	259	10.7	2,414	1,723
Company A	16	2.3	66	9.4	120	17.1	215	30.6	93	13.2	110	15.6	12	1.7	3	0.4	...	....	68	9.7	703	518
Company B	7	1.3	10	1.9	174	32.1	223	41.3	49	9.1	38	7.0	3	0.6	2	0.4	..	....	34	6.3	540	399
Company C	9	1.7	13	2.4	132	24.2	138	25.4	79	14.5	113	20.8	7	1.3	4	0.7	..	....	49	9.0	544	403
Company D	9	1.7	20	3.8	112	21.5	130	25.0	78	15.0	108	20.7	4	0.8	6	1.2	..	....	54	10.3	521	391
Company E	7	1.5	13	2.8	89	19.2	106	22.8	90	19.4	102	22.0	10	2.2	2	0.4	..	....	45	9.7	464	336
Company F	8	1.9	4	1.0	131	31.2	155	36.8	39	9.3	33	7.9	3	0.7	1	0.2	..	....	46	11.0	420	314
Company G	6	1.9	13	4.2	59	19.0	94	30.4	46	14.8	55	17.8	6	1.9	1	0.3	..	....	30	9.7	310	240
Company H	7	2.4	10	3.5	70	24.5	80	28.0	33	11.6	54	18.9	7	2.4	3	1.0	..	....	22	7.7	286	224
Company I	8	2.8	8	2.8	31	10.7	68	23.5	56	19.4	93	32.2	..	...	3	1.0	..	....	22	7.6	289	225
Company J	6	2.3	7	2.7	54	20.4	79	29.9	37	14.0	54	20.4	2	0.8	5	1.9	1	0.4	19	7.2	264	218
Company K	6	2.4	18	7.3	48	19.4	55	22.1	40	16.1	47	19.0	3	1.2	1	0.4	..	....	30	12.1	248	183
Other companies	24	....	192	....	213	....	286	....	174	....	227	....	23	...	8	....	..	....	122	....	1,269	967
Miscellaneous	9	2.0	147	32.0	58	12.7	74	16.2	63	13.8	60	13.1	5	1.1	7	1.5	..	....	35	7.6	458	346
No choice	81	24.1	63	18.7	17	5.0	30	8.9	31	9.2	83	24.6	4	1.2	5	1.5	..	....	23	6.8	337	28
Total	269	3.0	721	8.0	1,737	19.2	2,316	25.4	1,391	15.3	1,599	17.6	114	1.3	61	0.7	1	0.01	858	9.5	9,067	6,771

APPENDIX.—(*Continued*)

5. HOW MANY MILES DO YOU DRIVE BETWEEN OIL CHANGES?

Motor Oil Brand	No Change		Spring and Fall		0 to 1,000 Miles		1,000 to 1,500 Miles		1,500 to 2,000 Miles		2,000 to 3,000 Miles		3,000 to 4,000 Miles		4,000 to 5,000 Miles		Over 5,000 Miles		No Regular Period		Total		Number Replies Giving Mileage from which Average is Computed	Average Number of Miles Driven between Oil Changes*
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%		
Renshaw Company..	16	0.93	5	0.29	94	5.46	992	57.61	335	19.45	209	12.14	15	0.87	3	0.17	6	0.35	47	2.73	1,722	100	1,648	1,494
Company A.....	10	1.93	4	0.77	40	7.72	275	53.10	94	18.15	76	14.67	1	0.19	..	....	..	....	18	3.47	518	100	486	1,485
Company B.....	3	0.75	1	0.25	23	5.76	183	45.87	94	23.57	87	21.80	1	0.25	..	....	3	0.75	4	1.00	399	100	388	1,613
Company C.....	4	1.00	...	....	19	4.73	233	57.95	83	20.65	53	13.18	1	0.25	..	....	1	0.25	8	1.99	402	100	389	1,496
Company D.....	5	1.28	1	0.26	19	4.83	191	48.84	87	22.25	74	18.92	2	0.51	1	0.26	3	0.77	8	2.05	391	100	373	1,601
Company E.....	3	0.89	..	....	22	6.53	190	56.38	72	21.36	39	11.57	1	0.31	..	....	1	0.30	9	2.67	337	100	324	1,468
Company F.....	1	0.32	..	....	3	0.96	92	29.30	79	25.15	127	40.44	3	0.96	..	....	1	0.32	8	2.55	314	100	304	1,917
Company G.....	5	2.08	..	....	12	5.00	136	56.67	58	24.17	20	8.33	2	0.83	..	....	1	0.42	6	2.50	240	100	228	1,467
Company H.....	1	0.45	..	....	14	6.25	120	53.56	49	21.87	33	14.73	1	0.45	1	0.45	1	0.45	4	1.79	224	100	218	1,529
Company I.....	2	0.85	..	....	17	7.26	140	59.84	38	16.24	28	11.97	3	1.28	..	....	..	....	6	2.56	234	100	226	1,462
Company J.....	2	0.92	..	....	8	3.67	94	43.11	61	27.98	49	22.48	..	....	..	....	1	0.46	3	1.38	218	100	212	1,654
Company K.....	..	....	..	....	14	7.65	89	48.63	44	26.04	33	18.03	1	0.55	1	0.55	..	....	1	0.55	183	100	182	1,570
Other companies....	22	....	5	....	71	....	464	....	216	....	152	....	5	....	7	....	7	....	21	....	963	100	911	
Miscellaneous.....	10	2.89	1	0.29	24	6.94	159	45.94	67	19.36	61	17.63	5	1.45	5	1.45	2	0.58	12	3.47	346	100	321	1,621
No choice.....	18	6.27	5	1.74	28	9.76	104	36.23	52	18.12	41	14.29	5	1.74	3	1.05	2	0.70	29	10.10	287	100	233	1,582
Total.....	102	1.50	22	0.30	408	6.02	3,462	51.08	1,429	21.08	1,082	15.89	46	0.68	21	0.31	29	0.43	184	2.71	6,778	100	6,443	1,549

* The average mileage between changes was obtained by multiplying number of users in each specified mileage division by the average number of miles in that division for a total mileage driven and dividing by total number of users for average mileage.

6. WARNOCK MOTOR COACH COMPANY—MARKET ANALYSIS TO DETERMINE FUTURE TRENDS IN THE TYPE OF POWER TO BE USED IN PROPELLING URBAN BUSSES

The Warnock Motor Coach Company was one of the world's largest manufacturers of trucks, busses, and motor coaches. The company's line of trucks, ranging from ¾-ton to 2-ton capacity and upwards, included streamlined models and the cab-over-the-engine type of truck, as well as more conventional models. Warnock motorbusses and coaches were also built in modern streamlined styles and accommodated from 15 to 40 passengers. Selling prices for busses ranged from $4,200 to $16,750, while the average 27-passenger urban bus sold for approximately $9,000. All units manufactured by the company were primarily of the gasoline mechanical type. In the summer of 1938 when the company was considering an enlargement of its manufacturing facilities, the president asked the coach sales manager to make a thorough analysis of market conditions and write a report dealing with two problems:

1. Which of the following types of urban bus will probably afford the largest market for bus manufacturers in the next five years:
   a. Trackless trolleys.
   b. Gasoline electric.
   c. Gasoline mechanical.
   d. Diesel electric.
   e. Diesel mechanical.
   f. Gasoline electric and trolley (hybrid "All-Service" vehicles).[1]
2. What size of urban bus will probably be most demanded during the next five years?

The Warnock Motor Coach Company was located in Chicago, Illinois, where its 26 buildings covered 40 acres of land. The total capacity of the plant was approximately 18,000 vehicles annually, and the company

[1] There are two main types of busses, which can be divided into the following classes: (1) busses which carry their source of power with them, and (2) busses which receive power from an overhead wire. There is also a hybrid bus which can be operated either as an independent unit or with an overhead trolley ("All-Service" vehicles).

1. Busses that carry power units on the vehicles have motors either of the sparking ignition (gasoline) type or of the compression ignition (Diesel) type. The difference between these two types of motors lies in the method of igniting the fuel and the possible differences in fuel grade, etc., resulting therefrom.

The power from the motor must be carried through some sort of transmission to the driving wheels. In the gasoline mechanical or Diesel mechanical bus the transmission is usually of the gear type. In the gas-electric or Diesel electric bus the motor drives a generator, and the electricity from this electric generator drives motors which propel the vehicle. Since the actual driving motors are electric, it is possible with this type of bus to connect the motors to an overhead trolley wire and drive them from this source if desired.

2. The trolley bus obtains its power entirely from the overhead wire. Electricity from this source is used to drive electric motors on the bus, the controls being placed at the operator's station.

planned by the end of 1938 to add facilities for producing another 2,000 units annually. About 65% of the total sales volume was obtained through the company's 50 factory branches and service stations located throughout the United States and Canada, while the remainder was secured through approximately 600 domestic dealers and several foreign agents. Export departments were maintained in Chicago and New York City to handle all foreign sales.

During the five years previous to 1938, remarkably rapid progress had been made in the development of improved vehicles for urban transportation. While sales of Warnock motorbusses had not been affected adversely, nevertheless the president wished to be fully equipped to manufacture vehicles using other types of power if the potential market seemed large enough to warrant the move. It was expected that the coach sales manager would base his entire study on published material, using such trade periodicals as *Transit Journal, Bus Transportation, Mass Transportation*, as well as other publications dealing with the subject of bus transportation. He was not limited to any particular sources, however, and the president expected him to use his ingenuity in utilizing and evaluating any material which might be available.

How should the coach sales manager proceed in preparing the study? Is it possible to secure a basis for answering the president's questions by means of a desk survey?

7. HARRIS MACHINE COMPANY—MARKET ANALYSIS FOR MACHINERY USED IN MANUFACTURE

The Harris Machine Company, one of the largest machine tool manufacturers in the United States, possessed an international reputation for the high quality of its product and the excellence of its designing. It was especially noted for the manufacture of automatic machine tools, that is, machine tools so designed that it was unnecessary for a workman to feed each machine continuously. The purchasers of such machines were mainly large manufacturers whose product was wholly or partly made of machined metal. The cost of automatic machine tools was necessarily so great that only large producers could utilize them effectively. Small manufacturers and machine shops could not ordinarily make economical use of automatic machines.

Brief study of market conditions affecting the Harris Machine Company had led to the tentative conclusion that the future growth of its business depended upon three factors: (1) the development of demand for products wholly or partly made of metals which would have to be subjected to

machining processes; (2) the development in the size of manufacturing establishments whose output consisted of such products; and (3) the state of competition and the degree to which the Harris Machine Company could secure control of the market.

There was a definite conviction on the part of leading officials of the Harris Machine Company that more information about the business and about the industry and the market was needed if they were to plan wisely for the future. One of the assistant sales managers had been assigned the task of studying the possibility of making a market analysis and of making recommendations as to how the Harris Machine Company should proceed to secure the information it needed.

How should he have gone about his task?

QUESTIONS

1. The sales department of an independent truck manufacturer, located at Detroit, Michigan, sent out a list of 18 questions to its retail dealers to whom it sold direct through branch offices in the United States. These questions requested information as to population data upon towns, farms, crops, and livestock yards. Questions were also asked concerning property valuation, state, territorial, and local laws affecting truck equipment, transportation facilities in the area, and the principal industries in the territory, showing two classifications: those using trucks and the number of each, and those not using trucks indicating whether they could use them. The remaining questions had to do with garages, competition, and consolidated rural schools. It was further suggested that the dealers make out maps showing the roads, the location of truck dealers, and the location of trucks sold by each company.

Is the contention that this information is so valuable to dealers that the manufacturer may count upon having such complete information about each of his dealer-territories valid? Assuming the desirability of the information to the manufacturer, what alternative methods of securing it are available?

2. In view of the very rapid increase in the house-trailer business after 1933 and the increase in the number of trailer manufacturers in succeeding years, what characteristics of demand account for the apparent decline in the demand for trailers after 1938? How should a company producing house trailers go about determining whether the decline is permanent or whether the upward movement will be resumed?

3. Outline a plan for studying the market demand for steel sheets in order to determine the width of sheets to be provided for in the erection of a new sheet rolling mill. If rough estimates indicate that every additional inch of width beyond 72 inches will cost one million dollars additional for plant, power, and equipment, it is evident that the steel company wishes to determine the minimum profitable width of sheets.

4. The introduction of a new streamline model farm tractor was announced recently by an implement company. The company described the model as follows:

"The new model, capable of pulling a three or four-bottom plow, is equipped with:
"Controlled temperature in the cab through a hot water heater and air circulation.
"Windows of shatterproof glass and a rear vision mirror.
"Seats with back rests and sponge rubber cushions.

"Other features are: windshield wipers, electric headlights, electric starter, radio, electric horn and a front bumper. The instrument panel encloses a speedometer, ammeter, oil pressure gauge and water temperature gauge. The tractor has five forward speeds and can travel from a crawl up to 40 miles an hour. It has the conventional power-take-off and power on belt features.

"And to top it all, the cab is equipped with an automatic cigar lighter."

The list price of the tractor ranges from $1,200 to $1,500. On what basis should the market for a tractor of this type be measured? Do you believe that the market is sufficient in size to warrant introduction of this tractor?

5. An association of electrical appliance manufacturers recently announced the results of a study of the potential consumer market for electrical appliances in the country. The total estimate was approximately $4,000,000,000, and it was asserted that in no one division of the industry was there anything approaching a saturation point. The market for electrical refrigerators was asserted to be "wide open." The association estimated that there were 15,508,759 persons or families in the group earning more than $1,070 and less than $2,500, of which 49.4% already owned refrigerators, leaving an estimated market of 8,458,000 persons. Those with incomes above $2,500 were generally assumed to possess refrigerators already. A table prepared by the association summarized the estimated market for 15 appliances and the total market value for each item:

Appliances	Estimated Market	Total Value
Hot plates and grills	15,000,000	$ 36,570,000
Clocks	10,850,000	43,400,000
Percolators	13,416,000	60,372,000
Irons	2,000,000	10,000,000
Waffle irons	14,771,000	81,240,500
Toasters	9,273,000	60,274,500
Radios	4,000,000	212,000,000
Vacuum cleaners	10,061,000	553,355,000
Electric clothes washers	7,083,000	495,810,000
Ironers	2,870,000	215,250,000
Water heaters	637,000	52,234,000
Electric ranges	2,152,000	290,520,000
Refrigerators	8,458,000	1,463,234,000
Stokers	626,000	190,304,900
Room coolers	911,000	419,060,000
Total	.....	$4,183,624,000

Criticize these estimates.

6. What is the significance of the statements that Washington, D. C., with 29.1 cars per hundred population exceeds the United States average of 17.0 cars per hundred; that with $471 per capita retail sales Washington is more than 100% above the national average, and that the per capita spendable income of $659 is practically twice the national average of $334.60?

7. A group of capitalists have prepared to finance an inventor of a letter opener intended for large offices. This opener has a capacity of 50,000 letters per hour. How

should the research agency go about analyzing the market to determine the wisdom of such an investment?

8. In view of the complexity of market phenomena and of the general ignorance as to consumer demand, is market analysis likely to yield results commensurate with costs?

9. It is recognized that purchasing power is insufficient to give the required information concerning the market unless the seller has some knowledge as to willingness to buy. How may willingness to buy be measured?

10. Many so-called market indices are based upon past purchases of the market. To what extent do past sales show what the public wants and will buy in the future?

11. In a press release issued to upholstery material manufacturers and dealers, the following statements were made:

a. Including hotel rooms to the number of 1,000,000 and 24,000,000 family homes, there is a total of about 25,000,000 homes, including apartments, hotels and other places where families reside.

b. About 500,000 new homes each year require upholstery materials for such upholstered furniture as they purchase.

c. The average home does not replace all of its furniture more than once in 20 years.

d. The replacement market for all furniture is a total of 1,750,000 homes, that is, 500,000 new plus one-twentieth of 25,000,000.

e. The average home is ready for new furniture coverings once every five years.

f. Therefore about 5,000,000 homes are in the replacement market for upholstery materials each year.

g. The replacement market, therefore, in round numbers is about three times the size of the new furniture market.

Examine these statements critically. To what extent might an upholstery materials manufacturer place reliance upon this desk analysis of the market and plan accordingly?

12. Marketing of "silver steel," a new stainless alloy made by adding 0.25% to 0.30% of silver to 18% chromium and 8% nickel used in previous stainless steels, began late in 1939. The alloy was declared to show greater resistance to corrosion in salt water and superior machining qualities. It was offered at a premium of 20% to 25% over regular stainless steel. Aside from the uses in naval equipment for which it was primarily developed, it is asserted that the new steel will find its greatest use in fluid handling lines. How should the sales manager of the producing organization determine which industries furnish a potentially profitable market and which portions of the market should be first developed?

13. It is a well-known fact that unit costs can sometimes be reduced in amazing degree by the application of highly automatic single purpose machinery. How should a company such as the A. O. Smith Corporation approach the problem of determining whether the demand for such a product as automobile frames will be sufficient to make a proposed new automatic plant an economical unit for a period long enough to amortize high capital costs?

14. A company manufacturing soap and perfume has been established by a man who has had 15 years' experience in the soap and perfume business. He is said to have executive ability of the first order and to be an ideal man for president and general manager of the corporation. It is further stated that the products to be manufactured will have a universal demand. They will comprise fancy perfumes, cold creams, tooth paste, tooth powder, talcum powder, face powder, liquid soaps, powder soaps, hair tonics, high-grade perfumes, and toilet waters. It is said that with these products, together with certain new essences and extracts of the general manager's creation, the

company at once will be able to establish a large volume of business at a substantial profit.

What facts as to the proposed company's markets are needed by a person who is approached to furnish capital and is considering investment of a substantial amount in the business?

C. DISTRICTING OF SALES TERRITORIES; ROUTING OF SALESMEN

Sales planning, needed at every stage of the marketing process, includes several steps. Since plans should be made upon the basis of facts, the first step is to determine what facts are needed for a particular sales decision; the next step is to collect such facts as are needed and as are procurable; the third step consists in studying those facts and drawing conclusions therefrom. Lastly, plans are to be made on the basis of the conclusions which have been derived from the study of facts, tempered by judgment and experience where the facts are insufficient.

The problems involved in sales planning relate particularly to the planning of the selling task. Given the sales proposition and the product to be sold, the market to which it is to be sold, that is, both the ultimate market and the intermediate market, and given the prices and terms at which the product is to be sold, the sales executive must determine the size of his task and divide that task into manageable portions as a basis for the determination of specific methods for the sales campaign. Obviously, the task of selling for a company which plans to sell $10,000,000 worth of a particular product is considerably greater than that of planning for a company which proposes to sell only $1,000,000 worth, provided both are selling similar products through the same channels. The manufacturer's task of selling a million dollars' worth directly to retail customers is considerably larger than that of selling the same million dollars' worth through wholesalers, if one measures the size of the task by the number of operations which must be performed and the number of transactions which must take place before the million dollars' worth of goods is disposed of.

The division of the task by classes of customers or by territories is a portion of planning work to which too little attention has been devoted in the past. Development within the past few years of data concerning trading areas, buying habits, and the like furnishes for the modern sales manager in many lines a more definite basis for planning his task and subdividing it so that it may be assigned to subordinates.

Districting of sales territories constitutes one phase of the breakdown of the total selling job into manageable units. If the selling task includes

making sales and deliveries over a wide territory, sometimes within a nation, sometimes over the entire world, it becomes advisable to divide it on a number of different bases, both functional and territorial. The choice of territorial divisions requires a detailed knowledge of the market and of buying habits. From one point of view, the starting point for the choice of territorial units or districts is the salesman's territory, that is, the number and location of customers who can be solicited most effectively and economically by a single salesman. The number of accounts handled by the individual salesman will depend upon the frequency of his visits to customers, the location of products and customers, the character of his product, whether the demand is seasonal or otherwise, and transportation facilities. The size of the supervisory territory over salesmen will depend upon these factors plus the supervisory ability of the average branch or district manager, that is, the number of men whom he can supervise effectively in addition to performing other duties which may be required of him. It is evident that basically the objective is that of determining the task from the viewpoint of the sales personnel and of developing divisions of that task which will be most suitable for effective and economical performance.

The routing of salesmen as a practical operation is not difficult once the task to be performed is determined, but it is essential that the work to be done by the salesmen be decided upon before any attempt is made to provide a schedule according to which the work is to be performed. Proper routing of salesmen should conform to the following requirements: (1) the task should be one which the salesman can perform comfortably without overwork and yet which will keep him busy for the period of the working day; (2) provision should be made for sufficiently frequent return to headquarters or to home to provide stability of social contact and remove certain psychological disadvantages which arise from longer trips; and (3) economy of the salesman's time and economy of traveling expense should be considered. In order properly to route salesmen, therefore, a sales executive should know the frequency of a salesman's calls upon customers, the time required to handle customers and prospects, the character and details of the transportation upon which the salesman must depend, and the frequency with which he is expected to report at his headquarters.

8. ENTERPRISE ELECTRIC CORPORATION—REDUCING NUMBER OF SALES DISTRICTS

Prior to 1928 the Enterprise Electric Corporation had approximately 500 salesmen in the field. The United States was divided into 14 districts, in each of which was located a district office. Thirteen locations in these

districts offered volumes large enough to support branch offices. In addition, the company had sales offices, known as suboffices, in 20 cities. The suboffices were primarily headquarters for one or two men, who

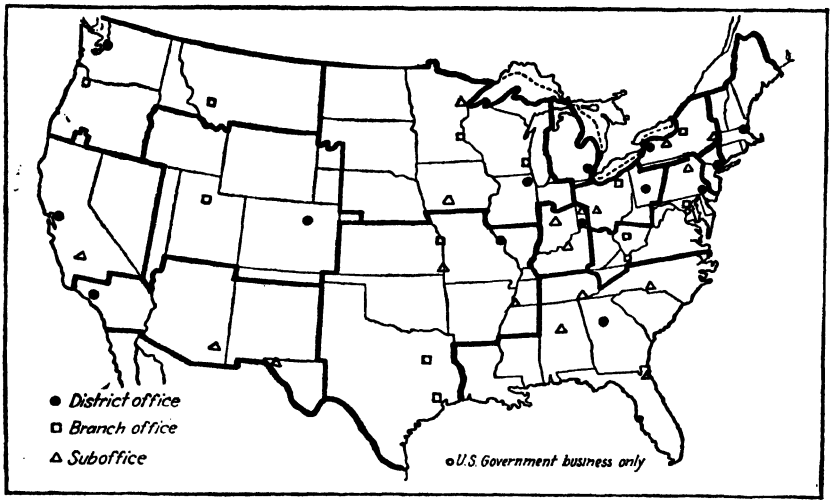

EXHIBIT 1.—Enterprise Electric Company. Location of District Offices, Branch Offices and Suboffices in 1928.

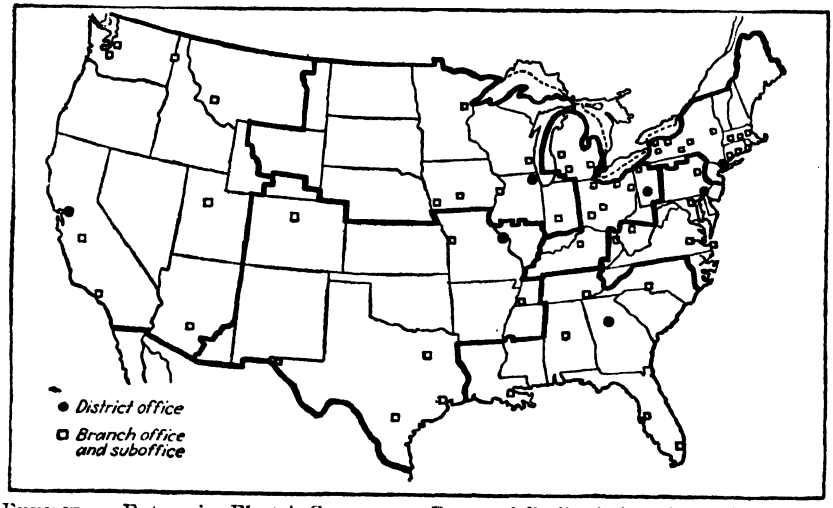

EXHIBIT 2.—Enterprise Electric Company. Proposed Redistricting of Sales Territories.

traveled from a particular point, with no branch manager in charge. The branch office was an office from which several men traveled, with a branch manager in charge of the group; while the district office, under the control

of the district manager, controlled both the branch offices and suboffices in its territory. During the period 1919–1928 the number of branch offices grew until there were over 50 district offices, branch offices, and suboffices. Their locations are shown in Exhibit 1. In 1928 it was proposed that the number of district offices be reduced from 14 to 7. The control of the seven districts was to be placed in the hands of the seven most capable district managers, and the entire time of the district managers was to be spent on working on the more important duties in the districts. Seven district managers were to be made branch managers in their respective locations. Only in a few cases would supervisory executives in various district offices be eliminated so that the work formerly done by two men could be performed by one. It was argued also that cooperation between headquarters and districts would be improved and freer movement of stocks from warehouse to warehouse would be brought about. The proposed redistricting of the sales territories is indicated in Exhibit 2.

What would have been the advantages and disadvantages of reducing the number of sales districts? What are the bases for the establishment of the boundaries of salesmen's territories? Branch offices? Districts?

9. GRIGGS COMPANY—PROPOSED ESTABLISHMENT OF A NEW SALES TERRITORY

The Griggs Company, located on the Atlantic seaboard, manufactured waxed paper, coated paper, and gummed paper. The company was of medium size, its sales volume amounting to less than $5,000,000 annually. Since consumers of waxed paper customarily wished it printed with their name and appropriate designs, the majority of sales were made on a special order basis. The largest users of this product were bakers and confectioners, although food manufacturers, soap manufacturers, tobacco manufacturers, and florists also constituted important markets. Sales were made directly to these customers throughout the United States by twelve salesmen, six of whom specialized on waxed paper and six of whom sold waxed, coated, and gummed papers. Specialization was most common in urban and thickly settled areas, where there was a concentration of customers and prospects. Only 5% of total waxed paper sales were made to wholesalers.

Although many orders for coated and gummed papers necessitated the manufacture of special lots, there were also a number of standard lines which were in constant demand and could be manufactured for stock. Of the total sales of these two lines of products, 62% were made directly to set-up box manufacturers, corrugated box manufacturers, confectioners,

printers, envelope manufacturers, tablet and pad manufacturers, tag manufacturers, label manufacturers, and a variety of miscellaneous customers, while 38% were made to paper wholesalers. Some of the latter carried a general line of papers, while others specialized in box-covering papers.

In December, 1932, the sales manager of the Griggs Company became dissatisfied with the volume of sales secured from Ohio, western Pennsylvania, West Virginia, Kentucky, and Tennessee. Part of this territory was covered by Mr. Jones, who lived in Detroit, while the area surrounding

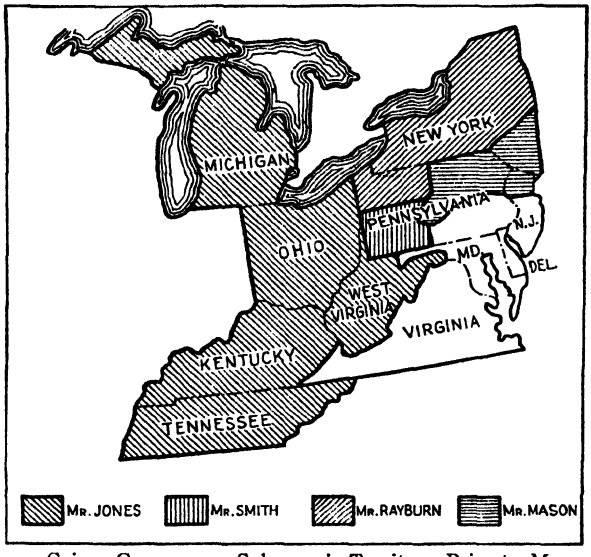

EXHIBIT 1.—Griggs Company. Salesmen's Territory Prior to May 11, 1932.

Pittsburgh was handled by Mr. Smith on a part-time arrangement. The outlines of these territories as well as those of the salesmen traveling in contiguous areas are shown in Exhibit 1. Mr. Jones's sales in Kentucky, Tennessee, West Virginia, and Ohio exclusive of Toledo and vicinity, declined 40% from 1930 to 1931 and approximately 54% from 1931 to 1932. During the same years Mr. Smith's sales had first increased 20% and then suffered a sharp drop of 63%. The sales manager believed that there existed throughout this area fully as great a demand for products of the Griggs Company as in other regions from which a much greater volume of sales was being secured.

Furthermore, there was in the company's employ a salesman who had made an excellent sales record on a new product during a period of several months. Executives had decided to discontinue this promotional effort,

however, and had to determine whether to retain the salesman. The sales manager, therefore, was considering the desirability of placing him in a new sales territory, which would cover some part or all of the area in which results were unsatisfactory. Before a decision on this matter could be reached, however, it was necessary, as a first step, to secure detailed information concerning the individual activities and sales, not only of Mr. Jones and Mr. Smith, but also of Mr. Mason and Mr. Rayburn, who made occasional trips into the area. The second step involved a market analysis to determine whether there was sufficient consumption of products similar to those of the Griggs Company to justify the establishment of a new territory. The market research department was instructed to secure information which could be used in arriving at a final decision.

Prior to May 11, 1932, Mr. Jones's territory had consisted of Michigan, Ohio, Tennessee, Kentucky, and West Virginia, as shown on the map in Exhibit 1. At that time, however, he requested that he be relieved of Kentucky and Tennessee, because he did not consider that the expenditure of time and money necessary to make two trips a year to these states was justified by the sales secured. This request had been granted, except for Louisville, Kentucky, where he was expected to continue sales solicitation.

EXHIBIT 2

GRIGGS COMPANY—ANALYSIS OF SELLING ACTIVITIES—MR. JONES

	Total Territory	Detroit (1)	Balance of Michigan (2)	Toledo and Vicinity (3)	Balance of Ohio (4)	Kentucky Tennessee (5)	West Virginia (6)	Walkerville, Ontario (7)
Days spent:								
Actual:								
1931	230	146	12	21	38	8	.....	5
1932 (11 months)	206	134	17	20	33	.....	.....	2
Per cent:								
1931	100 %	63.4 %	5.2 %	9.1 %	16.5 %	3.5 %	.....	2.3 %
1932 (11 months)	100 %	65.0 %	8.3 %	9.7 %	16.0 %	.....	.....	1.0 %
Calls made:								
Actual:								
1931	807	453	55	58	197	37	.....	7
1932 (11 months)	716	399	71	67	176	.....	.....	3
Per cent:								
1931	100 %	56.2 %	6.8 %	7.2 %	24.4 %	4.6 %	.....	0.8 %
1932 (11 months)	100 %	55.7 %	9.9 %	9.4 %	24.6 %	.....	.....	0.4 %
Dollar sales:								
1930	$174,313	$29,848	$ 5,463	$ 6,719	$107,765	$22,682	$1,836	
1931	130,977	29,548	11,225	10,335	61,117	16,004	2,228	$520
1932 (9 months)	92,827	50,539	4,512	8,839	24,217	3,951	523	246
Number of customers:								
1930	.....	29	21	20	122	26	19	
1931	.....	34	26	18	123	31	11	1
1932 (9 months)	.....	28	24	14	77	19	6	1

An analysis of Mr. Jones's activities and sales during 1931 and eleven months of 1932, divided according to different sections of his territory, is given in Exhibit 2. This shows days spent, calls made, dollar sales, and the number of customers.

In addition to the information shown in Exhibit 2, a study was made of the comparative intensity of customer and prospect coverage for Ohio and parts of Pennsylvania for the first eleven months of 1932. Information was obtained for each city in Ohio as to the number of companies called upon with varying frequency during the period under consideration. For the whole state of Ohio Mr. Jones called on 45 firms once, 25 firms twice, 9 firms three times, 4 firms four times, and 6 firms more than four times. Of the firms called on 72.6% were called on three times or less. In 11 months Mr. Jones made 168 calls. He did not call on 15 accounts buying $300 worth of goods in 1931 or 1932. In Michigan he called on 20 firms once, 5 firms twice, 8 firms three times, 5 firms four times, and 23 firms more than four times. Firms called on less than three times amounted to 13.5% of the total. He made 399 calls in 11 months and neglected to call on two accounts buying $300 in 1931 or 1932. The manager of the market research department stated that at least two calls a year were necessary to maintain good relations with customers of small size. Large customers required a much greater amount of personal selling effort.

Mr. Smith, located in Pittsburgh, Pennsylvania, was in the employ of a manufacturer of paper products. In 1930 the Griggs Company had made an arrangement with him and with his employer whereby he was to sell the entire line of the Griggs Company products in Pittsburgh and throughout the surrounding area on a part-time basis.[1] According to this contract, which was subject to a 60-day termination notice, the manufacturer was to receive a commission of 3% of net sales as payment for Mr. Smith's time. This commission in 1931 amounted to $1,475, while in 1932 it was estimated that it would drop to approximately $550. The number of days spent, calls made, number of customers, and dollar sales for 1931 and eleven months of 1932 are shown in Exhibit 3. The increase in sales from 1930 to 1931 of approximately $9,000 was due primarily to increased purchases of one customer. The decline from 1931 to 1932 was not concentrated on any one or two customers but was spread over the entire list. Of the ten largest waxed paper customers, eight showed considerably smaller volume, while only two showed increases. Of the gummed paper and coated paper customers, nine showed considerably smaller purchases, while three showed larger purchases. Mr. Smith called on 12 firms once, 5 firms twice, 5 firms three times, 1 firm four times, and 12 firms more than four times. Of the firms called on 25% were called on three times or less. He made 148 calls in 11 months.

[1] This area was bounded on the north by a line drawn from Renovo just south of Clearfield, Punxsutawney, Kaylor, and Newcastle, and on the east by a line drawn from Renovo just west of Phillipsburg, Johnstown, and Bedford, and thence south to the state line.

The manager of the market research department believed that the sharp decline in sales from 1931 to 1932 was probably caused in large measure by the commission method of compensation. Since this was paid to the manufacturer who employed Mr. Smith, rather than to Mr. Smith himself, the utilization of his effort in the sale of the manufacturer's own goods might have proved more remunerative than the 3% received for the sale of Griggs Company products. As a consequence, although calls had been made as reported, his selling effort during interviews had probably been diverted from waxed, gummed, and coated papers to the products of his immediate employer.

EXHIBIT 3

GRIGGS COMPANY—ANALYSIS OF SELLING ACTIVITIES—MR. SMITH

	Total Area Covered	Pittsburgh	McKees Rocks	Other
Days spent:				
1931	121	104	10	7
1932 (11 months)	110	94	6	10
Calls made:				
1931	214	184	13	17
1932 (11 months)	179	148	7	24
Dollar sales:				
1930	$40,902	$33,665	$4,074	$3,163
1931	49,111*	45,794	708	2,609
1932 (9 months)	13,327	12,198	378	751
Number of customers:				
1930	32	24	1	7
1931	28	21	1	6
1932	17	13	1	3

* Practically the entire increase over 1930 sales due to larger purchases of one customer.

Mr. Smith's coverage of paper box manufacturers, furthermore, did not appear to be satisfactory. In Pittsburgh, for example, there were seven large manufacturers with acceptable credit ratings, of whom only one purchased any Griggs products. Finally, the manager of the market research department believed that some parts of the region surrounding Pittsburgh were being neglected. Mr. Smith covered only two counties in entirety and portions of four more. The remainder of the latter and the whole of five other counties, all within 100 miles of Pittsburgh, he did not solicit at all.

Mr. Mason's territory consisted of the southeastern part of New York State, bounded by a line drawn from Deposit through Grand Gorge and Ravena to Mt. Lebanon; northeastern Pennsylvania and northern New Jersey, bounded by a line drawn through Galeton, Phillipsburg, Johnstown, Windber, Bedford, Mt. Union, Millersburg, Reading, and Allentown

in Pennsylvania and just north of Trenton and just south of Lakewood in New Jersey. During the first eleven months of 1932 he had made only one call in Huntingdon, Pennsylvania. His sales for this period were $4,150 split between Huntingdon and Johnstown, and consisting largely of gummed and coated papers. Mr. Mason had already indicated a desire to be relieved of the area west of Harrisburg as a section too distant to warrant the time and expense involved, but no action had been taken.

Mr. Rayburn's territory included all of New York State north of the area assigned to Mr. Mason, and a part of northwestern Pennsylvania bounded by a line drawn just west of Galeton and just south of Clearfield, Punxsutawney, Kaylor, and Newcastle. Previous to August, 1932, Mr. Rayburn had sold only gummed and coated papers, but later he had been given the waxed paper line also. Since he had had the full line, he had spent only three days in Pennsylvania. Sales for nine months of 1932 amounted to $847 for waxed paper and $42 for gummed and coated papers.

The next step in the study made by the market research department consisted of an estimate of the extent of demand and its concentration in western Pennsylvania, Ohio, and contiguous areas. The method used in making this estimate is explained in the following quotation from the report prepared by the market research department.

The ideal method would be to have an accurate estimate of the total usage by all good credit, sizable prospects for all papers similar to Griggs' in the entire area in question.

This is not possible at this time. The salesmen's call reports cover far too few customers and prospects to be of much use in furnishing estimates of annual consumption. Any other method, such as the use of a special field investigator, would be exceedingly expensive, and so slow as to defeat the whole purpose of this report.

The only method that appears feasible under the circumstances is as follows:

1. The selection of major classes of Griggs customers; boxmakers, bakers, confectioners, jobbers, and so on.

2. The listing of all Griggs customers in each class, and the compilation of the average Griggs sales in each class with the arrangement of customers by Dun size rating.

3. The selection of prospects of good credit in these major classes, and their arrangement by similar Dun size ratings.

4. The application to these prospects of the average Griggs sales figure discussed under (2) depending on the Dun size rating.

It will readily be seen that this method is extremely conservative. It does not estimate the total possible sales; it uses the actual average sales Griggs has enjoyed to customers of the same size as the prospects. We might sell far more than that average—certainly we should sell as much.

It is not possible to obtain lists of prospects in all the major customer classes. The names of all the larger bakers, boxmakers, manufacturers of labels, envelopes, tags, tablets, and pads have been obtained. The largest of the confectioners, sugar refiners,

tobacco manufacturers, etc. have also been obtained, but a full list of jobbers, bookbinders, confectioners, printers, florists, etc. have not been, because time would not permit and because the final result would not be changed sufficiently to warrant the waiting.

Names of prospects in the groups not so far obtained will be collected gradually and added to the market figures.

A complete list of all prospects obtained for this territory, classified by industry, and indicated to be of either wholly satisfactory or acceptable credit, is available for use if and when such a territory is determined upon.

By following this procedure, a rough measurement of demand was obtained for waxed, coated, and gummed papers in each town and city of any importance throughout the area. A summary of the results obtained by comparing these estimated sales to actual sales follows:

Out of an estimated demand of $585,000 worth of sales of waxed paper for Ohio, the Griggs Company actually sold $11,275 worth. There were 72 towns and cities in Ohio with estimated demands ranging from $300 to $17,700, a total of $179,200, where no calls were made in the first 11 months of 1932. Eight calls were made in four of the remaining cities, five in one city and one each in the other cities, but no sales were made out of a total estimated demand of $19,000. Sales of $25 were made unsolicited. The remaining $11,250 of actual sales were made in 60 calls on 10 cities with an estimated demand of $386,800.

Out of an estimated demand for coated and gummed paper in Ohio of $198,500, actual sales in 1932 were $19,590. No calls were made in 15 towns with an estimated demand per town ranging from $300 to $8,500, a total of $46,800. Three calls were made in one city with an estimated demand of $3,000 and two in another city with an estimated demand of $15,000, but no actual sales were made. Sales of $3,580 were made without solicitation by call. The remaining $16,010 of actual sales were made by 90 calls in 7 cities with an estimated demand of $133,700.

In Pennsylvania, out of an estimated demand of $393,100 for waxed paper, the Griggs Company sold $13,690 worth. No calls were made in 46 cities with estimated demands ranging from $1,000 to $16,000, a total of $144,900 Twenty-five calls were made in eleven cities with a potential demand of $50,000, but no sales were made. Sales of $2,810 were made unsolicited by calls. The remaining $10,880 of actual sales were made in 140 calls on customers with an estimated demand of $198,900.

Coated and gummed paper sales in Pennsylvania were $11,260 out of an estimated demand of $58,500. Ten cities with a potential demand of $20,700, ranging from $500 to $5,000, were unsolicited by call. Actual sales of $310 were made without calls. Where actual sales of $10,950 were made, estimated demand was $37,800.

No calls for either waxed paper or coated and gummed paper were made in West Virginia. Actual sales of waxed paper amounting to $40 and of coated and gummed paper amounting to $450 were made unsolicited. Estimated demand for the state for waxed paper was $115,200; for gummed and coated paper, $41,000. For Kentucky where no calls were made, actual sales of waxed paper were $130 and of gummed and coated paper $850. Estimated demand for waxed paper was $104,100 and for gummed and coated paper $26,800. In Maryland the estimated demand for waxed paper was $6,000.

Although this estimate of demand was based on the actual sales experience of the company, the manager of the market research department explained that it would be possible to secure only a portion of this estimated sales figure if a new territory was established. In the first place, since only a few of the many prospects had been solicited in the past, the company name was not well known and the salesman would encounter difficulty in obtaining customers. Secondly, it would not be possible to offer as rapid delivery service as competitors who were located nearer to the territory.

It was necessary, therefore, to secure some measure of the share of estimated demand which might reasonably be obtained. This measure was derived by taking those customers and prospects on whom Mr. Jones and Mr. Smith had called during 1931 and relating sales for that period to the estimate of demand furnished by the market analysis. There were three major classifications of customers—bakers, boxmakers, and manufacturers of tablets and pads, envelopes, labels, etc. For the entire area, the actual sales of waxed paper to bakers amounted to 8.1% of the estimated demand for the market being covered. Since bakers were the most important consumers of waxed papers, the manager of the market research department decided to use this percentage figure to estimate possible sales to all consumers of waxed paper.

Actual sales of gummed and coated papers throughout the area, when compared to estimated sales for the market being covered, amounted to 20.5% for boxmakers and 21.8% for manufacturers of tablets and pads, envelopes, labels, etc. Since these figures were practically identical, 21% was selected for application to all consumers of gummed and coated papers in arriving at an estimate of probable sales.

The direct expenses of establishing a new territory were estimated to be $4,000 for salesman's compensation and $2,000 for traveling expenses. The manager of the market research department stated that if an allocation of existing sales overhead expenses were also to be included, $17,000 would represent a reasonable figure. The average gross margin of Griggs Company products was 20% of net sales.

Should a new territory be added? If so, what cities and towns should it include? Give reasons for your selection.

QUESTIONS

1. During the early growth of its business, the Meeker Dry Goods Company of St. Louis permitted its salesmen to retain as their own accounts retailers whom they had served when these retailers first visited the home office. This practice was discontinued because the salesmen, finding it profitable, tended to remain at headquarters rather than out in their territories. It also resulted in an overlapping and intermingling of sales territories, which was permitted to continue until the question of redistricting territories came up for decision.

Sixty salesmen were employed to visit retailers in the towns with a population over 200 in 16 neighboring states. Their calls varied in frequency from once a week in St. Louis to once a season in territories as far distant as Colorado or Dakota. The bulk of the sales was in towns with less than 20,000 population in the immediate vicinity of St. Louis. A general line of merchandise was carried, consisting of piece goods, cotton, wool, and silk dress goods, gloves, underwear, laces and embroideries, knit goods, novelties, notions, and accessories.

The reorganization of territories not only would reduce traveling expenses but would make possible a decrease in the number of salesmen required to cover the territory. On the other hand, if a change were made, customers as well as good salesmen might be lost because of the desire to continue the established friendly relations between customer and salesman. If no salesman could sell all the accounts in a territory, the overlapping might be necessary for intensive selling.

Should the Meeker Dry Goods Company have redistricted its territories to eliminate overlapping?

2. Lang and Thompson Company, of Worcester, Massachusetts, was one of the oldest and largest manufacturers of small tools and cutters in the United States. Distribution was through hardware dealers and mill-supply houses and direct to certain large users. Tools and cutters were first sold by the same salesmen, but the expansion in the sale of cutters until the line included 35 styles and 2,000 sizes of milling cutters, gear cutters, and hobs necessitated the organization of separate salesforces. Although the major market was in the East, distributors and metal-working plants in all parts of the country were customers. Separation of the salesforce had made a change in salesmen's territories advisable, and the sales manager wished to divide the country into territories of approximately equal value and to set up sales quotas for each salesman. Inasmuch as the cutter line was the more important of the two, work was to be begun on cutters, and the sales territories for the salesmen of small tools were not to be studied until the territories for the cutter line had been reconstructed.

How could Lang and Thompson Company have accomplished these objectives? What problems were involved? What sources of information should have been used?

3. No uniformity is followed by large enterprises in choosing sales districts, as is shown by the selection of four divisions by a company manufacturing an office appliance with sales headquarters at New York, five divisions by a manufacturing druggist with headquarters in the same city, six divisions by an office appliance manufacturer using Cleveland as a center, seven divisions in the case of an office appliance company with headquarters at Detroit, nine divisions by a paint manufacturer whose main sales office is located at Chicago, twenty-four divisons by a Milwaukee company handling gasoline

engines and factory and mill supplies with headquarters at Chicago. At least four of the firms mentioned direct their selling efforts toward the same classes of prospects.

What reasons may be assigned for the difference in number of districts chosen? To what extent does the number of districts chosen depend upon company policy with regard to control of branches and salesmen? Is it advisable to depart from using state lines for delimitation of territories if the number of districts is less than the number of states?

4. Using automobile and railroad route maps, prepare a route list for a grocery salesman who is to cover all retail groceries in a specified territory in towns of 1,000 or over. Calls are to be made fortnightly except in cities over 100,000, where calls are to be made weekly. The territory selected should be taken from the *Atlas of Wholesale Grocery Territories* published by the United States Department of Commerce. Two jobbing areas should be covered ordinarily by one salesman.

5. How many calls per day should a salesman make?

6. How does the development of airplane transport affect a high-salaried specialty salesman calling upon department stores in cities of over 200,000?

7. Trace the effects of bus transportation, drive-yourself systems, and the return of railroad mileage books upon the routing of salesmen.

8. Discuss the relationship of private automobiles to problems of routing salesmen.

9. What is meant by "trading area"? List in order of importance the factors which determine such areas with reference, if possible, to studies of such areas.

Discuss the following: "The recent studies of trading areas are another step in the application of scientific methods to the problems of marketing. But such studies have definite limitations and the individual manufacturer cannot expect to pick up a ready-made set of areas."

10. Should salesmen be allowed to route themselves? What factors should determine salesmen's routes? Should salesmen's territories be mutually exclusive?

11. What factors determine the number of salesmen's territories, districts, and divisions in a specific sales organization?

D. SALES ESTIMATES AND SALES QUOTAS

The development of sales quotas is a logical extension of sales planning, for the sales quota may represent a sales task set for the sales organization as a whole, or for a sales branch and sales territory, or for a salesman. The sales task may represent anticipated experience upon the basis of which expenditures are made, or, at the other extreme, it may represent merely a vaguely hoped-for accomplishment. The usual basis for measuring the task is volume of sales either in dollars or in units of product. An estimate of the task in terms of dollars is more convenient from the viewpoint of figuring profits, expenses, and percentages; but the main objection is that it does not permit so true a picture of changes in actual volume of commodities sold, particularly in periods of rapidly changing prices, as does a quota expressed in terms of volume of product. Where the quota system

is part of the general budget system, it is obvious that the volume of commodity production is of much greater importance to the production department than is the number of dollars representing sales.

The sales quota is sometimes the work of the sales manager, who, without consulting salesmen, makes an estimate of the possibilities of territory by examination of past sales and sets quotas for the men in various territories for the coming period. Sometimes the quota is part of an elaborate system whereby estimates of salesmen and branch managers are compared and combined with the estimates of home office officials to set up a sales estimate which is made the total sales quota for a period.

The quota, if it is to be carefully made, should be based upon the facts as they appear both in records of past performance and in regard to market possibilities and probabilities. Past performance is definite in so far as records and accounts are available. Market possibilities and probabilities are, on the other hand, vague and general. The most that can be claimed for many of them is, that they are somewhat less inaccurate than pure guesses, upon the basis of which sales managers so often have to work.

The advantages of sales quotas, whether applied to the entire organization or to portions of it, are clearly the advantages of setting up a definite task against which actual performance may be appraised and upon the basis of which conclusions as to further action may be drawn. If the quotas are set on the basis of whim, prejudice, or careless guessing, discouragement and friction may be the result of the adoption of a quota plan. But whether the sales manager wills it or not, he is compelled to set up some basis, at least in his own mind, whereby he judges the performance of sales personnel. It seems logical that careful attempts to set up an accurate basis should, in the main, be more desirable than the results of a more or less concerted attempt to ignore the existence of the problem.

10. HARWOOD MACHINERY COMPANY—THE USE OF A SALES FORECAST FOR INDUSTRIAL MACHINERY

The Harwood Machinery Company, located in the middle-western section of the United States, produced a complete line of packaging equipment. These machines, of which there were over 50 different models, were divided into two main groups, one of which was designed to package dry, free-flowing products and the other liquids or semiliquids. The usual packaging process consisted of a number of operations involving the use of several machine units in order to attain an absolutely automatic cycle. A small number of manufacturers, however, were unwilling to make the investment of $10,000 or over necessary for the complete equipment, and

the Harwood Machinery Company occasionally sold individual units designed for certain operations. The majority of sales, however, consisted of automatic sets ranging in price from $10,000 to $25,000, depending upon the speed of operation and the complexity of the package used.

The sales of the Harwood Machinery Company, although showing marked fluctuations from year to year, had steadily increased over a period of years, to a high point of $2,938,855 in 1929, but had declined in subsequent years. During its existence, the company had sold to nationally known manufacturers a total of 2,393 machines. In the food industry, which was the most important consumer, 466 machines were being used for the packaging of cereal preparations, 151 for flour of different grades, 335 for sugar, 141 for condiment preparations, 134 for tea, 102 for fruits, and 44 for crackers. In the soap industry the trend away from bulk sales and the widespread popularity of various soap powder preparations had led to an extensive use of Harwood equipment, and four large manufacturers had purchased a total of 594 machines. The third market in importance, which accounted for 254 machines, comprised manufacturers of a variety of household products, including insecticides, deodorants, and common chemicals. Finally, there was a group of pharmaceutical manufacturers who were using 72 machines.

The Harwood Machinery Company sold to these industries through a salesforce of six men who were paid a drawing account and a commission of 5% on total sales. Three of these men operated from the head office covering the Chicago territory and west to the coast, two were given New York and the eastern section of the country, and one was stationed in New England. These men were technically trained in the problems of packaging and earned between $10,000 and $20,000 annually in commissions. An executive of the company stated that although the commission method of compensation resulted in wide fluctuations of income from month to month, the incentive to sell was keener than would have been the case with a salary. The typically uncertain flow of orders, however, complicated the production schedule and plant inventory situation and induced the sales department to prepare a sales budget. It was hoped that through this medium a better coordination between production and sales could be attained with consequent economies.

The form which was devised included columns for all the machines which were commonly sold as well as spaces for customers' names. Each salesman was expected to estimate the probable sales of different machines to each of his customers at the beginning of every quarterly period. Sales executives believed that the personal contact of salesmen with customers was a more accurate means of estimating sales than any attempt made by the head office. When the budget form had been sent in by the salesmen,

it was kept on record by the head office and was subject to revision on the basis of subsequent visits by salesmen. Executives stated that the purchase of Harwood equipment was usually regarded as a major expenditure and was often deferred if the financial condition of the manufacturer was unsatisfactory. On the other hand, there had been instances where the necessity of economy in times of depression had led business firms to purchase packaging equipment in order to save labor costs, and it was not believed possible to depend on any one factor in estimating sales.

In addition to revisions based on subsequent visits by salesmen, the budget form was subjected to a general revision by the head office in order to deflate overoptimism in the original forecast. While it was not possible for officials to possess the salesmen's intimate knowledge of customers, it was believed that their more inclusive view of sales possibilities permitted logical changes in estimates. Sales of packaging equipment originated primarily either in the growth of customers then being served or in the addition of new customers. Although higher speed machines had been added from time to time, it had proved difficult to persuade customers to make the new investment, and sales from this source were rarely more than 5% of the total. Harwood machines had a life of 20 years, and replacement sales tended to concentrate on various industries as the original equipment became worn out. Because of this condition the distribution of sales among industries and among companies in any one industry tended to vary widely from year to year. An analysis of monthly sales to different classes of customers showed wide fluctuations in total monthly sales which, in the opinion of executives, were caused both by the customarily large unit of sale and the irregularity of purchase by various industries.

When the sales budget had been in operation slightly over a year, a review of the results did not convince executives of the wisdom of closely scheduling production on this basis. The percentage of actual sales realized to budget sales varied from 40% to 66%. Although this realization displayed a certain uniformity between months, an analysis of budget sales realized to total sales budgeted by accounts revealed a less favorable picture; the percentage of realization ranged from 16% to 52%.

Executives stated that much of the business estimated in the budget had failed to materialize and had been replaced by other sales which had not been foreseen. Because of this feature, certain company executives questioned the value of the procedure. Its proponents, however, urged that inaccuracies were inevitable in the introductory period and that with improvements in technique more use of this forecast could safely be made. It was believed that a composite index figure might be constructed for the various industries served which would indicate the probable trend in sales

volume. Sporadic attempts of this sort had been made in the past, and at one time a correspondence had been discovered between the unfilled orders of the United States Steel Corporation and the Harwood Machinery Company's sales which seemed to apply with a time lag of six months. No careful study had been made, however, and the originators of the budget hoped to develop a satisfactory index.

Sales executives, furthermore, believed the budget had exerted a salutary effect in focusing the attention of salesmen upon potential customers. The existence of a written record of intentions was thought to serve as a spur to effort which had not existed before. In addition, the preparation of the budget had resulted in a more intelligent appraisal of customers and industries than had formerly been the case, and several salesmen had submitted creditable analyses.

What steps should Harwood executives take to secure a basic sales forecast as a basis for production, marketing, and financial planning?

11. BISEL COMPANY—APPORTIONMENT OF SALES QUOTAS

The Bisel Company manufactured adding machines and sold them directly to customers through its own salesmen who were paid by commission. Each year the company estimated for distribution in the entire United States a quota which was based upon sales during previous years and upon general business conditions. The quota for the United States was an estimated figure; quotas established for agencies, counties, and territories were derived mathematically from this figure.

The Bisel Company had used three methods of distributing the quota among the various agencies on a fair and equitable basis. The three methods had been valuable, but each succeeding one had seemed to provide greater accuracy. When a new basis for distribution was presented by the chief statistician, the Bisel Company wished to determine whether the proposed change in the apportionment of sales quotas was of sufficient value to warrant the recomputation which would be involved.

During the first 10 years of the company's history, before the attainment of national distribution in sufficient volume to establish quotas by districts, mere guesses were made to encourage the salesmen to secure a specific volume of sales. When the number of salesmen had been increased to 300, it was necessary to measure their efforts in a more justifiable manner. The Bisel Company decided, therefore, to base quotas for the various sales districts on population, believing that population figures were a reliable index because business offices were located in districts where the density of population was greatest. This basis was used for about 10

years; during that time the number of salesmen was increased from 300 to 800, and the volume of sales throughout the United States showed a steady increase.

The basic factor of population appeared, however, to be misleading; though population in some districts was greater than in others, it might be mostly residential in character. Furthermore, the number of machines required would vary with the type of industry. The number of the Bisel Company's products already distributed had reached sufficient volume in each sales district to base sales quotas on the number of machines sold. It was decided therefore to allot quotas according to the number of machines then in use. This figure could be ascertained because, from the beginning, the company had kept complete annual sales records. Counts made by salesmen checked the machines discarded or bought at second hand.

The theory was followed that where machines had been marketed, more could be sold. The total number of used machines was divided by the year's quota for the entire United States. Thus the number of adding machines the company expected to sell in the following year could be compared to the number of machines already in use, and the valuation factor or ratio could be obtained. For example, if the yearly quota for the entire United States was $5,000,000 and there was $10,000,000 worth of machines already in use, the ratio would be 1 to 2 or a value of 50 cents. To make use of this figure in a district, the value of the machines in use in that district was multiplied by 50 cents. Thus, if the value of the machines in use in the Boston district was $100,000, the $100,000 multiplied by 0.50 would give the quota, $50,000, for the Boston district for that year. To convert the quota from dollars to machines for different prices, the $50,000 was divided by the retail selling price of the machines. This method remedied the difficulty of the former plan which placed too much emphasis on population alone.

Many machines already in use had been sold with little selling effort on the part of the salesmen. Under this plan one salesman might have to distribute the same number of machines as another salesman but in a district which had half as many business enterprises as had the second salesman's district. An apportionment of quotas was proposed, therefore, which would take into consideration not only the machines in use, but also the number and the size of business enterprises. At the time of the proposed change, the number of salesmen had increased to 1,200.

The proposed plan contained two valuation factors. One-half[1] of the company's quota was to be allotted on the basis of the number of

[1] One-half was chosen by the Bisel Company's statistician because he believed that the number of machines in use to the number which could be sold was in the same.

(Footnote continued on p. 74.)

machines in use and the other half was to be allotted according to the number and the size of business enterprises. With this system it would be necessary to make an actual business-enterprise count. The list of business enterprises under the various classifications could be secured for about $15,000 from a directory company.

The business enterprises would have to be classified according to number, size, and credit, because it was obviously unfair to assign a uniform valuation to all enterprises regardless of their number and financial rating. Divisions were to be made according to the major business classifications of banks, financial, government, public service, manufacturers, wholesalers, retailers, and general. The proposed classification according to size and credit was as follows:

BANK CLASSIFICATION

Division 1—Banks with deposits of over $5,000,000.
Division 2—Banks with deposits of $1,000,000 to $5,000,000.
Division 3—Banks with deposits of $400,000 to $1,000,000.
Division 4—Banks with deposits under $400,000.

FINANCIAL CLASSIFICATION

One division for all financial and investment companies.

GOVERNMENT CLASSIFICATION

One division for all government offices and departments.

PUBLIC SERVICE CLASSIFICATION

One division for all public service companies.

MANUFACTURERS' CLASSIFICATION

Division 1—Companies rated over $35,000.
Division 2—Companies rated $5,000 to $35,000.
Division 3—Companies rated under $5,000.
Division 4—Companies not rated.

WHOLESALERS' CLASSIFICATION

Division 1—Companies rated over $35,000.
Division 2—Companies rated $5,000 to $35,000.
Division 3—Companies rated under $5,000.
Division 4—Companies not rated.

RETAILERS' CLASSIFICATION

Division 1—Companies rated over $35,000.
Division 2—Companies rated $5,000 to $35,000.
Division 3—Companies rated under $5,000.
Division 4—Companies not rated.

(Footnote continued from p. 73.)
ratio as the number of business enterprises then using adding machines to the total number of business enterprises.

GENERAL CLASSIFICATION

Division 1—Companies rated over $35,000.
Division 2—Companies rated $5,000 to $35,000.
Division 3—Companies rated under $5,000.
Division 4—Companies not rated.

There were factors for the four groups of machines which the company sold to these various classifications of business enterprises.

An analysis of past performance was to be made to determine the percentages of the business-enterprise count to be allotted to each of the eight major business classifications in the four groups. After all these calculations had been made for the United States on the percentage basis, the value of the whole quota for the individual district would be determined by adding the values of all divisions of the eight major business classifications in the district.

A comparison of Boston's share of the quota under the existing and proposed plans is appended as an illustration.

QUOTA FOR BOSTON UNDER EXISTING PLAN

($5,000,000 Total Quota for the United States)

Value of number of machines in use in the United States	$10,000,000.00
Value of the number of machines in use in Boston	100,000.00
Ratio of the quota for the country as a whole to the number of machines in use in the country, 1:2, or . . . per machine, $5,000,000 to 10,000,000 machines	.50
Quota for Boston on the basis of value of number of machines in use, $100,000 × .50	50,000.00

QUOTA FOR BOSTON UNDER THE PROPOSED PLAN

($5,000,000 Total Quota for the United States)

One-half of the total quota, allotted on the basis of the number of machines in use	$ 2,500,000.00
Value of number of machines in use in the United States	10,000,000.00
Ratio of $2,500,000 to 10,000,000 machines = 1:4, or, per machine	.25
Value of the number of machines in use in Boston	100,000.00
Quota for Boston on the basis of value of number of machines in use, $100,000 × .25	25,000.00
One-half of the total quota, allotted on the basis of the number of business enterprises in the country	$ 2,500,000.00
Number of business enterprises in the United States	2,500,000
Ratio of $2,500,000 to 2,500,000 business enterprises, 1:1, or per machine	$ 1.00
Number of business enterprises in Boston	20,000
Quota for Boston on the basis of the number of business enterprises, 20,000 × $1	$ 20,000.00

Quota for Boston $25,000 + $20,000 = $45,000

EXAMPLE OF FURTHER REFINEMENT OF QUOTA FOR BOSTON UNDER THE PROPOSED PLAN

Division 3—Retailers with rating under $5,000

Number in the United States	690,000
Number in Boston	5,000
Total value of machines in use in the United States	$10,000,000
Total value of machines owned by Division 3 retailers in the United States	934,500

One-half of the total quota for the country, allotted on the basis of the number of machines in use..... $2,500,000
One-half of the total quota, allotted on the basis of the number of business enterprises in the United States..... 2,500,000

Quota for machines $\frac{(690,000)}{\$2,500,000} = .2762$

+ one machine for every $\frac{(934,500)}{\$2,500,000} = .3738$

Value per machine per retailer..... $ 0.65
This was equivalent to one machine of $150 valuation to every 230 Division 3 retailers in the United States.
Therefore, the quota for Boston of Division 3 retailers = 5,000 × $0.65 $ 3,250
The $3,250 was divided further among the four groups of adding machines.
The balance of the quota for the Boston district ($45,000 − $3,250 = $41,750) would be allotted to other industries.

The proposed plan did not take into consideration the number of private individuals who might be potential users of the Bisel Company's product. It might be necessary, furthermore, to have the business-enterprise count renewed every few years to check the number of new enterprises or changes in location of existing enterprises. Therefore, with the number of adding machines already sold as a fairly reliable basis, it might not be advisable to adopt another plan which also had its limitations.

Should the Bisel Company adopt the proposed plan for the apportionment of quotas?

12. DWYER PEN COMPANY (A)—REVISION OF METHOD OF SETTING SALESMEN'S QUOTAS; DETERMINATION OF NO-PROFIT VOLUME

The Dwyer Pen Company, located in St. Louis, Missouri, manufactured fountain pens which were sold under the company's name. Total sales were about $1,000,000 annually. The gross margin on the company's products varied considerably, ranging from 20% on some standard products to 65% on others. Attempting to maintain dense distribution, the company sold directly to retailers in most areas; jobbers were used in sparsely settled territories which could not support direct sales effort. For purposes of sales administration, the selling area was divided into four districts, each in the charge of a manager who supervised the salesmen and solicited the jobber accounts. A force of 20 salesmen called on the retail trade on an average of four times a year. The company advertised in magazines (mostly Curtis publications) and newspapers to the extent of about 15% of net sales.

The Dwyer Pen Company paid its salesmen salaries and traveling expenses plus a 4% commission on all sales above a "bogy" set under the supervision of the sales manager. District managers received a salary and traveling expenses plus 2% commission on all sales above the bogy

set for the district. The setting of these bogies at a point fair both to the company and to the salesmen and, at the same time, at a point which would provide maximum incentive to the salesforce was a difficult and perennial problem facing the executives.

The company had made a market analysis of the entire United States by counties in an attempt, through the accumulation of county potentials, to arrive at the percentage of the total potential of the country in each salesman's territory. The following factors were used in the preparation of the potentials: (1) literate white population, (2) number of income tax returns, (3) purchasing power, that is, the value of crops and livestock products plus the value added by manufacture, (4) number of retail outlets, including department stores with a sales volume of $50,000 and up, grocery stores, druggists $2,000 and up, hardware stores $3,000 and up, and garages, (5) Curtis circulation.[1]

For each county each factor was expressed as a percentage of the value of the factor for the entire country. Through a process of accumulation, each sales territory was assigned, for each of the five factors, a percentage which expressed a portion of the total value of that factor in the United States which was located within the particular sales territory (Exhibit 1). The arithmetic average of the five percentages was taken to be the potential value of the sales territory relative to the national market.

For several years sales quotas had been set almost entirely through the use of these potential factors. After a total company quota had been set for the domestic market, the factors were applied to it to determine the quota for each sales territory. If actual sales in the past year exceeded the quota set in this manner, the past year's sales were set up as the quota. The annual quota was broken down to a weekly quota, 40% being assigned to the first six months and 60% to the last six months. The bogy for each salesman was set roughly 15% below this quota.

This method of setting quotas and bogies seemed to work out satisfactorily during the period in which the company was a dominant factor in the industry, but, as competition became more severe and the volume of sales declined somewhat, it proved increasingly unsatisfactory. Consequently, the sales manager began to consider both the potential and past sales in the territory before setting up the quota. The bogy was also set by the sales manager after consideration of the quota, conditions in the territory, and the ability of the salesman. Usually the bogies allowed the salesmen to earn some bonus money for reasonable effort on their part. Exhibit 1 shows the information considered in the preparation of the 1929

[1] These factors were taken largely from *Sales Quotas*, 1928–1929, published by the Curtis Publishing Company, Philadelphia, Pennsylvania.

quotas and bogies in a major district containing eight sales territories and also the actual orders obtained and the bonuses paid.

Some of the sales executives of the company came to believe that the quotas and bogies under the existing system were being set in a haphazard manner which was fair neither to the company nor to the salesmen. The sales control system used by the company gave a net profit figure semiannually for each sales district and territory. The sales statistician found, after comparing bonuses paid to territorial profits, that in some cases bonuses were being paid salesmen who were actually producing a net loss for the company, and that the bonuses generally did not vary directly with the profitability of the territories. Exhibit 2 shows the net earnings in the sales territories of District 1 and also the bonuses paid the salesmen.

In order to avoid the existing unfairness and inequality, an entirely new method of preparing sales bogies was proposed for the year 1930. The no-profit sales volume of each sales territory was to be the bogy; consequently, the salesman would receive his bonus in proportion to the profitability of his territory to the company.

EXHIBIT 1

DWYER PEN COMPANY—PREPARATION OF TERRITORIAL QUOTAS AND BOGIES, DISTRICT 1—1929

Salesman	A		B		C		D	
Territory	Part of Illinois and Iowa		Louisiana, Arkansas		Part of Indiana, Illinois and Missouri		South Dakota, Nebraska and Part of Iowa	
	% of U. S.		% of U. S.		% of U. S.		% of U. S.	
Literate White Population	3.2776		3.9551		3.0745		2.7395	
Number of Income Tax Returns	2.6242		2.4041		2.5056		2.0982	
Purchasing Power	4.4588		2.5892		2.6231		4.0802	
Number of Retail Outlets	3.1331		3.1970		2.9786		2.7755	
Curtis Circulation	3.4299		1.8882		2.1072		2.9693	
Potential	3.38		2.8		2.66		2.93	
	Actual	% of U. S.	Actual	% of U. S.	Actual	% of U. S.	Actual	% of U. S.
Net Sales:								
1925	$49,620	2.3474	$31,225	1.4831	$47,639	2.2717	$46,033	2.1973
1926	46,011	2.4751	34,328	1.8467	49,131	2.6430	42,999	2.3131
1927	42,065	2.1227	40,284	2.3355	61,389	3.0977	45,625	2.3023
1928	43,706	1.98	53,831	2.44	89,969	4.08	43,773	1.98
Quota, 1929	64,050	.....	69,300	.....	77,700	.....	66,150	
Bogy, 1929	46,667	.....	46,667	.....	70,000	.....	49,000	
Net Sales, 1929	50,287	.....	46,468	.....	87,249	.....	45,413	
Salesman's Bonus	144.81	.....	9.75	.....	689.22			

EXHIBIT 1.—(*Continued*)

DWYER PEN COMPANY—PREPARATION OF TERRITORIAL QUOTAS AND BOGIES, DISTRICT 1—1929

Salesman	E		F		G		H	
Territory	North Dakota, Minnesota		Part of Missouri, Iowa and Kansas		Oklahoma and Part of Kansas		Texas	
	% of U. S.		% of U. S.		% of U. S.		% of U. S.	
Literate White Population	2.9522		2.9572		3.1741		3.2888	
Number of Income Tax Returns	2.1800		1.9102		2.0124		2.1284	
Purchasing Power	2.9573		2.8380		3.3585		3.1241	
Number of Retail Outlets	2.7687		2.9268		3.1726		2.8644	
Curtis Circulation	2.3089		3.0427		2.5201		2.1577	
Potential	2.83		2.73		2.85		2.71	
	Actual	% of U. S.	Actual	% of U. S.	Actual	% of U. S.	Actual	% of U. S.
Net Sales:								
1925	$50,499	2.3989	$77,194	3.6663	$45,961	2.1839	$46,531	2.2108
1926	44,395	2.3882	56,758	3.0534	33,969	1.8273	33,600	1.8075
1927	41,425	2.0903	49,659	2.5058	33,454	1.6681	48,521	2.4484
1928	50,696	2.29	45,357	2.05	39,830	1.80	67,601	3.06
Quota, 1929	67,900	.....	73,500	.....	58,800	.....	71,400	
Bogy, 1929	46,667	.....	51,333	.....	46,667	.....	43,167	
Net Sales, 1929	47,349	.....	53,384	.....	48,053	.....	54,929	
Salesman's Bonus	27.07	.....	82.51	.....	55.44	.....	1,152.78	

EXHIBIT 2

DWYER PEN COMPANY—COMPARISON OF TERRITORIAL PROFITS WITH SALESMEN'S BONUSES, DISTRICT 1—1929

Salesman	A	B	C	D
Territorial Profit	$1,189.00	$638.00*	$9,400.00	$346.00
Bonus	144.81	9.75	689.22	

Salesman	E	F	G	H
Territorial Profit	$224.00	$3,065.00	$2,104.00	$2,786.00
Bonus	27.07	82.51	55.44	1,152.78

* Net loss.

The preparation of the no-profit volume or bogy involved considerable calculation. The sales quotas were set in the usual manner by the sales manager after consideration of the potential sales in the territories and

past sales for several years (Exhibit 3). The expenses considered necessary to maintain the salesman in the field and allow him to reach or approach his quota were next outlined in some detail. The salesman's salary, traveling expenses, and automobile depreciation were readily set on the basis of past experience. Each salesman was given a reasonable allowance to cover the costs of his sample cases and sample merchandise. The salary and expenses of the district managers were estimated and divided among the salesmen on the basis of the sales quotas. Indirect selling

EXHIBIT 3

DWYER PEN COMPANY—PREPARATION OF TERRITORIAL NO-PROFIT VOLUME, DISTRICT 1—1930

Salesman	A	B	C	D	E	F	G	H
Quota, 1930	$56,000	$47,833	$53,667	$47,833	$53,667	$53,667	$51,333	$53,667
Salary	3,500	3,500	4,200	3,500	2,800	3,500	3,500	3,500
Traveling Expenses	3,267	3,827	2,333	3,092	2,800	2,800	3,675	3,593
Automobile Depreciation	350	350	350	350	350	350	350	350
Samples and Sample Cases	338	338	338	338	338	338	338	338
Sales Meeting	233	233	233	233	233	233	233	233
Supervision Expenses	1,564	1,377	1,517	1,377	1,517	1,517	1,453	1,517
Total Direct Selling Expenses	9,252	9,625	8,971	8,890	8,038	8,738	9,549	9,531
Indirect Selling	4,807	4,328	4,562	4,328	4,562	4,562	4,363	4,562
Advertising	8,750	7,817	8,400	7,817	8,400	8,400	8,033	8,400
Administration	2,298	2,088	2,205	2,088	2,205	2,205	2,135	2,205
Returned Goods	583	537	572	537	572	572	548	572
Total Expenses	25,690	24,395	24,710	23,660	23,777	24,477	24,628	25,270
Cost of Net Sales	46.1%	46.1%	46.1%	46.1%	46.1%	46.1%	46.1%	46.1%
Cost of No-profit Volume	$21,968	$20,860	$21,128	$20,151	$20,335	$20,930	$21,059	$21,607
No-profit Volume	47,658	45,255	45,838	43,811	44,112	45,407	45,687	46,877

expenses, which included the salaries of the sales executives, the costs of sales control and sales statistics, and the expenses of the billing, order, shipping, and credit departments, were estimated, as were advertising, administrative, and returned-goods expenses, on the basis of past experience and anticipated sales volume. These expenses were also assigned to the salesmen according to the quotas set. The sum of all these expenses gave approximately the cost of maintaining the salesmen in the field under the existing setup.

During the previous year the average manufacturing cost of net sales for all salesmen and all products of the company was 46.1% of net sales, leaving a gross margin of 53.9%. By dividing each salesman's calculated total expense by the average gross margin, the volume of sales necessary merely to cover the expenses was obtained. This no-profit volume was the point at which the company "broke even" on the salesman's operations.

The proposal was made to the sales department that the no-profit volume in the various sales territories be set up as the salesman's bogy and

that the usual 4% commission be paid on all sales above the bogy. The district manager would continue to receive 2% on all sales above the district bogy.

Should the proposal to adopt the territorial no-profit volume as the salesman's bogy have been accepted? What revision of the method of compensation was desirable?

13. THORNHILL COMPANY—SALES QUOTA

The Thornhill Company manufactured a line of hand-operated and electrically operated duplicating machines for office use, designed to reduce costs on volume duplicating operations. The line was supplemented by such accessories as types, plates, and record drawers and cabinets. Customers included almost every type of manufacturing business, banks, publishers, insurance companies, educational institutions, public utilities, railroads, and municipal, county, and state governments. New equipment sales constituted approximately 45% of the total sales volume, while supplies and accessories composed the remainder. Of the new equipment sales, about 65% were made on a cash settlement basis, while 35% were sold on short-term installments. Thornhill duplicating machines and equipment were sold throughout the country by exclusive agents. The Thornhill Company maintained no headquarters salesforce but referred to all selling employees within an agency as "company" salesmen.

A vice president in charge of sales supervised the activities of the home office and agency sales organization, the advertising department, the printing and mailing department, and the order department. Reporting to the vice president was the sales manager, who had direct control over selling activities. The sales manager supervised the work of the sales agents and through the latter was responsible for carrying out sales plans and for building and supervising the sales organization. As part of these supervisory plans incentive quotas were assigned for the company as a whole and for agencies and salesmen. The company followed this procedure in establishing quotas:

First, a national expectancy quota was determined, based upon such factors as a study of the company's national sales trend, business indices, a recognition of migrating business from one area to another, past experience, and anticipated contests, price changes, or changes in the product line. The company made every effort to obtain an accurate expectancy quota and in 1937 exceeded the goal by 0.27%.

When the national expectancy quota had been determined, it was increased 20% for the purpose of providing a greater incentive. This

figure was converted into points on a basis predetermined by company statisticians. The total quota for the year was then divided by 12 to obtain a monthly figure. No allowance was made for seasonal fluctuations.

After the national incentive quota had been established, volume goals for individual agencies were determined. The company took into consideration the following factors regarding each agency territory:

1. A study of the McCann-Erickson Buying Power Index to determine the buying power of each territory relative to the country as a whole.
2. An analysis of the value of the company's own equipment in use in the territory. These findings were then taken as a percentage of the total value of Thornton equipment in use throughout the country. This step was believed to reflect the caliber of the customers in the area.
3. The mailing list for the area. This list not only gave an indication of the number of customers in the area but included information to indicate the size of individual customers.
4. Sales made during the previous five years in the territory in question compared with total sales made throughout the country. This step was taken in order to level off fluctuations in sales volume between years.
5. Sales during 11 months of the current year, estimates being made in December for the following year. These figures were considered solely as a visual comparison factor and were not used in actual calculations.

After each of these factors had been determined territorially as a percentage of the entire country, the company then applied a weighting of 30% to factor (1), 30% to (2), 15% to (3), and 25% to (4). By applying these weights, the company placed greatest emphasis on potential volume rather than on past sales records. The company believed that in this manner it was not penalizing a man who had made an outstanding sales record but that, on the other hand, it was not giving undue help to a poor man through placing less emphasis on potential sales.

When each of the above factors had been weighted and combined, the company established a territorial quota based upon the relationship which the combined factor bore to the national incentive quota. Individual quotas were then studied carefully and adjustments were made to allow for unusual local conditions—such as the nature of the territory, whether rural or urban, agricultural or industrial; the distance to be traveled in reaching customers; the newness of the territory; and the extent to which the agent was known. These adjustments, however, were all considered of minor importance. Agency quotas, like the national incentive quotas, were determined on a monthly point basis.

Each agent then distributed his agency quota among his salesmen, employing the same factors used by the company and any additional factors which he deemed desirable. These quotas, which were likewise

increased from 25% to 50% for incentive purposes, were then sent to the company's main office for criticism and possible revision before approval.

Is the quota system of the Thornhill Company designed to maintain morale and stimulate intelligent activity on the part of the salesmen?

QUESTIONS

1. A corporation engaged in the manufacture of a varied line of chromium finished, enameled steel, and wrought iron furniture and equipment announced late in 1935 that it would strive to limit its annual sales volume in the future to a figure approximating $1,500,000. The company distributed its products through 1,500 jobbers and dealers. These jobbers were served by 18 salesmen, who also made direct sales to certain fields and who were paid straight commissions.

Is the company acting wisely in its attempt to predetermine an adequate profit and the corresponding volume of sales necessary to make that profit?

Under what conditions would you recommend the adoption of a similar plan for manufacturers in other lines?

2. The Williamstown Pulp and Paper Company operated a large pulp and paper mill in the western part of Massachusetts, distributing pulp to other paper manufacturers and paper to wholesalers for resale to the printing and publishing trade. The sale of both chief products of the company tended to fluctuate with general business. Company records gave the total net sales by territories over a period of years. Practically all of the pulp sales and a portion of the sales of paper were made on large contracts.

The officials of the company had been unable to find a satisfactory basis upon which to construct a sales quota for each territory. A newer member of the staff suggested that the trend line of the company's growth of sales be used.

Should the officials have adopted this suggestion? If so, explain its advantages and disadvantages. If not, what substitute should have been suggested to the officials? Explain.

3. The Machine Tool Corporation, a large manufacturer of machine and metal-working tools, which were sold throughout the United States, was considering a revision of its methods of assigning quotas to salesmen and branch offices.

Under the system in operation, each branch manager was required to compile a complete list of all potential buyers of the company's products in his district. An estimate was then made as to the amount of time required for each salesman to solicit such customers and each prospect was made the responsibility of a single salesman. Also, when making sales plans for the year, each salesman had been asked to submit estimates as to the amount he believed it possible to sell to each prospect.

The sales department, with the assistance of the research staff, annually estimated the sales volume. To arrive at this estimate for different classes of machines, department officials studied census information, economic conditions, and business conditions and considered the probable effects of these factors on the total sales of products similar to those manufactured by the Machine Tool Corporation. An estimate was then made of the share of this total estimated sales figure which the company should obtain.

The department executives then divided the total sales possibilities for the company among the branch offices, mainly on the basis of past sales, although use was made of all available information about conditions. When the branch managers were fully satisfied with the quotas assigned to them, they reassigned them to the salesmen. Since salesmen

had been asked previously to make out estimates of sales to specific customers, the reassignment became merely a matter of reconciling salesmen's estimates with the estimates from the home office.

The company had been very much dissatisfied with the lack of accuracy in its sales estimates.

What changes might have been suggested to improve the degree of accuracy?

4. Is the use of quotas consistent with the policy of selling what the consumers and dealers want?

5. Should quotas be set on territories or upon men?

6. Should sales quotas be established by a firm manufacturing building materials? Why or why not?

7. How should a manufacturer of sheets and pillow cases set quotas for national distribution?

8. What factors, if any, should be used in the assignment of quotas by every company, irrespective of the nature of the product?

9. What are the advantages and disadvantages of past performance as an exclusive basis for estimation of future sales?

10. Should salesmen and branch managers have a part in setting quotas?

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III

PRODUCT PLANNING; PRODUCT POLICY; PRODUCT RESEARCH

Businessmen are coming more and more to realize that business must strive definitely toward the production and distribution of those goods and services which fit consumer needs. The attention now given to the finding of new products, to improvements in design, color, and other features to make wares more attractive and salable, is more or less a direct attempt to bring what business offers into line with the wants of the public. To determine consumer wants in detail, what products are to be sold, how products are to be reshaped to fit market needs, how products are to be identified and packaged, is the task of the modern business manager. He must decide not only what to make but when to cease making a product. He must see that neither too much nor too little is offered.

Decisions concerning products to be offered to the public have in the past been made with relatively little knowledge of the consumer, so that goods offered usually represented little more than intelligent guesses as to what the public really wanted. When there was a scarcity of goods to satisfy even elementary wants, consumers were compelled to take what they could get. They could not insist effectively upon a change of even minor importance, although such change might have made the offered product much more acceptable. Such a situation no longer prevails. Today, in many lines, the consumer has a wide choice; he rejects those offers which do not please him. If enough consumers in a market are like-minded, the manufacturer who has offered an unacceptable product finds himself confronted with pressure to change his product or his price in such a way as to make it acceptable.

On the other hand, the manufacturer whose product is purchased in satisfactory quantities at profitable prices must not assume that he has solved the problems of consumer demand. Sudden shifts of demand to competitors have too often occurred. The wise sales executive will realize that consumers in buying products may buy products which do not fully satisfy their needs. It is common knowledge that compromises and shifts will be resorted to by most purchasers in the adjustment of purchase to income limitations, but many producers and middlemen do not realize so

clearly that purchasers also make many compromises in view of the lack of exact knowledge by manufacturers as to what to make or sell and in view of exact knowledge of the consumer as to what he wants.

There are several types of compromises which consumers are therefore compelled to make. The first is based upon the inaccessibility of the commodities which would completely satisfy the consumer's desire. Such unavailability may be due to the state of the arts of production, to the avoidable or unavoidable mistake of manufacturers, or to the mistake of middlemen who come in contact with the consumer. The second type of compromise mentioned above is based upon the consumer's own ignorance of his wants. Even though the precise type of product is available, the consumer's ignorance may cause or allow him to be influenced to buy something less satisfactory. The third common type of compromise is based upon limitation of income and the extension of human wants to the point where, for the large majority of persons, it becomes impossible to supply all wants. The consumer therefore purchases less satisfactory products rather than narrowing the list of satisfactions. The fourth type of compromise is based upon the attempt to secure conflicting qualities in products. In the present state of the art of hosiery manufacture, for instance, extreme thinness and greatest durability cannot be combined. As a whole, for many a producer, business tragedy would be the result if consumers were not willing to make compromises of one type or another with their desires.

Before a seller is in position to carry on business activity, he must formulate his sales proposition.[1] He must decide what products are to be sold; he must select his buyers, at least by class, preferably not only immediate buyers but also ultimate buyers and users; he must determine the price range in which his product is to be sold. All of his decisions will be subjected, of course, to revision and change. As demands change, his products must be changed. He may choose to sell to new classes of buyers or to additional buyers in other locations; he may be compelled to change prices frequently. Nevertheless, sales operations have as their objective sales transactions involving specific goods to be sold to specific buyers at specific prices.

[1] Cf. H. R. Tosdal, *Principles of Personal Selling* (McGraw-Hill Book Company, Inc., New York, 1925), Chap. V, pp. 130–165.

A. PRODUCT POLICY; ADDITION AND ELIMINATION OF PRODUCTS

The basic decision to be made by the executives of a new enterprise concerns what goods to buy or to manufacture. Usually an enterprise does not come into existence unless there is a more or less definite idea as to the class of commodities to be produced or marketed. When a chemical manufacturing enterprise has once been started, its plant, equipment, and organization limit its range of choice as to both type and quantity of product. General-purpose machines and equipment permit a relatively wide choice to certain groups of manufacturers, but even these choices are narrow in comparison with the entire range of commercial commodities. While a paper mill may make many different types of paper on Fourdrinier machines, it is limited, in the first place, to the manufacture of paper and, in the second place, to paper of limited width. A wholesale enterprise is likely to find its limitation only partially in its physical equipment and mainly in the knowledge and skill of its organization in soliciting business within markets, and in the skill with which it purchases and sells goods which meet the needs of buyers. However, within the limitations imposed upon manufacturing and wholesale concerns, many choices have to be made; when equipment and organizations are no longer suitable for making and selling effectively enough of the goods that consumers want, both organization and equipment may have to be scrapped.[1]

The merchandising problem is, therefore, a continuing one. A few years ago, tire companies had to decide whether or not to produce balloon tires; later, whether or not to produce jumbo balloon tires. An automobile company must decide each year whether to continue or to change both internal and external features of the cars which it wishes to sell. Once the general type of car is produced, decisions must be made annually, at least with regard to details. No company can afford to neglect the continuous study of the product it sells in relation to the changing world.

Quality Policy. Shall a company specialize on high-quality goods to be sold at correspondingly high prices or on goods of somewhat lower quality to sell at lower prices? Shall a company selling high-quality goods add a lower price line? These and other questions need to be answered with due regard for the relation between the quality of the product and its users' needs. Depression periods with declining prices bring pressure to bear upon manufacturing and trading firms to lower quality to conform to changes in price structures. Reduction in quality

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

may go much beyond the point of greatest benefit to producer and consumer. Distinctions, all too frequently ignored, have been needed between the bare essentials of quality and expensive nonessentials sometimes used to create illusions of quality. The problems of quality policy in industrial companies differ somewhat from those involved in marketing consumer goods, primarily because of the differences in the motives and competence of buyers for consumer and industrial markets.

Addition of New Products; Diversification. New products may be added to a line of manufacturing or trading goods for a variety of reasons, and, depending upon the basis for addition, various policies of small or large import may be affected. A company may add new products to take the place of old, inadequately designed, or outmoded ones. New products may be added to broaden the market to which the company sells or to enable it to secure the stability and additional profit which, it is argued, may come from a policy of diversification of product. Modernization of products may involve essentially no change in lines carried. Diversification may tend to place a company in a new type of business.

The addition of new, or the improvement of old, products is a necessity for most business enterprises, but dangers and difficulties beset the executive, whether he proceeds rapidly or slowly. If the improved product is in accordance with buyers' wants and can be offered at a price which buyers will be willing to pay, if the number of prospective customers is sufficient, and if the operation of the sales organization in selling the product is intelligent and effective, then the improvement may be successful. It is obvious that the intangibility of buyers' wants and the infinite number of variations, both in commodities and in sales programs, on the one hand, permit a wide variety of mistakes and, on the other hand, yield, to all appearances, a relatively small number of successful solutions.

Product policies, whether relating to quality, diversification, simplification, or modernization, should be appraised upon the basis of their effect upon the amount and stability of the net profit to be derived from the enterprise. Commonly, there must be a balancing of advantages against costs and of disadvantages against income. The addition of new products may save or may wreck an enterprise. The costs of diversification may outweigh the advantages. Modernization may be futile. It is the task of the executive to weigh factors and to draw correct conclusions.

Dropping Products from a Line; Simplification; Standardization. The American businessman has displayed a peculiar weakness in his tendency to sidestep or to ignore the problems of dropping products from his line; disastrous results in the building up of inventories, which led to losses and to unwise direction of productive and sales efforts, have resulted. Although theoretically the manufacturer realized that elimination would

tie up less capital, permit more economical manufacture, and bring other advantages in reduced costs of warehousing and selling, he did not carry his reasoning into marketing practice. Sometimes he adopted programs of partial elimination by standardization of parts, although he retained obsolete products.

In the production field, the movement toward standardization and elimination of excess variety proceeded rapidly as long as demand for products was at a high level and no untoward difficulties were encountered in selling standardized products. While, because of increased emphasis upon style, there has been an apparent loss of the advantages of standardization and simplification, the pressure upon manufacturers to keep costs within limits has led to many devices which permit flexibility of production and variety of product while securing a large proportion of the advantages of standardization.[1]

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

"Simplification" and "standardization" are not synonymous terms. Each describes a separate and distinct process. Simplification is defined as art of rendering simple, or more simple, or making less complex, or less difficult, while standardization is defined as art or process of conforming to any measure or extent, quantity, quality or value, established by law, general usage or consent. When a manufacturing company reduces its types and sizes to the least number possible, it is simplification. If a group of manufacturers of a certain line of products should agree to concentrate their production and sales on a specific group, then simplification is carried out on a broader scale. But articles themselves may not be standardized in any sense. It is seen that variety may be reduced, or simplified, without standardizing product; but it is not possible to standardize product without first simplifying variety.[2]

According to another definition,

Standardization is "the codification of best current common practice in specification of materials, and common characteristics of design"; or "the adoption of a particular

[1] The Chamber of Commerce of the United States, Washington, in Bulletin 15, *Fabricated Production Department*, Jan. 20, 1922, lists the gains to manufacturer, wholesaler, retailer, and consumer from a program of standardization and elimination of excess variety. This has been quoted in *Management's Handbook* (The Ronald Press Company, New York, 1924), pp. 998–1000.

[2] HUDSON, RAY M. "Simplification and Standardization," *Management's Handbook* (The Ronald Press Company, New York, 1924), p. 989.

method or means by which to accomplish a desired result." It is also defined as "selection of a small number of types or sizes which are most suitable, and giving specifications of them in measurable terms so that large quantities can be made which will be uniform."[1]

At just what point the balance of advantage for a specific company is to be found as between diversification to bring a line more in accord with consumer wants, and simplification or standardization as a basis upon which both to satisfy consumer wants and to secure also lower production and distribution costs, is again a problem upon which the sales manager will find himself in difficulties.

14. DOLPHIN CANDY COMPANY—REVISION OF MERCHANDISING POLICY TO MEET CHANGING CONDITIONS

The Dolphin Candy Company, with manufacturing plants and head sales offices located in New York City, produced a line of 200 popularly priced candy items. The company was of medium size and recently reported a sales volume of over $7,000,000. A force of 250 salesmen was used to sell these products directly to retail grocery, drug, and variety stores. After 1925, sales to this market, which had formed the largest and most profitable portion of the total business, began to decline, and in the ensuing years the company attempted to maintain its volume of sales and profits by revision of merchandise and market policies.

Throughout the first 25 years of its existence, the Dolphin Candy Company had concentrated upon bulk candy and had manufactured only a few packaged items. Every customer was required to buy a minimum quantity of 100 pounds and was checked for credit desirability in a mercantile rating publication. Company salesmen called once a month and were usually able to sell a sufficient stock to last until the next visit. Until 1925 this business continued to grow slowly in volume and yielded the company a very satisfactory profit margin, but after that year it began slowly to decline. The most important factor responsible for the decline, according to sales executives of the company, was the growth of the chain store movement throughout the United States. It was believed not only that the absolute size of the market had been decreased through the failure of many independent stores, but also that the large buying power of chains, with the attendant ability to secure price concessions, had permitted them to undersell the smaller units.

Although the Dolphin Candy Company did not wish to secure chain store business at the expense of its independent store sales, it had been forced to meet the prices of competitors and, as a result, candy which cost the independent unit 39 cents a pound could be retailed profitably by

[1] *Ibid.*, p. 1001.

competing chain units at the same price. Competition of this sort, moreover, had not been confined to "regular" chains, such as the Atlantic & Pacific Tea Company in the food field, Walgreen in the drug field, and Woolworth in the variety field, but had also appeared in the growth of the "voluntary" chain movement which absorbed many independent stores. Since the most common reason for the formation of these voluntary chains was the concentration of purchasing power, their effect upon the Dolphin Candy Company sales was similar to that of the regular chains.

Executives asserted that in addition to this force, which had become increasingly more important, there seemed to be a definite change in consumer buying habits for candy. A decided preference was evident for packaged goods even in middle- and low-price merchandise. The 5-cent bar was selling in large quantities, and many manufacturers were offering their chocolates and hard candies in convenient cartons. Executives believed also that the higher standard of education among consumers, especially in matters of hygiene, led them to prefer packaged candy to bulk candy, which was often stored in unattractive, if not unsanitary, surroundings.

In the face of this decline in sales, the Dolphin Candy Company, in order to maintain its production volume and keep costs at the minimum, began to sell aggressively to chain store organizations and other large-scale buyers. The sales staff at the head office was expanded to include a syndicate department headed by a syndicate sales manager, as it was believed that this type of business could not satisfactorily be handled by the regular salesmen. In selling to this market the company did not make any substantial changes in its line of products, since there seemed to be a ready demand for a variety of the items.

In the latter part of 1929, sales executives had considered the possibility of securing a further volume of sales by reaching markets which were not then served through either the independent stores or the chain outlets. They believed that the requirement of the 100-pound minimum order and the rigorous credit scrutiny left a great portion of the independent outlet market untouched. Large quantities of candy were sold at roadside filling stations, pool rooms, bowling alleys, lunch counters, and similar places. To attempt to reach these points through the regular company salesforce, however, was considered out of the question because of the small size of the average order and the greater amount of traveling involved. The sales department, therefore, determined upon a policy of jobber distribution in which all sales were handled through a newly organized subsidiary company called Choice Confections, Inc.

A sales manager was placed in charge of a separate salesforce of 16 men and was responsible to the executives of the parent company for operating

results. The general manager of the latter organization explained that a separate company had been formed largely in order to minimize any possible dissatisfaction either on the part of the company's regular customers to whom it was selling direct or on that of jobbers who became new customers. Although the connection between Choice Confections, Inc., and the Dolphin Candy Company was commonly known in the trade, no candy sold by the former bore the Dolphin name, and consumers were unaware of the identity of origin. Not all of the managerial staff had been convinced of the desirability of the separate company at the time of its establishment; they regarded it as an experiment. Although during several years results had fallen short of expectations, Dolphin executives considered that these were caused by the difficulty of entering a new field and did not believe them sufficient grounds for abandoning the plan.

In addition to the use of a different name on the Choice Confections, Inc., candy, it had been found desirable to produce a larger proportion of bar candy than was customary in the regular line. Most of the small outlets which were sold through jobbers were inadequately equipped with proper display cases for bulk candy and sold largely packaged goods which were exposed on table or counter tops. Likewise a number of penny lines had been introduced to meet the demands of jobbers, although these lines were not commonly considered worth while because of their low margin of profit.

Although the different policies inaugurated to maintain and expand sales volume had enabled the Dolphin factory to operate nearly at capacity, the profit showing of the company did not keep pace with the increase in sales. The sales manager believed that this was caused by the continued decline in the proportion of independent outlet business on which a relatively high margin was secured. This decrease was especially noticeable in small cities and towns, where it had been common experience for the company to lose six or eight out of a group of ten customers. Executives did not know whether to attribute this high rate of mortality to the continued inroads of the chain store systems, to the generally unsettled economic conditions following 1930, or to inadequate merchandise. The sales department began at that time to conduct an intensive survey of independent outlets in order to discover the underlying causes for their decline in buying and to remedy this condition wherever possible. A card record was kept of every customer's purchases, and upon any indications of inactivity the salesman in that district was notified to investigate and report upon the situation. A copy of this record card is shown in Exhibit 1. The sales department hoped that this survey would indicate a means of regaining this class of business.

Executives also believed that a study should be made of the 200 regular items in order to isolate the best sellers and concentrate sales effort on them. The general manager in particular urged that the number of lines should be greatly reduced and cited the example of a candy manufacturer who had attained a volume of $30,000,000 annually on one 5-cent bar. He believed that the company was producing an excessive number of lines and that this situation had been aggravated by the addition of items separately styled for Choice Confections, Inc.

Should the number of lines be reduced in accordance with the recommendations of the general manager?

Have the Dolphin Candy Company executives wisely made merchandising adjustments to developing conditions?

EXHIBIT 1

DOLPHIN CANDY COMPANY—CUSTOMER RECORD CARD

1. Check Type of Store. 1. Drug 2. Confectionery 3. Grocery 4. General 5. Variety 6. _____
2. Is this dealer still in business? 1. Yes 2. No 3. Ownership changed? Successor's name _____
3. Is he a member of a voluntary chain? 1. Yes 2. No 3. Which one? _____
4. What types of candy does he handle? 1. Bulk 2. Bulk only in fall 3. Fancy Box 4. Fancy Box only in season 5. Penny Goods 6. Does not handle candy
5. HOW MANY CASES PER YEAR DOES HE SELL OF ALL MAKES OF BULK CANDY? _____
(This question is very important; be sure to get the dealer's estimate.)
6. What percentage of his business are we getting on bulk candies? _____
7. From what other candy manufacturers or jobbers does he buy bulk candy?

Mfrs. or Jobbers	Why?

8. IF NOT BUYING FROM US, WHAT IS THE REASON? _____
(We want to know specific reason, not generalities.)
_____
9. Does he have equipment for displaying bulk candy? 1. Yes 2. No
What type? _____ What Dolphin equipment? _____
10. What is his largest selling bulk candy item? _____
How many cases per year does he sell of this item? _____

15. EDGERLY PAINT COMPANY (A)—DISCONTINUANCE OF LOWER PRICE SECOND LINE

The Edgerly Paint Company, located in Syracuse, New York, manufactured a line of quality paints and varnishes. Although small in size compared with the large companies in the paint industry, sales in 1930 having amounted to somewhat less than $1,000,000, the company had grown rapidly under the new management which had taken charge in 1926. Edgerly packaged paint and varnish products which were distributed in New York State and adjacent territory through 11 branch stores, selling at both wholesale and retail, and approximately 45 hardware and wallpaper stores. At each of the branch outlets a small stock of carefully selected wallpaper patterns was carried as a means of reducing overhead expense. In addition to the sales of the packaged line to painters and the general consuming public, an equal volume of sales was made in bulk to industrial users who purchased largely on special order.

In 1932 the president of the Edgerly Paint Company proposed that the second-grade line of house paints which the company manufactured be discontinued, in spite of the fact that every manufacturer in the paint and varnish business who did not have a second-grade line in 1929 had by January 1, 1932, added one. The president of the Edgerly Paint Company had concluded after much deliberation that it would be more profitable for the company to produce only one grade of paint. That grade of paint should be of the highest quality the company knew how to produce.

He had observed the operations of many companies and had come to the conclusion that none of them had become really successful or had made an appreciable amount of money by pushing a second line. It was not possible to spend a large amount of money advertising a second line, and so consumer acceptance could not be established in an important degree. A manufacturer introducing a cheaper line always had to face the probability that some competitor was likely to put out a still cheaper line.

The president's proposal to concentrate on the high-grade line was based principally on the following factors:

1. *Small Profit Volume.* A cheaper line would undoubtedly permit a much larger volume of sales, and the same margin of profit might be obtained. The percentage of profit on unit sales, however, would be materially reduced. This may be illustrated by assuming a 5% gross profit on the sale of five units of $1 each; whereas the same number of units at $1.50 profit each would represent a gross profit of $7.50 or a 50% increase. Manufacturing cheap lines is apt to involve severe price competition, and the necessity of reducing the margin of profit must be considered. If this margin is reduced to 3% instead of 5%, the manu-

facturer will make a gross profit of $3 as compared with $7.50 on the same number of standard-price units, or 2½ times as much. When the larger inventory needed for a second line is considered, it is apparent that the manufacturer will not get the same turnover on a smaller rate of profit.

2. *Effect on the Organization.* The president believed that salesmen preferred to sell merchandise at a lower price chiefly to be able to compete on a price basis. At the sales meetings the fact that Edgerly products could be successfully demonstrated against a competitor's line had been proved. This had done a great deal to eliminate fear and to instill confidence in the salesmen that competition could be defeated with quality products. This confidence had been carried by the salesmen to the jobber, and the effect was apparent in the improved morale of the sales organization all along the line.

3. *Effect on Company's Reputation.* It was true that buyers would shop for paint and might eventually buy an inferior grade. The price paid for an inferior grade would be forgotten, but the name of the company producing it would be remembered when, after a year or so of use, the product began to break down. The harmful effect upon a company which these users could bring about by word-of-mouth advertising was difficult, if not impossible, to overcome.

4. *Advertising.* There was seldom a sufficient margin of profit in inferior grades to permit building up the line, assuming that a company would care to advertise its inferior product, because of its bad effects upon its first line.

In summing up, the president cited these objections to pushing a second line: Over the long run the growth of the business would be retarded; inventories would be increased, but the sales volume would not be increased in similar ratio. Credit losses would be greater because a second-grade line was usually sold to a lower class of people; and there would be great danger that the established reputation of the company for quality products would be sacrificed.

Should the second line have been dropped?

16. PAVALON MANUFACTURING COMPANY—PROPOSAL OF A MANUFACTURER OF MINING MACHINERY TO SELL A NUMBER OF NONCOMPETITIVE LINES THROUGH COMPANY SALESFORCE

The Pavalon Manufacturing Company, with factory facilities and head sales offices located in Pittsburgh, Pennsylvania, produced a line of heavy machinery used in mining operations. These machines, varying in unit price from $8,000 to $10,000, were utilized largely in coal mines, both

anthracite and bituminous, although copper mines had also proved excellent customers during periods of good demand for this metal. More recently, the belief both that sales costs were unduly high and that the potential market for machinery in the coal industry was unlikely to expand led executives to consider the desirability of using the company salesforce to sell a restricted number of supplementary, noncompetitive lines manufactured by outside producers.

The Pavalon Manufacturing Company sold its products through a force of 40 salesmen operating from 7 branch offices located near important mining centers throughout the United States. Since the largest portion of the company's business consisted of special production equipment for which it was often necessary to prepare detailed drawings, 25 of these salesmen devoted their entire time to sales engineering work of this sort, while the remaining 15 sold repair parts and carried on missionary work among mine purchasers. Because of the rough treatment to which mining equipment was subjected, sales of replacement parts formed a substantial and profitable portion of the total volume of business. The managers at each of the branch offices, in addition to selecting, training, and supervising both the contract or special-order salesmen and the supply salesmen, spent a considerable amount of their time in personal selling. Head-office executives stated that an intimate knowledge of local conditions and personalities was often important in the sale of mining machinery.

In addition to the two types of salesmen, there were 25 service men who were constantly on call to advise on proper operation and to aid mine mechanics on difficult repairs. Mining companies usually operated complete repair shops, but the workmen employed were not always competent to handle intricate repairs on Pavalon machinery and required outside assistance. Although the service men occasionally completed a sale, they customarily referred prospective purchasers of repair parts to the supply salesmen. Executives believed that this force of men was valuable not only in building goodwill for the company but also in providing sales inquiries which frequently developed into important business.

Two factors in particular, according to a statement of the general manager, led to serious consideration of the addition of agency lines. The first of these was the high cost incurred in the sale of Pavalon machinery. Including branch office overhead and salesmen's and service men's salaries and expenses, but excluding all advertising or general sales office overhead, this expense amounted to 15% on contract sales and 12% on supply sales. These figures were an average for the company as a whole; the individual branches reported higher or lower expense ratios, depending both upon the volume of sales and upon the characteristics of the territory. The second factor was the stable character of the coal industry. The

annual coal production of the United States had remained steady at about 500,000,000 tons from 1920 until 1930; thereafter coal production declined for several years to around 400,000,000 tons. Not only had competition from oil, natural gas, and hydroelectric power reduced the demand for coal, but advancements in the art of boiler design had provided a more efficient utilization. As a result, it was believed that an increase in the sales of the Pavalon Manufacturing Company could come only through entrance into other fields than mining or through an effort to get a bigger share of the dollar spent by mining companies for equipment. Of these two courses executives favored the latter, because of the company's many years' experience in the industry.

Since the company had had experience in selling only its own products, a survey was made of all the available published material relating to manufacturers' agents. Executives were anxious to discover not only the characteristic problems of this type of distributor but also the customary number of lines which were sold. The study, however, disclosed a noticeable paucity of information, and the manager of the Pavalon Manufacturing Company stated that the chief value of the study lay in its revealing no outstanding difficulties rather than in its pointing out of any positive facts upon which a sales program might have been founded. As a second step, arrangements were made with a mining periodical publisher in order to discover both the attitude of manufacturers toward such a policy and the discounts which could be expected. As a result, a number of conferences were held in which it developed that producers were not only willing but anxious to place their lines with the Pavalon Manufacturing Company at discounts ranging from 25% to 30%. In the majority of instances, furthermore, such manufacturers did not require the maintenance of stocks at branch offices but were willing to ship directly from their factories or warehouses upon receipt of orders. Where quicker deliveries were essential to successful sale, most of the firms interviewed offered to consign stocks. Among the lines considered were electric motors, electrical control apparatus, pneumatic tools, and pumps.

The general manager of the company believed that the proposed plan offered definite advantages. Although the contemplated lines were not strictly accessory to Pavalon products, the salesmen, many of whom were engineering school graduates, already possessed much of the necessary technical knowledge for successful selling. Customers for Pavalon equipment were also potential buyers of the other lines, and the manager considered that a definite economy in selling time and traveling expense would be possible. He did not believe that the sales expense ratio on the additional lines would exceed 13% to 17%, which, with a 25% to 30% margin, would return a satisfactory profit. Furthermore, the ability to

offer products other than the somewhat restricted Pavalon line would provide an entering wedge in companies which had been using competitive equipment. Salesmen previously had been unwilling to call regularly on such buyers.

The president of the company, however, was not so completely in favor of the plan. He pointed out that it was difficult to foretell the effect of adding other lines and that the selling efforts on Pavalon products might be impaired. The company's policy was to bring out at frequent intervals improved machines, which demanded vigorous effort by the contract salesmen during the introductory period. These men often made calls which, although not directly resulting in sales, contributed to goodwill, and the president considered that any possible reduction in the number of such calls which might result if the salesmen carried other products would be undesirable. Although he admitted that the use of the supply salesmen for the extra lines might offset this danger somewhat, he objected that the major portion of the time of the supply salesmen was occupied in combating competition from "pirate" parts and that any interference with this work might have serious results.

The Pavalon Manufacturing Company had long been troubled with small concerns, with a capital investment of only $50,000 to $75,000, who manufactured commonly used repair parts and sold them to mine owners at from 6% to 10% below the company price. Since these concerns, which were known in the trade as pirates, confined their efforts only to those parts which sold in volume and did not stock a complete line, they offered a keen source of competition. To combat this situation the supply salesmen spent a large portion of their time in missionary work among customers. Pirate parts were sometimes poorly made, and their unsatisfactory performance often led to expensive delays which more than counterbalanced any saving in original cost. The president feared that any considerable diversion of the supply salesmen's time from this task might permit further inroads on this profitable portion of the company's business.

17. DUDLEY TIRE COMPANY—DISTRIBUTION OF AIRCRAFT TIRES

The Dudley Tire Company, a large manufacturer of rubber tires, tubes, and accessories located at Akron, Ohio, had for several years sold a small volume of aircraft tires, rubber parts, and tape. Sales of this line were a small part of total sales of the company, which amounted to $100,000,000. Approximately equal portions of the sales in the aircraft line went to original equipment and replacement markets. Because of heavy developmental expenses, the peculiar conditions under which the products were marketed, and the small volume, sales were being made at a

loss. There was considerable difference of opinion among executives as to when, if ever, the line would become profitable.

The company manufactured 42 different types and sizes of aircraft tires including tail and landing tires, balloon and high pressure tires, and nonskid and plain tread tires. Small production lots, unusual difficulties in manufacture, and necessarily rigid inspection made costs of production higher than for automobile tires. Because developments and changes in aircraft tires appeared in rapid succession, inventory losses were almost inevitable, and continuous research was essential if a place was to be maintained in the market. For several years the company had conducted a research program, the costs of which had exceeded the total gross profits received on this line of business.

The channels of distribution used for aircraft tires were not well defined and were necessarily influenced by the peculiar conditions in the market. While the relatively small numbers of aircraft from which the replacement demand arose were scattered over a whole continent, the greater portion of replacement sales was made on emergency orders. The original equipment demand came from a large number of small aircraft manufacturers also widely scattered. To meet this situation stocks were kept at 24 pivotal branches of the company from which an order from practically any accessible part of the United States could be supplied within 24 hours. The value of the inventory kept at a branch ranged from $200 to $1,000, adjusted to the volume of branch sales. The branches also supplied manufacturers of aircraft in their territories.

In the past no definite policy had been followed in the choice of dealers, automobile tire dealers and aircraft selling agencies being preferred. A more definite plan, adopted in the early thirties, provided that one progressive tire dealer in each city of importance was to be selected as the company's aircraft tire agent. He was to carry a reasonable stock of aircraft tires and was to solicit business from the airports and private hangars in and around the city. The previous policy of securing dealers at airports had not been satisfactory, because the volume of sales in one airport rarely justified carrying adequate stocks of numerous types and sizes. Furthermore, since many airports and selling agencies for aircraft were not financially sound, the credit risk in selling to them was great.

Since the volume of sales of aircraft tires did not justify a separate sales organization, the regular branch territorial salesmen solicited aircraft tire business. It was very difficult to get these salesmen to push the sale of aircraft tires, because special knowledge was necessary in addition to that required for selling automobile tires, and particularly because sales of aircraft tires were generally small. The retail price on a pair of air-

craft tires was from $30 to $50; the sale of a set of truck tires on the other hand would amount to several times that figure.

The small volume of potential sales, when divided among various producers, precluded the possibility of an extensive program of sales promotion. No national advertising for aircraft tires was carried on. Sales promotion activity was limited to participation in several aircraft shows and exhibitions. Other factors besides the immediate profit outlook, however, influenced the Dudley Tire Company in continuing the manufacture of aircraft tires. The company manufactured rubber tires for all forms of transportation, and executives felt that they could not abandon the aircraft field without loss of prestige. The company owned several planes and was reluctant to use some other brand of tires on its own equipment. The advertising value of participation in the aircraft industry could not be left out of consideration. To keep the goodwill of automobile manufacturers who were showing increasing interest in the aircraft field the company believed it necessary to cooperate in the development of aircraft tires.

Should the Dudley executives continue producing and selling aircraft tires? What influence would the date of consideration have upon the decision, *e.g.*, 1931, 1935, 1937, or 1940?

18. PENDLETON COMPANY—REDUCTION IN NUMBER OF SIZES OF PRODUCTS

The Pendleton Company manufactured branded saws, knives, files, and hack saws of high quality. Its products, which were advertised nationally, were used throughout the United States and Canada. To determine whether savings could be effected by a reduction in the number of sizes, the Pendleton Company made a sales analysis for each size of hand saws which the company manufactured.

The company controlled three factories and a steel mill which manufactured the bulk of the raw steel used by the company. The company's executive offices and its original factory were located in a small manufacturing town near Chicago, Illinois. Distribution of the products was effected through 12 sales branches in the principal cities of the United States and Canada. Each sales branch had a definite territory which was covered by the salesmen from that branch. In order to enable the executive offices to exercise proper control over the supply of finished products kept on hand at different branches, branch managers submitted annual inventory figures and quarterly stock reports showing the quantity of material on hand at the end of each quarter. Purchases or requisi-

tions for stock in excess of $300 required the approval of the treasurer of the company. With that exception, each branch manager had complete authority in his territory and was held responsible for profitable management.

The Pendleton Company kept supplies of standard sizes on hand at the factories. Orders for articles of standard size were usually filled promptly. Delivery on orders for nonstandard sizes, however, in most instances required six to eight weeks from receipt of order. Because of the greater difficulty entailed in producing articles under nonstandard specifications, moreover, the manufacturing cost of such articles was greater than that of the standard articles.

Since the officers were convinced that radical savings could be effected by a reduction in the number of sizes, the Pendleton Company made a careful tabulation of the sizes of all types of hand saws manufactured by the company. Figures showed that customers' insistent demands for a certain desired size gradually had led the company to manufacture 513 different sizes of hand saws. Of this number, sales in the previous year were as follows:

347 sizes—less than 3 dozen sold
75 sizes—over 3 dozen and less than 10 dozen sold
91 sizes—over 10 dozen sold

After a detailed study of the sales figures for different sizes of hand saws, the Pendleton Company proposed that approximately one-third of the sizes would prove ample for all needs of the trade.

Branch managers, salesmen, wholesalers, and retailers undoubtedly would oppose any changes which might lessen future profits by decreasing sales to customers who were convinced that their needs were filled most satisfactorily by the sizes usually ordered. On the other hand, there appeared to be no sound reason for the manufacture of over one-third of the present number of sizes of hand saws. For example, there was so little difference between a saw with six points to the inch and one with seven points that they could be used interchangeably under nearly every condition in the trade. If all important manufacturers of saws would agree to produce the same standard sizes, customers would become accustomed to asking for only those sizes, and all wholesalers and retailers would be in the same position in regard to the probable loss of customers.

In order that sufficient standard sizes for all requirements of the trade should be manufactured, the Pendleton Company, therefore, decided that concerted action on the part of the important manufacturers was necessary. The major manufacturers of hand saws, accordingly, were approached. A chart was prepared showing the number of sizes pro-

duced by each of these companies. Representatives from each company then met to discuss the practicability of the proposed changes. A majority of the manufacturers had had the same experience as that of the Pendleton Company. All the representatives agreed that, by decreasing the number of sizes of hand saws, substantial savings in factory costs could be made. The machinery required in the manufacture of saws and the kind of product made it impossible to determine definitely the amount of savings which would result from a reduction in the number of sizes. The saving in production costs, however, was estimated to be from 10% to 20%, according to the number of sizes eliminated.

One important advantage in a reduction in the number of sizes was the fact that elimination of slow-selling articles would release working capital theretofore tied up in inventory in wholesale and retail firms as well as in the factories and sales branches of manufacturers. For that reason, the majority of wholesalers and retailers would not hesitate to accept the reduction of sizes.

Because all manufacturers did not produce the same sizes of saws, it was difficult to fix definite standard sizes. Finally, however, the committee of manufacturers proposed 177 sizes of hand saws as best meeting the requirements of the trade. Approximately 64% of the number of sizes formerly manufactured would be thus eliminated.

Should the proposal have been adopted? Would simplification have affected the selling task materially? What information should the Pendleton selling department have secured to support a logical position with regard to the proposed simplification?

19. SIMON CHEESE COMPANY—ADDITION OF PRODUCTS TO A WAGON JOBBER'S LINE

The Simon Cheese Company sold a wide line of domestic and imported cheeses, mayonnaise, mustard, horse-radish, relishes, and bouillon cubes to retail grocery stores and restaurants in Cleveland, Ohio, and suburban areas directly from its trucks. Total sales were about $600,000 annually, 80% of which were cheeses, 15% mayonnaise, and 5% miscellaneous products. A fleet of 15 1½-ton trucks was used to cover the routes, so that retailers were called on at least once a week. Since approximately 10% of the cheeses sold were perishable cream cheeses, each truck carried a refrigerator. Approximately 120 different items, including different products and different sizes of the same products, were carried on the trucks. Some of the more expensive cheeses were not carried regularly on the trucks but were delivered on order. The cheeses and mayonnaise

sold by the Simon Cheese Company were practically all manufactured by one large food company with which the Simon Cheese Company cooperated closely. The company's mayonnaise was distributed exclusively by the Simon Cheese Company in the Cleveland area, but the cheeses were distributed also by competing wagon jobbers as well as service wholesalers.

The company's wagon salesmen were paid $20 a week plus 3% on all sales to independent stores and 2% on all sales to chain stores. Weekly sales of the wagon salesmen ranged from $700 to $1,100, with an average of about $800. Wages of wagon salesmen ranged from slightly less than 5% of net sales to about .7½% of net sales. The wagon routes were drawn up by the sales manager, and the salesmen were expected to make approximately 60 calls in a working day. The wagon salesmen, who were bonded, were charged for all products sent out on their trucks and were expected to collect for all sales practically on a cash basis.

In the fall of 1940 a producer of high-quality fruit juices offered the Simon Cheese Company the exclusive agency in the Cleveland area for its tomato juice provided the product was carried on the company's trucks and aggressively promoted. The tomato juice, which was prepared by a new process to retain its freshness and its high vitamin content, was priced at 15 cents per can retail. The manufacturer offered to advertise the product to a limited extent in newspapers and to place demonstrators in a few selected stores for limited periods. The Simon Cheese Company was to pay $1 a dozen for the cans of tomato juice in carload lots and was to sell the product to retailers at $1.25 a dozen when a case containing four dozen was purchased and at $1.30 a dozen when less than a case was purchased.

There was considerable difference of opinion among the executives of the company as to whether or not the tomato juice should be added to the line. Some of the executives of the company maintained that a product, to be distributed successfully by a wagon jobber, should be perishable or semiperishable, should have a high rate of turnover for the retailer, and should not be too heavy or too bulky to be carried easily on the trucks. The canned tomato juice was not perishable, and it had little value per unit of weight or volume. Although the turnover attained on any product was influenced both by the amount of stock carried by the retailer and by his sales, there was little reason to expect any abnormally high turnover on tomato juice. Since the Simon Cheese Company received daily delivery on most of its products from the manufacturers and consequently carried small inventories, it secured a total inventory turnover approaching 40 times a year. If tomato juice were purchased in carload lots, such a high rate of turnover could hardly be expected.

The executives further maintained that, with the present line of 120 items, the wagon salesmen had as many products as they could sell effectively. If the wagon salesmen worked 9 hours a day and made 60 calls, they had on the average only 9 minutes in which to sell, deliver, and collect at each store and to drive to the next stop. There was also a question as to whether a wagon salesman could take more than a few dollars in cash from each store. Each retailer had at least several wagon salesmen calling on him and usually divided his business among them more or less equally. There was some doubt whether the addition of a new line would increase the total sales of the wagon salesmen to an appreciable extent.

Finally the executives maintained that, although it apparently bore a gross margin ample to cover the cost of distribution by a wagon jobber, canned tomato juice was a product that did not require this type of distribution and that could be handled satisfactorily by cash-and-carry or service wholesalers or could be purchased by chain stores directly from the manufacturer. The total costs of operation of the Simon Cheese Company were approximately 12% of net sales, while the average service grocery wholesaler in Ohio operated for 9.95% of net sales in 1929.[1] There was some danger that the manufacturer might want to shift to service wholesalers to secure lower cost distribution after the product was satisfactorily introduced.

The president of the company favored the addition of tomato juice to the line, in spite of the objections raised by his associates, because of the profit possibilities involved. The 20% gross margin was considered ample and compared favorably with the 15% average gross margin received on cheeses and 20% gross margin received on perishable cheeses, which required refrigeration and special handling. Four or five cases of tomato juice could be carried on each truck without any considerable inconvenience. The president believed the retailers would prefer to buy tomato juice from Simon wagon salesmen, even at slightly higher prices than those charged for competing products, because of the excellence of the product and the fact that a high turnover could be obtained by buying the product weekly in small quantities.

Should the Simon Cheese Company add tomato juice to the line?

QUESTIONS

1. A manufacturer produced a nationally advertised insulating board at a price usually $3 to $5 per thousand square feet above the prices of similar competing products. Following the sales decline of 1930–1931, it was proposed that a second line almost equal

[1] Operating Results of Ohio Wholesale Grocers, 1929, Bureau of Business Research, Ohio State University.

in quality to the regular product be added and sold without advertising or special sales promotion at prices to meet competitive levels. What action should be taken?

2. In order to increase its sales of work shirts, the Mann Company of New England made work shirts in a unionized factory and sold them under a union label. After the company had been operating under the union arrangement for a year with moderate success, the union representative demanded that the company make changes in its shirt manufacture to conform to the union rules in the New York District or forfeit the right to use the union label in its shirts. The management felt that the changes demanded would materially decrease the strength and wearing qualities of its shirts. Should the company comply with the union's demands?

3. The Colonial Chemical Company manufactured a line of industrial chemicals which it sold in carload lots through its branch organization, consisting of 30 salesmen and 4 branch managers, to large manufacturers of foodstuffs, pharmaceuticals, and commercial fertilizers. The company was searching for other outlets for its products. What merchandising problems would it encounter if it endeavored to introduce a new plant food to be sold in packages ranging from 1 pound to 100 pounds to small gardeners?

4. What specifications should the producer of a line of specialty grocery products, such as General Foods, Inc., set up for products to be added to its lines, either through purchase of additional companies or through technical developments in its own laboratories?

5. Was the Aeolian Company, manufacturer of pianos, wise in considering the addition of expensive motorboats to its line in order to make fuller use of factory facilities?

6. Is industrial standardization inconsistent with the development of taste in the design of commodities to be offered to the public? Outline the advantages and disadvantages of standardization from the viewpoint of consumer, middleman, and producer.

7. How may a firm guard against failure to drop products from a line when the market demand has shifted to a newer product?

8. What are the economic advantages and the economic costs of continual adaptation of products to the market?

9. Under what conditions may a firm secure simultaneously the advantages of both diversification and standardization? Under what conditions are the two policies inconsistent?

10. Should new products be launched in a period of depression? Which phase of the business cycle is most favorable to the introduction of new products?

11. Which of the following policies should a manufacturer adopt with regard to his product: (*a*) Produce what he thinks is best for his customers and educate them to the appreciation of the product? (*b*) Give them what they call for, regardless of whether he considers it good or bad? (*c*) Give them what they call for together with an effort to improve the product from year to year so that ultimately customers will call for and procure what is best for them?

12. How may a manufacturer make a complex product, to be sold to and used by consumers, "fool proof"? What are the uses and limitations of laboratory testing? How may products be tested in the field?

13. Is the use of color in automobiles or in kitchen utensils consistent with the aims of simplification and standardization?

14. How and to what extent does the so-called consumer movement contribute to the solution of what to produce in the case of the manufacture of each of the following products: (*a*) radio receiving sets, (*b*) cotton blankets, (*c*) electric washing machines, (*d*) canned peaches, (*e*) tooth paste?

15. A leading manufacturer of intricate and accurate stampings, screw machine work, and mechanisms made therefrom offered to pay $1,000 to the person submitting plans for a product to be manufactured if the product was adopted by the manufacturer. No product would be accepted for which the demand was less than $500,000 a year. The company at the time of the offer manufactured such articles as electric table lamps, typewriter parts, phonograph motors, and automobile accessories. Is this approach to the problem of finding new products likely to be successful? What other approaches may be suggested for the solution of the problem?

B. STYLE AND DESIGN POLICY

In the years following the first World War, manufacturers in many lines discovered that the goods which people had bought in satisfactory volume before the war were no longer acceptable to the public. In his dissatisfaction with products, the consumer began, among other things, to emphasize the desirability of better design. This emphasis upon design of consumer products increased and so influenced standards that manufacturers and advertisers looked to design and redesign to give them additional selling points for products whose sales had started to decline. Gradually museum directors, artists, designers, and others interested in better designed products joined with manufacturers and retailers in this new emphasis upon design, characteristics of color harmony, fitness, and simplicity. Relatively few manufacturers, however, have approached the problem of good design in a manner calculated to bring about satisfactory results either from their own viewpoint or from the viewpoint of the consumer. Design in consumer goods refers particularly to outward appearance, although that appearance may sometimes be achieved only by substantial changes in the internal design of the product itself. Only in so far as design arises from the requirement of fitness will the utility and beauty of the product be enhanced. In industrial goods, design from the viewpoint of utility only has consistently played a large part, but even in this field the tendency has been toward design in terms of both utility and improved appearance.

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

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

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

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

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

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

[1] NYSTROM, PAUL H. *Economics of Fashion* (The Ronald Press Company, New York, 1928), p. 3.
[2] *Ibid.*, p. 4.

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

Style and fashion seem to follow certain well-developed cycles. There are, first, the creation and offering of new fashions by prominent designers and producers. A few of the fashions offered may be adopted by a select clientele; shortly thereafter they may be copied, and if the first copies prove popular, even cheaper copies may be produced. Popularization is followed, sometimes quickly, sometimes slowly, by extinction.[1] This process is particularly true of dress. Original design, imitation, and popularization formerly covered a period of several years, but at the present time instances may be cited where the process covers only a few weeks.

Not to be confused with fashion are the rise, popularity, and decline of articles of fad. A fad shows many of the characteristics of style development, but its life is likely to be shorter and it may not be succeeded immediately by some other fad. Fashions, on the other hand, are always with us. The decline of one fashion is accompanied by the rise of others. The jigsaw puzzle fad of 1933 developed late in 1932, reached a maximum in February, 1933, and was well on its decline in March of that year. The significance to a specific company may be realized from the fact that one company, which, at the height of the fad in February, sold 750,000 puzzles per week, found itself with business a month later cut to one-third of that figure and rapidly declining. It is evident that that company had to find some new product, to go out of business entirely, or to hang on, hoping that the decline was seasonal.

The problem of the sales manager with respect to style and fashion involves determination as to the particular stage in a cycle in which he expects to carry on business; whether he is to make highly styled, expensive goods, sold in relatively small volume, or less expensive goods along the same style lines of more expensive goods. Whatever stage he chooses, he must be neither too early nor too late. A style too advanced does not

[1] CHERINGTON, PAUL T. "Some Commercial Aspects of Styles and Fashions in the Clothing and Textile Industries," *Harvard Business Review*, Vol. II, July, 1924, p. 421.

secure acceptance; to present a style too late is merely inviting a loss through unsold goods. The forecasting of styles offers difficulties which have so far not been satisfactorily solved. An intelligent firm manufacturing style goods collects style information from as many sources as it can, assigning responsibility for making decisions to a person or group of persons whose judgment upon such matters has by experience been shown to be fairly correct.

20. HALLIDAY PRINTS, INC.—DETERMINATION OF DESIGNS AND COLORS OF DRAPERIES TO BE STOCKED

Halliday Prints, Inc., was engaged in the production and distribution of a wide line of high-grade draperies which retailed at from $0.40 to $1.75 a yard. Total sales of the company averaged about $1,000,000 annually. The company purchased gray goods, which were dyed or printed in finishing mills according to the design specified for about 12 cents a yard, provided that 8,000 yards were run of each design. The lot of 8,000 yards of one design could, however, be made up in from five to eight colors. All the draperies produced by the company had the name Halliday Prints marked on every yard on the selvage. The company advertised in leading women's magazines to the extent of about 5% of sales, stressing the style qualities of its products. Approximately 60% of the company's total sales were made directly to department stores in the New York area, 35% to department stores in other sections of the country, and 5% to furniture manufacturers. The company maintained five salesmen, who worked closely with department store buyers and who also spent a considerable portion of their time in developing new designs for the line.

One of the most important problems constantly faced by Halliday Prints, Inc., was the selection of designs and colors which would appeal to the consumer. Ordinarily about 50 new patterns were added to the line annually. On the average, 90% of the new patterns were printed twice, and 50% of them three times. The life of most patterns was obviously short, although some of the patterns remained popular for a number of years. The manufacturer believed that he got back most of his out-of-pocket expenses for design and samples from the sale of the first printing, but no actual contribution to net profits was made until the third printing was sold.

The company usually maintained in stock about 75 different designs each in from five to eight colors or color combinations. In the spring and fall the line was revised, and those designs which did not sell at a rate which would give a turnover of four times a year were dropped and new designs substituted for them. The company found from experience that

it was not profitable to carry in stock a design which did not give at least a turnover of four times a year. A record was maintained of weekly sales and stock on hand for each design as a whole and for each color in which the design was made. If sales of a design slumped seriously, they were carefully watched; the stocks of the design in the hands of the department stores were checked wherever possible, and an effort was made to see if the line was being displayed. If the unsatisfactory sales continued, the design was not reprinted.

The selection of new designs and colors to be added to the line entailed considerable risk, because 8,000 yards of cloth bearing the design had to be printed, and if it did not sell well, a considerable loss would be suffered on the bulk of the inventory. A department store usually bought three or four pieces of 40 yards each of the cloth bearing a new design and determined its salability before buying any larger quantity.

Ideas for new designs came from a variety of sources including the salesmen, department store buyers, free-lance designers, style bureaus, and European style centers. A small design purchased from a studio or a free-lance designer cost about $45 and a larger design from $65 to $85. Promising ideas selected by the manager of the company to be developed into patterns were turned over to two designers retained to develop the material on paper into workable patterns. When completed, the designs were painted in various color combinations. The manager of the company was responsible for the selection of the designs to be printed and also for the colors and color combinations. He endeavored to secure some check on his judgment by submitting a finished and colored design to a group of persons, including department store buyers and others who could be relied on not to make the idea known to competitors. Usually about 25 persons were asked for an opinion on a new design. A record was kept of whether each person thought the design excellent, fair, or poor. The manager of the company relied to a considerable extent on the opinions of this group. Although the opinion of the group was quite generally reliable, no one individual in the group seemed to be consistently right.

No attempt was made to check in this way on the color combinations. The manager decided in what colors the design was to be made after considering what colors were selling best in the plain draperies, what colors of carpets and rugs were receiving most attention, and what colors were most in favor in interior decoration. A woman style consultant, who was in constant touch with style developments in this country and in Europe, was retained in an advisory capacity. The company had made no attempt to check the sources of the most successful designs. Many factors entered into the success of a pattern besides the design. The printing of the

pattern on cloth and the choice of colors sometimes considerably changed the original design from its appearance on paper. A fair pattern which was overpriced, of course, did not yield satisfactory sales volume.

A typical example of the conception and development of a new design was afforded in the rise of an early American pattern after 1926. About that time there was a considerable demand for early American furniture and interior decoration in New York. In keeping with this idea of interior decoration, numerous old parchment maps were framed and used as pictures. In January, 1926, a member of the firm conceived the idea of developing a design along that line for draperies. Six old parchment maps were purchased, and the designers were directed to develop a pattern on the basis of them. The finished design showing the outline of an early map of the western hemisphere was considered excellent by a large majority of those to whom it was submitted. The design was added to the spring line and sold well until the spring of 1928, when the rise of modernistic interior decorations in the New York area caused a lull in the sale of early American designs. In the fall of 1928, however, the early American designs again came into demand, especially in other sections of the country, and have remained in considerable favor.

In the winter and spring of 1931, there was considerable demand for miniature stagecoaches to stand on mantelpieces and radio cabinets. Antique and novelty dealers carried them in stock, and women's magazines were giving considerable space to them. A member of the firm conceived the idea that a design based on the early American stagecoach would be favorably received, especially since the demand for early American furniture and interior decoration was still strong. Several old prints of stagecoaches were secured and two designs produced and colored. However, neither of the designs seemed to appeal particularly to those to whom they were submitted. Practically everyone admitted that the idea was good if satisfactory designs could be evolved, but there was doubt as to this possibility. Several additional old prints of stagecoaches were secured, and the designers were assigned the task of developing more satisfactory patterns.

What records should the company maintain to aid the manager in selecting the designs and colors to be produced and carried in stock? In 1940, should the company endeavor to include patterns based on styles featured in the motion picture version of *Gone with the Wind*? What factors, movies, wars, etc., seem to be influential in determining current styles of draperies?

21. FLEMING MANUFACTURING COMPANY—METHODS OF STYLING AND CONTROL OF STYLE MERCHANDISE INVENTORY

The Fleming Manufacturing Company manufactured a complete line of men's, women's, and children's underclothing and sleeping garments, and highly styled foundation garments, which were sold throughout the United States to department stores, women's specialty shops, haberdashery stores, and dry goods stores.

During the few years prior to 1931 the successful styling of underclothing and sleeping garments became increasingly difficult because of the great variety of fabrics in common use and the varied designs and color combinations popular in both men's and women's lines.

Style ideas useful in the design of men's and women's garments came from two main sources: the styling department, which worked closely with the sales department and reported to the sales manager, and the field salesforce, whose ideas were reported to the branch managers. The styling department consisted of three women stylists. One of these stylists spent about six weeks of each year in Paris and the balance of the year doing sales promotional work in the more important cities of the United States; the second visited the less important cities of the country throughout the year doing sales promotional work of various types; and the third normally spent the major portion of her time at the factory working on design and color ideas, although on occasion she also did some traveling.

Prior to the semiannual meeting of major executives, stylists, and branch managers, all suggestions from the salesforce, whether for the addition of new lines or for the abandonment of old, were sent to the home office and grouped according to lines of merchandise. Each line was considered by itself at the meeting, and all suggestions were heard. When possible, reference was made to the actual sales on particular products. The sales manager believed that the opinion of branch managers was, for the most part, trustworthy, because of their close touch with market conditions in their respective territories and the excellent relations which they had built up with large outlets. At these meetings also special attention was given to competitive products and to the possibility of adapting the Fleming line to meet any particular situation. It sometimes happened that a garment which had seemed to the style department to present great opportunities was rejected by the branch managers on account of some feature which had not at first been apparent. Not only design but color was important since there appeared to be strong sectional color preferences, and it was desirable to use a color which would be acceptable to the country as a whole. When a new product met with the

general approval of the branch managers, the production manager was asked to give an estimate of the price at which it could be presented to the trade, since price was an important consideration, a differential of a few dollars often retarding materially the sales of a given garment.

After each conference a report was prepared showing the recommendations for addition of lines or abandonment of lines, for submission to the merchandise committee, without whose consent no product was added or subtracted.

The successful estimation of the probable sales of style merchandise and the adjustment of production schedules had frequently proved a problem to the company. Sales of a new product might range from 10,000 dozen the first week to 25,000 dozen the fourth week, declining to 23,000 dozen the fifth week, to 20,000 dozen the sixth week, and thereafter showing a steadily downward trend. Perhaps during the fourth week the executives had estimated that the rate of sales that week would be maintained over a period of a month and had adjusted production schedules on such a basis, but with the declining volume the company had to choose either to sell slowly the excess inventory at regular prices and delay the timely introduction of new products or to liquidate inventory quickly through drastic price reductions, both methods involving substantial losses.

In one such instance, the estimate of sales of ladies' Christmas pajamas had been quite inaccurate, and the company had been left with a large inventory of unsold stock. Since it was necessary to begin the design and manufacture of a line of Christmas pajamas at least by April, the presence of unsold merchandise in March entailed a delay in the introduction of new lines to customers until November 1. This was undesirable, not only because it rushed salesmen unduly but because buyers were unwilling to wait and purchased from other manufacturers. In order to prevent a recurrence of this situation, the company in 1931 encouraged intensive sales effort on the 1930 stock from April on, designed the 1931 Christmas line in April, and started production in June, presenting the line by September 1. The production schedule during the summer had been very limited, and upon the exhaustion of any particular pattern new garments were substituted. There seemed to be one danger in this procedure, since reports late in August indicated the possibility of a rather important change in the style of ladies' pajamas before the Christmas season.

However, by such a program the executives hoped over a three-year period to reduce the company's average inventories by $1,000,000 without reducing its service to customers. Executives believed that with a better knowledge of style demands in different sections of the country, and with

a closer control over stocks manufactured, more profitable operation would be possible. The sales manager stated that, although considerable progress in merchandising had been made during the decade 1920–1930, the products manufactured had not always conformed to market needs as closely as was desirable and that improvements would be made both in the collection of style information and in its use in the design of merchandise.

Experience in the years following 1930 indicated a condition in which products continued not to conform to market needs so fully as was desirable for maximum profitability. It was proposed therefore that the company work toward amplifying its control of stocks, using the latest technical devices, such as punch-card equipment, so that sales results of items by style and color could be secured for use of sales executives and stylists with a minimum of delay. The costs would be somewhat heavier than for the maintenance of the usual statistical records, but it was asserted that the value of timeliness in securing information would effect savings much beyond the extra expense involved.

It was proposed also that the responsibility for styling be further specialized and that stylists be made responsible for only a portion of the line; for instance, that a stylist be responsible only for infants' wear, another for rayon underwear, a third for knit wear, and a fourth for men's wear. If any task did not require the full time of the stylist, the remaining time might be spent in sales promotional work for the particular line. Here again the absolute cost would be greater than the plans then in effect, but likewise it was expected that the greater success of styling efforts would offset this added cost.

Should these proposals have been adopted?

22. WAINWRIGHT MANUFACTURING COMPANY—INTRODUCTION OF A LINE OF ELECTRIC CLOCKS BY AN APPLIANCE MANUFACTURER

During the 10 years 1920–1930, the Wainwright Manufacturing Company was able to increase materially its volume of sales. The line included waffle irons, electric irons, heating pads, toasters, curling irons, individual percolators, and percolator sets. During this period, consumers had come to regard Wainwright appliances as the standard of quality for this type of product, and the company enjoyed an excellent reputation for fair dealing among the electrical trade. By 1929 the management believed that it had secured the maximum volume of sales with the products and distribution channels then being used without embarking upon an intensive sales promotional campaign which might have taxed the resources of the company. The president was desirous of repeating the success

attained with appliances and decided to add electric clocks to the line. He believed that their popular appeal had been well established and that the potential of the available market was tremendous. Furthermore, not only could electric clocks be marketed through the same outlets as appliances, but a few very important wholesale customers were not then selling them. Because of the success of a certain make of clock with synchronous motor mechanism, the company decided to concentrate on this type, rather than on that in which a standard clock assembly was automatically wound by a small electric motor.

The mechanism to be used having been determined, the next question concerned the designs in which the clock cases were to be made. The company designer, in collaboration with the designer of a nearby company engaged in another line of business, sketched three groups of clocks intended for use in living rooms, boudoirs, and kitchens. They attempted to achieve unusual effects and planned a number of models to harmonize with the metallic furniture and decorations which were becoming popular. Since the Wainwright factory was not equipped for the manufacture of wooden clock cases, arrangements were made to purchase these at a favorable price from another company. In the early spring of 1930, salesmen solicited orders from the electric jobbers through whom other Wainwright products had been distributed.

At the same time the company authorized its advertising agency to spend over $200,000 during 1930 to establish the Wainwright name in the clock field. This agency also undertook an investigation among 126 men and women to secure opinions concerning both the designs in which the clocks were being manufactured and the prices at which they should be sold. A brief outline of this investigation follows.

Scope of Survey:

126 persons—84 women (65 unmarried and 19 married) and 42 men—were interviewed in regard to their opinions of 20 different clock designs submitted for their inspection.

These people were, for the most part, businessmen and women. All lived either in New York City or in its suburbs.

Of the 126 persons, over half, or 65 (28 women and 37 men), were "upper middle class" and 61 (56 women and 5 men) "lower middle class."

In addition, in order to obtain a more or less expert opinion of the designs, interviews were obtained with 6 women executives of 3 well-known national magazines.

Method of Testing:

Each person was shown the 20 illustrations of clocks and asked to give his or her opinion as follows:

An opinion as to whether or not he or she liked each illustration shown.

Reasons indicated why each person liked or did not like each clock.

Illustrations arranged by each person in order of preference (first, second, third choice, etc.) in each group—kitchen, boudoir, and living room.
Clock design selected by each person as the one he or she would choose to buy.
Price he or she would pay for that particular clock.
Indication as to colors which certain individuals prefer for different types of clocks.

Exhibit 1 indicates whether or not each person interviewed liked the 20 illustrations of clocks.

EXHIBIT 1

WAINWRIGHT MANUFACTURING COMPANY—NUMBER OF MEN AND WOMEN WHO LIKED OR DISLIKED EACH MODEL OF CLOCK

Number of Clock	Liked			Did Not Like		
	Total	Women	Men	Total	Women	Men
Kitchen:						
1	82	53	29	44	31	13
2	51	32	19	75	52	23
3	81	56	25	45	28	17
4	84	47	37	42	37	5
Boudoir:						
5	77	48	29	49	36	13
6	74	42	32	52	42	10
7	53	36	17	73	48	25
8	83	51	32	43	33	10
Living Room:						
9	70	48	22	56	36	20
10	54	38	16	72	46	26
11	28	18	10	98	66	32
12	76	53	23	50	31	19
13	46	28	18	80	56	24
14	48	25	23	78	59	19
15	15	9	6	111	75	36
16	38	19	19	88	65	23
17	74	48	26	52	36	16
18	71	49	22	55	35	20
19	68	44	24	58	40	18
20	42	27	15	54	57	27

Although this survey showed that certain of the models did not meet with the approval of the individuals questioned, the company decided to continue production for at least a year in order to secure corroboration from actual sales figures. At the end of 1930 the volume attained on the electric clock line had been generally unsatisfactory. Executives attributed this partly to the business depression of that year, which had forced a drastic reduction in the advertising appropriation, partly to the inability of electric jobbers to continue aggressive sale to jewelry and department stores once the company salesforce had established contacts, and partly

to the clock prices, which were slightly higher than those of competitive products. Unit sales of the various Wainwright clocks and the retail prices charged during the year ending December 31,1930, are shown in Exhibit 2.

EXHIBIT 2

WAINWRIGHT MANUFACTURING COMPANY—UNIT SALES AND RETAIL PRICE OF CLOCKS—YEAR ENDING DECEMBER 31, 1930

Clock Number	Unit Sales	Retail Price per Unit
2	3,396	$ 9.75
3	3,299	12.00
5	1,620	20.00
7	1,705	17.50
9	216	65.00
10	1,099	30.00
11	345	60.00
12	533	38.00
13	507	32.50
14	8,989	9.95
15	160	70.00
16	275	2.75
17	740	18.00
18	1,003	35.00
19	1,096	20.00
20	524	50.00

Executives stated that both jewelry and department stores were important outlets for electric clocks and were not normally reached by electric jobber salesmen. This had limited distribution of Wainwright clocks and had imposed a serious handicap on the company's sales program. Sporadic attempts to sell directly to these outlets had caused so much ill will among jobbers that executives did not believe such a policy practical.

Because of the poor showing during 1930, the company management debated the advisability of abandoning the manufacture of electric clocks.

Should the Wainwright Company have abandoned the manufacture of electric clocks? Did the results of the research work of the advertising agency indicate any relationship between the designs chosen by the company officials and subsequent results?

QUESTIONS

1. The Sharon Radio Company decided that expert attention should be given to cabinet design and employed Mr. Smith, a famous designer of "modernistic" creations. Designs were developed and passed by executives of the Sharon Radio Company, and the new cabinets were placed on the market with wide advertising. From the point of

view of sales, however, results were not so satisfactory as those on other cabinets upon which competent critics had pronounced adversely from a design point of view. What were the probable causes for the failure of these designs to sell in satisfactory volume? How should the Sharon Radio Company have gone about getting a design which would have been good from the point of view of design critics and desirable from the viewpoint of prospective customers?

2. A well-known manufacturer of wallpapers has for many years succeeded in developing a business for more expensive wallpapers on the basis of design. It is concerned with the future of the market for more expensive wallpapers, as compared to finishes other than wallpaper and as compared to cheaper wallpapers sold through mass distribution outlets. What data should the company attempt to get?

3. A large manufacturer of electric household equipment decided to enter the manufacture of electric ranges. Executives believed that only if the electric range which they introduced had special features making it more desirable than other ranges then on the market, could they enter the field with any reasonable hope of success. The company could hire engineers who could give sound advice as to the technical characteristics of such a range, but it was proposed that it ask women in their homes as to the desirable design characteristics. What sources of design information were available to the manufacturer? Should the manufacturer have used a mail questionnaire or personal interviews? What questions should have been asked? How many replies were needed in order to secure assurance as to the validity of the sample?

4. How should a small enterprise proceed to secure good design for its products? How may alternative designs be tested?

5. Manufacturers who suffer from decline in volume of sales have frequently been advised to redesign products. How is the objection to be met that with the declining price levels of recent years it is unwise to increase costs by "dolling up" products?

6. If the development of factory-built houses on modernistic lines, such as those produced by the General Housing Corporation, should become popular, what would be the probable effect upon the design and styles of house furnishings?

7. Discuss the economic effects upon consumer, dealer, distributor, and manufacturer of yearly changes in automobile design. Would it be desirable and possible to eliminate yearly or frequent design changes?

8. How should a specific firm go about determining at what point in the style cycle it should endeavor to change styles?

9. Discuss the economic advantages and disadvantages of style change in the garment and furniture industries.

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

11. Does "price lining" in retail stores, whereby various lines of merchandise are bought to sell at predetermined prices, affect the marketing and production policies of manufacturers? What effect does price lining of cheaper silk dresses, $5.95, $7.95, etc., have upon style and design policies of garment manufacturers and fabric producers?

12. What policy should a manufacturer adopt as to change of style? Should he be conservative? Should he attempt to keep up to the minute, or should he attempt

to produce models or styles which change only very slowly? Discuss the advantages and disadvantages of each policy.

13. Where is the line to be drawn between legitimate imitation and "piracy" of styles?

C. BRAND AND TRADE-MARK POLICY

The primary purpose of brands and trade-marks is to furnish a means of identification so that repeat demand may be centered upon a product whose use has resulted in satisfaction and goodwill. From the viewpoint of the public, identification places definite responsibility for quality, uniformity, and amount upon the person whose name or mark appears on a product or package. From the viewpoint of the manufacturer, identification makes it possible to build up a preference for a product, because of satisfaction given by it or because of the impression created by advertising or other means. Attempts have been made to identify most types of consumer products—even coal, walnuts, and oranges have been subjected to identification processes. Nevertheless, some manufacturers have not been able to solve the difficulty of marking a product in the form in which it is sold to consumers; on the other hand, meeting the responsibility of identification has sometimes proved embarrassing. The chief social objection to placing of responsibility by identification is the cost incident thereto, a cost which may or may not be offset by the advantages.

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

More annoying than these problems, and more difficult, are questions raised by private brands. From the broadest viewpoint, private brands constitute an aspect of the struggle for the control of the retail and consumer markets between manufacturers, wholesalers, and retailers. From the viewpoint of some manufacturers, private brands may be undesirable because they remove from him the control of consumer demand and place

it in the hands of the wholesaler or retailer for whom the private brand is made. To other manufacturers, private brand business may be essential to existence. So-called private brands might better be denominated distributor brands. Since some distribution enterprises, particularly chain stores, handle quantities considerably larger than the largest wholesalers, they feel that they must accept responsibility in the eyes of the public for the quality of the goods they sell, even though the goods may be made by another. Furthermore, it may be to the advantage of the larger retailer to build up a demand for brands which he controls, because thereby he is much freer to choose his sources of supply. A so-called private brand may be as justifiable from the social point of view as a manufacturer's brand.

23. CONROY CEREAL COMPANY—BRAND POLICY

The Conroy Cereal Company, located in a middle-western city, manufactured a wide line of breakfast cereals, which were sold chiefly under the Conroy name, although some of the lines were sold under other names. The products were sold nationally to practically all grocery jobbers and chain grocery stores by the company's own salesforce. The company was following a policy of expanding the number of lines sold in order to utilize more fully its salesforce and promotional effort.

In 1937 the Conroy Cereal Company acquired through outright purchase the Benton Biscuit Company, which manufactured a rather compact whole-wheat biscuit similar in nature to Shredded Wheat, which sold at retail for 15 cents a package. The Benton Biscuit Company had distributed to exclusive wholesalers, who cooperated in pushing the line aggressively. It had secured average sales of $4,000,000 annually and had earned reasonable profits. The Conroy Cereal Company acquired the Benton Biscuit Company in an effort to gain a foothold in the whole-wheat biscuit field and consequently continued to sell the biscuits under the Benton name, although mention was made on the package that the product was manufactured by the Conroy Cereal Company. The exclusive wholesale policy of the Benton Biscuit Company was abandoned, and Benton biscuits were soon placed in the warehouses of practically all grocery jobbers in the United States. For over three months 100 special salesmen solicited retailers, and the product was placed on the shelves of the great bulk of the retailers of the country. In the two years following the acquisition of the product, over $500,000 was spent annually in advertising in magazines and newspapers, which stressed the food value and delicious taste of the product.

In spite of the aggressive promotion of the product, total sales declined during 1937 and 1938. In 1939 the advertising appropriation was cut to $100,000, which was devoted entirely to radio advertising and consumer contests. The company realized that it had been successful in pushing the product through to the retailers' shelves but had failed to develop adequate consumer acceptance. In the summer of 1938 a field survey in various parts of the country revealed that a large portion of the consumers had tried Benton biscuits but few had repeated the purchase because they did not like the product. The product specialist of the company began to investigate the biscuits and found that they were delicious and tasty if eaten soon after they were packed but that they deteriorated rapidly and became tasteless, apparently because the biscuit was too compact and did not allow adequate circulation of air. To avoid this difficulty the thickness of the biscuit was reduced and the material loosened as much as possible without making the product unduly susceptible to crushing. This improved the product somewhat, but the nature of the biscuit made it impossible to remove the difficulty entirely.

By the summer of 1939 the product specialist had developed several whole-wheat biscuits which apparently overcame the difficulties inherent in the Benton biscuits. The president and the marketing executives of the company, who were responsible for important merchandising decisions, were faced with the question of the disposition of Benton biscuits. Several courses of action were open to the Conroy Cereal Company. The Benton biscuits could be changed drastically in nature, the difficulties entirely obviated, and the promotion continued under the Benton name. The Benton biscuit could be discontinued and a new product introduced under an entirely new name. The company could continue to sell Benton biscuits, but without promotional effort, and proceed to introduce a new whole-wheat biscuit under a different name.

What course of action should the Conroy Cereal Company follow?

24. SANTOS COMPANY—PRIVATE BRANDS VERSUS NATIONAL BRANDS

The Santos Company distributed nationally under its own brand name a line of bulk and packaged tropical food products. Annual sales were $3,900,000, 40% of which went to chain stores and 60% to grocery wholesalers of all types. For several years the growth in the use of private brands had seriously threatened the sales volume of the Santos Company as well as that of many other companies. In many cases the private brands of chain stores, wholesale distributors, and voluntary chains had

become as strongly established in the consumers' confidence as the nationally advertised brands of manufacturers or packers. Although these outlets had not refused to carry the Santos line and did supply it to customers upon request, many of them aggressively pushed products carrying their own brands at every opportunity.

Although the company sold through brokers who received a commission averaging 3%, 20 salesmen were kept in the field to aid in selling to wholesalers and chain stores. The company had for many years advertised in media of national circulation, the annual appropriation averaging roughly $130,000 or 3⅓% of net sales. The appropriation was approximately 6% of the sales of packaged goods. Total marketing expenses were $750,000 or 19.2% of net sales. Of this, $300,000 went to make up the personnel and executive part of the sales budget. Inventories were kept in public warehouses in 50 cities to afford quick service and to relieve the wholesalers of the necessity of carrying large stocks.

Substantially the same net prices with no suggested resale prices were quoted to chain stores and wholesalers on similar quantities of merchandise. Discounts were based more upon the importance of the wholesaler or chain store in the local market than upon the absolute quantities of merchandise purchased. Although the gross margins received by wholesalers on the Santos lines averaged 15%, cash and carry wholesalers cut prices to such an extent that service wholesalers experienced difficulty in securing any large volume of sales.

The declining commodity prices following 1929 added to the difficulties of the nationally advertised brands, because the prices of these products could not be lowered so rapidly or so much as the prices of products in which raw materials and labor costs constituted a higher percentage of the retail price.

The Santos Company endeavored in several ways to strengthen its position. An effort was made to convince the distributors that the Santos line gave a higher net profit than private brand lines even with a lower gross margin, because it was more easily resold and gave a higher merchandise turnover. The company was determined to spend the advertising appropriation in the future in local media in order that the market might be spotted where the advertising was needed most and where it might have the most influence as a deterrent to the growth of private brands. Cooperation with other manufacturers faced with the same problem was considered, but no definite plan was evolved. The company believed that a smaller portion of its business was coming from independent stores than was justified by the percentage of the national business handled by them because of the reluctance of voluntary chains to feature nationally advertised brands. The company did not

want to incur the ill will of any of the important types of food product distributors since it was necessary to distribute through all of them in order to cover the market adequately.

What alternative policies should the Santos Company consider under present conditions with regard to manufacturers' and private brands?

25. ELKINS CLOTHES COMPANY—ADDITION OF SEPARATE BRAND ON IDENTICAL MERCHANDISE

The Elkins Clothes Company, located in an eastern seaboard city, manufactured a complete line of men's high-quality suits, overcoats, topcoats, and sports coats. These garments ranged in retail price from $65 to $225 and were sold through exclusive dealers. The company had never given the Elkins franchise to more than one dealer in a city and carried about 400 such outlets upon its books. In addition to clothes which it sold under the Elkins label, the company also sold garments under the private labels of some large stores. Before 1920 the generally chaotic state of the men's clothing industry had made retailers very unwilling to sell under the manufacturer's name, and the Elkins Clothes Company in 1916 had sold 47% of its output under private brands. By 1922 this figure had decreased to 27% and by 1930 to 6%. The sale of private brand suits to stores in cities where another store had the exclusive Elkins franchise had often resulted in the use of the Elkins name by the clerks selling the private brand suits. This not only occasioned a certain loss of sales by the Elkins store but also resulted in a loss of goodwill among the established dealers. In certain localities this situation had become serious, and the company decided to introduce another company brand and to substitute it for private brand business so far as possible. Furthermore, it was believed that a new market could be reached since in cities of sufficiently large size it would be possible to sell to two quality stores instead of to one as formerly.

Sales executives decided to call the new brand Lamson after the name of one of the founders of the company. The models manufactured were all given different names from those under the Elkins label, and the fabric names were changed as far as possible without destroying their significance as indicators of the nature of the material. All publicity material was of entirely different design from that which was used for the Elkins brand in order that the buying public would not learn of any connection between the two. Elkins advertisements, both newspaper and direct mail, had consistently featured a picture of a young man wearing one of the Elkins suits or overcoats. It was decided to plan the Lamson advertisements

with text only. This separation between the two brands was extended even to special order forms which displayed the Lamson name prominently and carried the Elkins name in very small type. Furthermore, the advertising portfolio which was furnished to dealers and which contained suggestions for newspaper advertisements was prepared in a different manner for Lamson accounts.

Since the company felt that the expense of a separate salesforce would be prohibitive, the Lamson line was carried by the regular Elkins force of 16 men. Although it was consequently impossible to conceal the connection between the two brands from dealers, the company did not consider that this was a serious drawback to the plan. Because the garments in the two lines were identical, the salesmen showed prospective Lamson dealers the Elkins line and explained to them the different model and fabric names which would appear under the Lamson label. To have done otherwise would have resulted in a duplication in the number of sample trunks carried by the salesmen. Although it was recognized that the psychological effect of this procedure might not be desirable, the decision to refrain from solicitation of Lamson accounts and the increasing trend toward buying at the factory appeared to offset this objection. After the plan had been in effect about two and one-half years, approximately one-half of the Lamson dealers went to the factory to make their purchases and were shown the complete line of Lamson clothes.

In introducing the Lamson brand the company proceeded cautiously in order to prevent any conflict with the established brand and in order to make sure that the name Lamson would build up a quality reputation. No salesman was allowed to grant a Lamson franchise until the matter had been discussed by the board of directors. In deciding upon the desirability of an account the board not only considered the quality of the store and its management but also the possible effect which the sales of the Lamson line might have upon the sales of the established Elkins dealer. The former franchise was never granted unless the market was large enough to support two high-grade clothing stores.

At the end of the third year the company was selling to 20 Lamson accounts. These dealers sold about $1,750,000 annually or about 15% of the total sales volume. Executives estimated that about two-thirds of this volume was derived from dealers who had formerly purchased under private brands and that about one-third was entirely new business. This new business came largely from high-grade dealers who had requested the Elkins franchise. If this franchise had been already given to another dealer in that territory, the company was able to offer the Lamson line where before nothing could have been offered. A number of these dealers were skeptical because the name of the new brand was unknown to them

and to their customers. After the first period of introduction, however, the name slowly became better known, and the company felt that the difficulty of selling to desirable new accounts was becoming noticeably less.

About 6% of the total business still remained in private brands but was sold to stores of such outstanding prominence that there was no danger of the use of the Elkins name by their clerks. Trouble of this sort, which had been experienced when private brands had been sold to smaller stores, had largely disappeared. Furthermore, the company believed that the Lamson brand permitted it to tap an increasingly large market which before it had not been possible to reach. This was especially true since quality competition was believed to be becoming less keen.

Were the Elkins Company executives wise in maintaining two brands? What is the consumer interest in this policy?

26. S. S. PIERCE CO.—GRADE LABELING ON WHOLESALER'S PRIVATE BRANDS

The S. S. Pierce Co. of Boston, as wholesaler and retailer of foods and owner of private brands, was interested in the proposal, made originally in 1933 in connection with NRA codes, to require certain canned fruits and vegetables to bear conspicuously on the label a letter, A, B, or C, to denote the grade of the contents according to government specifications.

The A, B, or C proposal was based on the common agreement among canners that for every variety of canned fruits and vegetables there were a number of factors which determined the quality and palatability of the finished product. To each of these factors in a product a given number of points in a total perfect score of 100 should be assigned arbitrarily. Each factory run should be scored with regard to its attainment of perfection in respect to each of these factors. The total score for the run would determine whether it was an A, B, or C grade.

The proposal was discussed for many months. Canners contended that the plan was unenforceable, unworkable, and useless. They countered with a plan for "descriptive labeling," that is, for phrases on the label to describe the can's contents. Under their proposed system of grade labeling, terms descriptive of each of the significant characteristics of the product which were susceptible of physical test would be put on the label. These terms would be in a vocabulary familiar to or used by the consumer, and they would be defined so that (*a*) the canner would be able to use them properly and (*b*) the food authorities could enforce their proper use. Thus peas, for example, would be described as to size, tenderness (very tender, medium tender, or firm), degree of freedom from

broken peas or pods, and amount of sugar or salt added. This descriptive labeling was to take the place of all other grade marks, whether number, letter, or the regular trade use of certain descriptive words.[1]

The S. S. Pierce Co. handled both packers' brands and its own brands. The latter were sold through the company's 6 retail stores in the Boston area and through 65 to 70 retail distributors located in various parts of New England. Commodities sold by the company under its private brands included canned soups, baked apples, coffee, tea, spices, grapefruit juice, canned fish, canned meat, canned spaghetti, hams, bacon, and many kinds of canned fruits and vegetables.

Company officials stated that, although "Red Label" and "Blue Brand" were Fancy and Choice grades respectively, the goods were packed to their specifications and frequently were of better quality than was required under regular commercial grading standards. It was also their opinion that packing better quality products should be advocated, rather than attempting to force the packer of high-quality goods to reduce an established standard of high quality down to the minimum, as represented by the proposed so-called A grade.

They contended that if the A, B, C idea were adopted, the consumer would be deceived into believing that all canned foods bearing the A grade insignia were of equal quality and, in consequence, should be sold at approximately equal prices.

The executives claimed that their customers had always been adequately protected by the high standards developed by the company in its long existence and that they had been continuously educated to expect the quality of any product packed under either the Red Label or Blue Brand to be satisfactory and of good value. In their opinion, a number, a letter, a descriptive word, or exact description of contents would prove of less real value to their customers, either in understanding the grade of contents or in protection, than the well-earned and long established reputation of the company's well-known private brands.

In the opinion of the executives, if the Food and Drug Act were to be amended, grades below Choice should carry on the label some legend such as "Third Grade" to protect the consumer against inferior quality.

Company executives had refrained from making any suggested changes in the labels of the company's private brands and did not contemplate doing so until a more logical reason should be adduced in favor of such action.

Was the position of S. S. Pierce Co. executives sound? What is the public interest in grade labeling?

[1] In trade terminology, the words Fancy, Choice, and Standard indicated in descending order the quality of goods contained in a package.

QUESTIONS

1. The Griffin Paint Company controlled five subsidiaries, each of which distributed paints and varnishes under its own brand name. The company was considering whether a single brand should be used for all of the products manufactured by its various subsidiaries. Outline the information which would have to be secured before considered decision could be rendered.

2. The Potter Company sold one brand of women's shoes of high- and medium-grade through exclusive agencies and another brand of the same quality and same designs through nonexclusive agencies. The company decided to manufacture a new line of shoes for girls. Should it have extended the two-brand policy to this line as well?

3. It was the experience of the Thoreau Company, a wholesale grocery firm selling a general line of groceries, that canned milk produced by national advertisers yielded low gross margins. Should the company purchase canned milk to be sold under its own established private brand, so as to increase the gross margin obtained in resale?

4. A survey made by a prominent newspaper in a mid-western city showed that early in 1940 there were sold 142 brands of package coffee, 72 brands of package tea, 105 brands of breakfast food, 205 brands of canned peaches, 49 brands of dessert powder, and 32 brands of prepared pancake flour. Discuss the interest of the consumer, the retailer, the wholesaler, and the manufacturer in the multiplication of brands in various fields.

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

6. The Daving Shoe Company manufactured men's and women's high-grade shoes and men's low-grade shoes. The high-grade shoes bore the Daving name and were advertised nationally. Should the manufacturer's name have been stamped on the low-grade shoes as well?

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

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

9. Should a manufacturer of high-grade industrial chemicals, sold in 300-pound barrels and in carload lots to manufacturers, brand his product? The product is customarily bought on specification and is subjected to tests in the laboratories of purchasing manufacturers.

10. Is branding or trade-marking a necessary preliminary to extensive advertising? Are brands or trade-marks necessary on patent products?

11. How should a firm go about selecting a brand or trade-mark?

D. GUARANTY AND SERVICE POLICY

Many concerns have at one time or another adopted policies whereby they expressly warranted the goods which they sold. Every reputable concern, of course, warrants its product to be as represented; as a selling point, such statements may be limited or unlimited. Guaranties frequently refer to the quality of workmanship and material used, rather than to duration of use. A guaranty may be a positive step to obtain buyer goodwill; it may be required because failure to offer express guaranty may be adversely construed.

The adoption of a guaranty policy depends upon several factors. The first of these is the practice of the trade or of competitors. The second is the difficulty encountered by the consumer of determining quality in advance of purchase. A consumer cannot appraise a complicated machine or the quality of materials entering into clothing with the degree of accuracy which would be desirable from his point of view; consequently, an enterprise which manufactures a product complying with highest standards may find it wise to issue a guaranty to state the facts. A third reason for issuing a guaranty lies in the danger of perishability or deterioration to which some goods are subject. A manufacturer of candy may find it desirable to guarantee the quality of his goods or to provide a label and offer replacement in order that consumer goodwill built up at great expense may not be impaired seriously by the negligence of middlemen. The most common reason for the use of the guaranty is the selling value which guaranties possess. The selling or advertising value is undoubtedly greatest if the guaranty is unlimited, but the dangers of abuse are correspondingly great. Limited guaranties are also subject to abuse because frequently misunderstood. From a selling point of view, a guaranty hedged about with restrictions may be of less value than no expressed guaranty.

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

Service policy is very important also in connection with industrial goods. To the average manufacturer or user of production machines, value may be obtained only by use, sometimes only by uninterrupted use. It becomes necessary, therefore, for makers of machinery, industrial chemicals, or manufacturing supplies to provide salesmen and service men who can give competent advice and assistance in securing satisfactory use of their products.

27. MONTVALE RUBBER COMPANY—POLICY OF A NEWLY ORGANIZED COMPANY PERTAINING TO GUARANTY

The Montvale Rubber Company was established in 1936 to manufacture men's, women's, and children's rubbers, tennis and gymnasium shoes, overshoes, low boots, hip boots, and other types of rubber footwear. These products were to be sold to wholesalers for distribution to small retailers and directly to large retailers, such as department stores, by means of the company's own salesmen. It was planned to sell the larger part of the output under the company's own trade-mark; orders would be accepted, however, from wholesalers who had a trade-mark of their own. The company was considering whether or not a guaranty should be given on rubber footwear. The question of guaranty pertained only to the products which bore the company's own trade-marks.

The first shipments of footwear were to be made in the spring of 1937, but in October, 1936, no decision regarding the guaranty policy of the company had been reached because of the difference of opinion which existed among the executives. The president, who formerly had been connected with a large rubber footwear company, favored the following policy. No written guaranty concerning the wearing qualities of the company's product should be given with any merchandise, but it should be understood, however, that the company protected users against any defects in workmanship. If salesmen were asked whether or not the footwear was guaranteed, they should state that the merchandise was as good as any manufactured by competitors and that it was free from all manufacturing defects. The Montvale Rubber Company should reserve the right to have one of its employees decide whether a product was defective or not and if replacement should be made.

In support of the policy outlined, the president explained that by not using the word "guaranty," any question of legal difficulty over the word, which was interpreted in various ways, was removed. A guaranty might result in unjust complaints and dishonesty. Retailers generally considered the customer to be right if the company which manufactured the footwear guaranteed its quality. Frequently rubber products were as

durable as could be expected, but because of the guaranty they were returned. For example, if an overshoe designed for low heels was used with high heels, it soon wore out. No adjustments in the guaranty were ever made although rubber footwear manufacturers had attempted several times to evolve a satisfactory adjustment plan. The elimination of a specific guaranty removed the adjustment problem.

Retailers frequently carried footwear in stock for a year or more. This stock naturally deteriorated. When the customer was dissatisfied, the retailer expected the manufacturer to pay for the financial loss caused by his neglect. The cost of replacing rubber footwear under the guaranty necessarily was added to the future selling price. It was manifestly unfair to expect all consumers to pay for a guaranty from which they received little benefit. With no specific guaranty relative to wearing qualities, the cost of all footwear was reduced.

The policy outlined in regard to the guaranty was used by the majority of the larger companies, and any change in the accepted custom of the industry might disturb the entire guaranty problem. Larger companies could afford to give a more inclusive guaranty than a small company. Furthermore, if a liberal guaranty policy were adopted, it might be exceedingly difficult to discontinue it.

Several of the other executives in the Montvale Rubber Company did not agree with the policy outlined by the president and proposed that a liberal policy be adopted which guaranteed absolute satisfaction to all users of the company's footwear. It was not necessary for the established companies to give a specific guaranty, because they were well known and had an established clientele. A guaranty assisted salesmen to secure new customers and make more sales. It removed any question of doubt in the mind of the retailer or wholesaler concerning the quality of the product. Thus the policy of a liberal guaranty would probably help the company to secure a satisfactory market immediately. It was known that other companies had complaints with specific lines, as, for example, sportsmen's hip boots. A guaranty in this line might open up a broad market for the company's sportsman boot. If any expense were incurred from the liberal guaranty policy, this could be considered as an advertising expense. Thus an increase in the cost of the manufactured product was avoided. When the company became well known and had secured a regular clientele, its guaranty policy could be changed slowly, and the company could adopt a modified policy and replace only merchandise which showed defects in workmanship.

Should the guaranty plan outlined by the president have been adopted?

28. MULTIVOLT BATTERY COMPANY—PRODUCT GUARANTY

The Multivolt Battery Company had over a period of years developed a half-million dollar sales volume in dry and wet batteries for automotive use. The batteries were sold to automotive supply jobbers and to a few small chains of automobile supply stores. About 30% of the volume was shipped under private trade-marks and about 70% under the Multivolt brand name, into twelve states which could be reached most conveniently from the company's headquarters in Chicago.

In the past three years volume of sales had declined, and while the business was still profitable, the continuation of the decline would make adjustment increasingly difficult and finally impossible. It had been proposed therefore that the company meet the increasing competition with the private brands of large national advertising manufacturers and of mail-order houses and chains by a radical revision of the Multivolt merchandising policy. The Multivolt executives had followed competition in establishing a time guaranty and making adjustments for failure upon the basis of unexpired time. That is, when the guaranty period was for twelve months, the failure of a customer's battery at the end of nine months entitled the customer to a refund or allowance of 25% of the original price.

The proposed new policy included three parts: First, the addition of a new line of heavy duty batteries, heavier and with more plates than competitors' heavy duty lines; second, the adoption and featuring of a guaranty of satisfactory service to each buyer for the whole period of his ownership of the car for which the battery was bought; in other words, the battery company guaranteed that the buyer of a Multivolt Life-Time Battery would not have to buy another battery no matter how long he drove a particular car. Third, the price to be charged would be about double the price quoted by other battery companies, for instance, $19.50 for a six-volt battery of the size commonly used, whereas competitors' prices ranged from $8 to $11.50.

It was expected that batteries would have to be replaced in a larger proportion of cases than under the older guaranties, but allowance was made in the price both for such replacement and for extra promotional effort. On the other hand, it was asserted that the effective term of the guaranty would in most cases be but little longer than some of the guaranties of 18 months to 24 months then being introduced by competitors, since so many drivers turned in their cars after two years.

Should the plan be adopted?

QUESTIONS

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

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

3. Originally, guaranties on electric refrigerators were instituted to cover defects in workmanship and material; later, time guaranties were given, beginning with a one-year period and being gradually extended up to a five-year period. Although improvement in the products tended to lessen the amount of service required to maintain the guaranties, there was considerable doubt that technical progress had been as rapid as the guaranties implied.

Discuss with reference to Frigidaire, General Electric, Westinghouse and other electric refrigerator companies the current forms of guaranties; their influence on the service problem; responsibility of distributors and dealers for service; and the balance of advantage or disadvantage to consumer, dealer, and manufacturer from the employment of long-period guaranties.

4. Which of the following methods should a small manufacturer of electric refrigerators use to provide the service necessary to keep refrigerators operating satisfactorily? (*a*) Depend upon the dealer through agreement to furnish satisfactory service. (*b*) Establish a separate corporation to service all dealers in smaller territory. (*c*) Ask the dealer to return units requiring service to the factory. What problems are involved in each plan?

5. What factors should determine the type and extent of technical service to be offered silverware manufacturers by a company manufacturing and selling finishing machinery for that industry?

6. Should rubber tire manufacturers guarantee tires on a time basis, a mileage basis, or generally as to satisfaction in use? How should such guaranties be administered?

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

8. Should a fountain pen manufacturer not only guarantee his product to be free from defects in construction, material, and workmanship, but also guarantee it in every event except loss, theft, or willful damage during the life of the user? Under such a guaranty policy the company would make no charges for repairs but would charge a service fee of 35 cents to cover the cost of handling, postage, and insurance.

If such a policy is desirable, should it cover the whole line of the manufacturer, extending from pens retailing at $1 to those retailing at $15, or should it be limited say to all pens retailing for $5 and over?

9. The Cunningham Corporation produced and sold a combination of service and materials for treating metals. Large plants were usually licensed by the Cunningham Corporation to do their own treating, material being sold to them at list price less a discount based on quantity purchases.

The Cunningham Corporation had done a great deal of work in perfecting the treating process and maintained a staff of skilled engineers to advise and assist licensees. Initially, such service had been rendered free, but it was discovered that licensees called

for service upon the slightest provocation when a minimum amount of care and thought on the part of those in charge would have made such calls unnecessary. To eliminate waste, it was proposed that a nominal charge of $10 per day per service man be charged, although such a fee would not entirely reimburse the Cunningham Corporation for the service.

Should the proposal have been adopted?

E. CONTAINERS AND PACKAGING

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

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

The purposes of the consumer packages are to furnish a convenient quantity in a package which will possess certain advantages from the point of view of demand stimulation and to facilitate physical handling during the processes of distribution. To the manufacturer, it is a convenient means of identifying his product; through packaging the salability of the product may be improved and its shelf appearance made attractive, thus creating a greater interest. From the viewpoint of the consumer, the advantage of the package lies in its convenience and in its protection against deterioration; the disadvantage is the cost of the package and of the packaging process.

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

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

29. LAMOTTE CHEMICAL COMPANY—INTRODUCTION OF A NEW PRODUCT

The LaMotte Chemical Company of Chicago, Illinois, manufactured and sold an extensive line of fine chemicals for three purposes: first, to industrial concerns to be used in the manufacturing process or to be a part of the finished product; second, to druggists to be used in compounding prescriptions; and third, to consumers for household medicinal purposes. As was customary in the industry, the salesforce, which covered the entire United States, was divided into three groups: trained detail men, who worked exclusively with physicians; salesmen, who sold to drug wholesalers and to manufacturers that used chemicals; and missionary men, who visited retailers.

Among the company's packaged products which were sold through drug channels to consumers for household medicinal purposes had been a tincture of iodine. With the advent of mercurochrome, tincture of iodine had gradually been displaced in public favor and use. In 1928, the company's research department secured two developments which the company hoped would enable iodine to regain its former popularity. First, it secured a form of iodine which had as powerful germicidal action as

tincture of iodine and yet which would not cause a burning sensation when applied. Second, it devised a novel method of applying the iodine. Instead of the usual solution which was applied with a glass rod attached to the stopper, the iodine was solidified on the end of a stick slightly larger than a match stick. This was to be dipped in water and applied.

The company was so pleased with the novel and handy means of application and was so sure that it would be effective in selling the product that it based the entire appeal of the introductory campaign for the new product on this novelty feature. The package adopted consisted of a glass container for 12 sticks and a metal container in which the sticks could be carried about if desired; both containers were enclosed in a package. In accordance with the decision to feature the novelty of the method of application, the advertising on the counter display concerned itself with the ease of application and the convenience, while the improvement in the iodine was only slightly mentioned. The same was true of the counter advertising, the window displays, and the circulars supplied to the druggist. The introductory campaign to the druggist through the company's retail salesmen was highly successful, in that it resulted in the product's being put on display in more than 5,000 drug stores. In spite of this successful introduction into retail drug stores the new iodine did not meet public favor, and the company received practically no repeat sales.

Immediately the merchandise manager of the particular department under whose direction such items were sold began studying the first campaign in an effort to determine why the product had not met with the success expected by the company. The manager decided that several mistakes had been made in the introductory campaign. In the first place, while the main emphasis of the advertising had been on the novelty of the means of application, no provision had been made for the consumer to see the new applicator; the sticks were inside a package where they could not be seen. In the second place, the fact that the iodine was in an improved form and did not burn was not emphasized, so that the general disfavor toward iodine had attached itself to the new product and could not be overcome by the novelty feature. The manager also felt that consumers were accustomed to buying iodine in a bottle with a glass applicator and that their unwillingness to accept something new was another reason for the lack of success of the item.

The merchandise manager planned another introductory campaign of the product which he believed would avoid the mistakes causing the lack of success of the first campaign. In order to eliminate the necessity of trying to change consumer buying habits, he intended to put the new fluid iodine up in bottles with glass applicators. The entire advertising effort was to be put on the fact that the company had developed an iodine

which did not burn. He further intended to have the stick applicators displayed near the counter display of the iodine solution. Instead of the former package, however, he intended to use only a glass container through which the sticks could be seen, and in the advertising on the box in which these containers were placed on the counter, the main emphasis again was to be on the fact that the iodine would not burn.

He hoped that the display of the two items near each other might break down the consumer objections to the new form of iodine.

Was the decision of the merchandise manager regarding packaging correct? What research might have been carried on to determine the most desirable type of package for the new product? Should the manufacturer have developed a new brand name for the product?

30. RENNARD COMPANY—PROPOSAL TO INTRODUCE A DE LUXE PACKAGE DURING A PERIOD OF DEPRESSION

The Rennard Company of St. Louis, Missouri, manufactured a household cleaning preparation which could be used satisfactorily for many purposes, such as cleaning and polishing kitchenware, windows, tile, plumbing fixtures, and similar objects. The product was sold by retail grocers throughout the United States. The company sold only to wholesalers and chains, and the salesforce of seven men spent its entire time with such customers. Salesmen received a straight salary and were recompensed for all allowable expenses. The executives did not consider an incentive method of compensation advisable, since they did not wish a salesman to attempt to sell the product aggressively, but rather to maintain favorable relations with the wholesalers and only to accept orders when offered. To obtain the goodwill of these outlets the company had offered them many concessions, such as enabling them to buy in small lots and providing them with more rapid delivery by establishing 46 warehouse stocks in public warehouses throughout the United States. A one-price policy was strictly adhered to for all customers. The company had advertised extensively and had derived a widespread consumer acceptance, with the result that grocers were willing to stock and sell the item. All promotional work with the retailer was performed by the wholesaler's salesmen.

For a considerable period the company had prepared the product only in cake form; however, in 1913 a powdered form was added to the line. The label of the package of the powdered form was designed to attract attention and had been successful in accomplishing this result. The introduction of the new form was a distinct success; the sales increased

rapidly and continued to increase. The sales of the cake form did not fall off rapidly though they did show a slow annual decrease. Early in 1931 the executives were considering a proposal to introduce a new de luxe package of the powdered form.

The product was used principally in two places: the kitchen and the bathroom. In the opinion of some of the executives the regular label was not sufficiently attractive for the average housekeeper to want it to be seen in the bathroom. The product was, therefore, kept in the kitchen and only used in the bathroom when some special cleaning work was to be done there. The executives felt that, if an attractive looking de luxe package could be designed, such a package could be advertised for use in the bathroom, would be kept there, and the preparation thus would be used more frequently than formerly. They also felt that the introduction of a new product would give new life to the company's advertising. The only appeals for some time had been the various uses for which the product could be used. The executives believed that the news interest of the new product would be a valuable means of attracting attention to the company's line. They also were convinced that the de luxe package would have a novelty sales appeal, which would help the sales during a period of depression. Finally, they thought that the new package would awaken the retailers' interest in the company's products and thus benefit the company. These executives felt that, whether or not the new product was successful, the news value and the interest that would be aroused would make its introduction worth while.

This group of executives drew up a plan which they believed would successfully introduce the de luxe package. The first consideration was to select an attractive label. They felt that the only colors which would harmonize with practically all other colors and would fit in with the modernistic trend were black and gold in a modernistic design. On the question of counter displays they decided to use a plain gold background for the package, since they felt such a display would add to the de luxe appearance of the new package.

The package decided upon would be more expensive than was the package the company was using, and, since the entire cost of the package and powder was small (just 15 cents), the increased cost of the package made a rather large proportionate change in the price. The executives felt that the new package could not contain less powder and sell for the same price nor contain the same amount of powder and sell at a higher price. Thus they were forced to decide to have the new package larger than the old, so that the package cost would not be a large proportionate part of the final price. The old package contained 12 ounces and was intended to sell for 15 cents; the new package was to contain 19 ounces and

would be priced to sell for 25 cents at retail. The executives did not wish to exert any special selling effort on the new item but intended to let it introduce itself. They planned to send two or three broadsides announcing the new package to wholesalers and to chain store customers, to do a moderate amount of advertising in grocery trade journals and chain store trade journals, and to order the salesmen to introduce the product as they made their regular calls. They decided to give no free goods, and to make no introductory offer, except that they would supply counter displays free on request. Then, if the item sold, it would have done so mainly on its own merits; while if it did not sell, the company would have obtained the advertising benefits, would not have spent a large amount of money on the new package, and would not have urged the wholesalers and retailers to stock an item which had not been successful.

Certain executives were not in favor of the adoption and introduction of the new product. They did not believe that a period of depression would be a propitious time for the introduction of a new product that was more expensive than the old one, especially when the only change was in the packaging. They thought that the new 19-ounce package would be too large to be kept in the bathroom. They argued that, if the new product were successful, the chances were that it would decrease the sales of the old product and, since the profit margin on the new product was slightly smaller than that on the old, a decrease in profits would result. They pointed out that the sale of an item to wholesalers and retailers which they in turn might not be able to resell would injure the goodwill which the company was striving to maintain with these outlets. These executives believed that the planned introductory campaign would not be effective enough to get the product into retail outlets; thus any demand obtained by the consumer advertising could not be satisfied, so that the advertising would be wasted, and consumer ill will might result. Finally, they believed that the money the company would spend in preparing, advertising, and distributing the new product could be spent to greater advantage on some other sort of sales promotion.

Should the company have adopted and introduced the new package?

QUESTIONS

1. The Cobb Electrical Appliance Company marketed an electrical curling iron, which was nationally advertised. The article was of high quality and embraced special features that placed it among the best of its kind. It was sold chiefly in drug stores, electrical appliance stores, and the electrical appliance departments of department stores. The retail price was $5. The manufacturer's price was from $2.50 to $3.50, depending on whether the sale was to a jobber or retailer.

The curling iron was boxed in the same manner as cheaper ones, which sold at the same counters at from $2.50 to $4.50. The box, white inside and of mottled dull gray on the outside, with a hinged lid, on the inner side of which was a label in two colors, was as small as possible to hold the curling iron and attachments; but when the box was opened, one saw a compact mass, lacking in effective display. The manufacturer considered redesigning the package and sought the following information: (*a*) How should the curling iron be packed; should it be for display, or for presentation, or for convenience in trade channels? (*b*) How should the box be constructed? (*c*) How much should the box cost?

2. The Package Cereal Company had for many years produced and sold a cereal in 20-ounce packages, which in turn were packed 36 to a wooden container. No change had been made in the general type of container for over 20 years. With the development of hand-to-mouth buying on the part of retailers generally, and with the insistence of chain store organizations that products be packed in containers which did not require repacking for distribution to units of the chain, the company finally shifted its container from a wooden box containing 36 to a fiber-board container holding 12 packages. With a change in the company's management to bring in more aggressive selling methods, the volume of sales had increased, and the product moved from the shelves to retailers somewhat more rapidly.

In view of the high cost of the container for the 12, it was proposed that the company return to the practice of packing 36's but that each fiber-board package of 36's contain 2 wrapped packages of 18's. The cost per dozen of such packaging would be considerably less than for the 12-package container, and it was believed that wholesalers could easily break packages to 18's with a minimum amount of labor, while the 18's would meet the needs of most retail buyers.

What facts should the Package Cereal Company have obtained? How could the company executives have procured the facts which were necessary for the decision?

3. How should a firm go about determining its container needs? How should a firm determine the size of shipping containers and size of consumer packages? What principles should govern the cost of containers and of packaging?

4. Is it economically and socially sound to redesign containers so as to make them more attractive without improving the product, and to charge and secure a higher price for the product?

5. What factors enter into the design of consumer packages?

6. Should radical changes in packages of advertised goods be made in one step or in numerous successive steps spread over a longer period of time?

7. What legal limitations are imposed upon consumer packaging?

8. Should a firm, wherever possible, endeavor to provide a container which may have other uses than that of container?

9. How may a firm test the selling value of the packages which it now uses? How may it test the selling value of proposed packages?

10. The Cutler Collar Company sold stiff and semi-soft collars in boxes of one dozen to retailers. The minimum order accepted from retailers was for one dozen. The retail price of semi-soft collars was 35 cents each or three for $1. The company was considering the possibility of packaging semi-soft collars in packages of three each in order to stimulate sales. The suggested packet was 10¼ inches long, 3 inches wide, and ½ inch thick, with a sliding tray that could be pushed out from the cover with the finger in order to make possible the removal of collars. Retailers would be permitted to buy a

minimum of one packet in any of the various sizes and colors. Should the new package have been adopted?

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IV

DISTRIBUTION POLICIES

Distribution policies are those policies which have to do particularly with the selection and utilization of channels through which goods are to be distributed to consumers. The purpose of such policies is to facilitate distribution, through such channels as exist or as may be created, in such a way as to develop the greatest continued profit and, eventually, the most economical form of distribution. Theoretically, the manufacturer makes his choice among the existing channels of distribution upon the basis of the specific circumstances and environment with which he has to deal.

The choices available in each section of the marketing field depend upon a variety of factors, among which must be emphasized the types, functions, and activities of marketing institutions. The average firm will make its choice among the following policies:

1. Distributing through an agency which stands between manufacturer and wholesaler or other buyers.
2. Selling to wholesalers, who in turn sell to retailers and wholesale consumers.
3. Selling direct to retailers.
4. Selling direct to user or consumer.
5. A combination of two or more of the above. Instances of such divergence from single-channel policies have grown steadily more common; they must be regarded under certain conditions as a transitional phase in the development from less direct to more direct channels.

The factors which play a part in a manufacturer's choice of marketing channels have to do, first of all, with the nature of the product which is to be distributed. In part, this determines whether there will be large numbers of ultimate consumers to be reached through middlemen or few users whose selection can be definitely ascertained and who can be reached directly. The type of product, or, more correctly, the type of demand for the product, determines in many other cases whether the goods are to be sold in large lots, perhaps for the use of a few wholesale consumers, or in small amounts to ultimate consumers all over a country—and perhaps over the entire world. The characteristics of buying habits which have given rise to the classifications of convenience, shopping, or specialty goods will determine in part the size of the marketing task. The number of outlets

necessary to reach consumers will be relatively smaller in the case of so-called specialty products than in the case of convenience goods.

Existing trade organizations constitute the second factor in the distribution policy chosen by a manufacturer. The existence of a smoothly working system of middlemen with influential contacts with buyers tends to force a company to take unusual risks if it departs from the use of customary channels. This consideration is of less importance now than it was before the first World War. The system of middlemen in many lines has not been working with sufficient smoothness or with a degree of efficiency to satisfy the manufacturer. In not a few trades, the opinion of manufacturers that the retailers were not of sufficiently high caliber, that they did not possess merchandising and selling ability, at least in relation to particular products, that they lacked financial stability, has been an incentive toward the adoption of policies which would bring the consumer nearer to the manufacturer.

A. SELECTING THE CHANNELS OF DISTRIBUTION

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

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

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

It is obvious that no one choice gives a clear superiority over others. No firm can afford to have as many persons selling its product to consumers through its own outlets as might be selling it if that product were handled in retail stores. Nevertheless, specialization and better selling by a

manufacturer may more than offset the larger exposure to sale and the indifferent selling effort of retail clerks in a much larger number of stores. The volume of sales secured by a manufacturer can be controlled more directly under distribution policies which eliminate either the wholesaler or the wholesaler and retailer. The manufacturer may employ and may train his salesmen so that they secure dealer cooperation which results in a larger amount of actual selling work to consumers. He may hire a larger number of salesmen to sell to the consumer, either in cooperation with retailers or independently, if he wishes increased sales.

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

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

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

Gross Margin. Any consideration of gross margin as a basis for comparison of channels of distribution is likely to be clearer if we start with a firm which sells to consumers. A manufacturer who controls his own

retail outlets, or has his own canvassers, sells to consumers at consumer prices. If these prices are comparatively as high as the prices quoted in independent retail stores for similar goods, the manufacturer gets what would correspond to the retailer's profit. His gross margin is increased but, obviously, his expenses have been likewise increased.

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

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

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

Costs. A comparative analysis of the costs of carrying out the various policies shows that greatest cost is involved in those systems which go directly to the consumer. The job which must be performed in order to sell directly to the consumer, and to make deliveries to him as he demands, requires contacts with a much larger number of persons and the performance of all the functions which under other plans are divided between the manufacturer and one or more groups of middlemen. The manufacturer who chooses to maintain an extensive sales organization, canvassers, or an extensive retail chain of stores will find that capital requirements are increased; where credit is given, credit risks and credit losses are increased; management difficulties and management costs are increased in all cases to an extent depending upon the basis used for comparison of previous

experience. The manufacturer who plans to distribute to consumers through his own stores must be prepared, if he intends to do the whole job in that way, for large capital expenditures and relative inflexibility of expenses; for the huge problem of selection, training, and management of store personnel; against which he must place his chances of greater net profit and greater stability of net profit because of more intelligent, more aggressive selling, closer contact with consumer demand, and better merchandising.

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

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

The discussion up to this point has been confined primarily to firms which carry out uniform policies. Many firms have adopted combinations of channels. In fact, such combinations are general in certain trades. A particular firm may, therefore, find itself in a position in which it gets the advantages of several methods without suffering corresponding disadvantages. Again, it may find itself securing the disadvantages of several different plans or policies without obtaining corresponding advantages. The manufacturer feels, often rightly, that this latter is the common case. He feels that he is presumably selling through wholesalers but is performing the wholesale functions for them, that the wholesalers are getting paid for distribution work which they are not performing. On the other hand, it is claimed by the wholesaler that the margins are insufficient to do what the manufacturer wants done.

The manufacturer selling directly to retailers may find it necessary to make daily or even more frequent delivery to retailers through branches

which he must establish because retailers do not carry full stocks of his line. When in addition he finds that independent retailers do not sell his product intelligently, or aggressively, he is inclined to take the further step, if his line is sufficiently broad to warrant it, of establishing his own retail outlets.

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

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

31. GARVIN COMPANY—DISTRIBUTION OF WATER COOLERS THROUGH HARDWARE RETAILERS VERSUS DISTRIBUTION THROUGH ICE MANUFACTURERS

The Garvin Company, a manufacturer of iced water coolers for household and office use, distributed approximately 50% of its production through hardware wholesalers, 25% through office and hotel supply firms, 20% through water bottlers who rented or leased the coolers to users, and 5% directly to large users. Suggested retail prices published in the company's catalogues ranged from $10 to $30 according to the unit, the heaviest seller being a unit priced at $15. The company's five salesmen were paid straight salaries plus a small commission on sales. They called on the wholesale trade and did a small amount of missionary work with retailers. The salesmen also carried an allied line sold through different channels which accounted for approximately half of their total sales.

Salaries, commissions, and traveling expenses averaged between 8% and 10% of sales, and total marketing expenses were approximately 20% of sales. The advertising appropriation, averaging about 2% to 2½% of

sales, was used for trade-paper and direct-mail advertising. Although the company was selling between 15,000 and 20,000 units annually, giving net sales of water coolers of between $125,000 and $165,000, plant capacity was available to double this output, and the executives believed the potential market was ample to absorb the increase.

Some executives believed that the company was not securing satisfactory distribution of the water coolers through hardware wholesalers and office and hotel supply firms, because these dealers generally had such wide lines that they could not give adequate attention to a specialty product like water coolers. The executives believed that the average wholesaler did a poor job of getting the retailers to stock and display water coolers, and actually sold the bulk of the coolers purchased directly to office managers or building owners, who took the initiative in approaching the wholesaler. Even retailers who stocked coolers rarely stocked more than one or two, and if these were sold suddenly during hot weather, a week or more would often be required to secure additional coolers from a hardware wholesaler, who might be located in another city. The company sold to all hardware wholesalers who would stock the coolers, although generally one wholesaler in a city handled the bulk of the business and gave the line relatively more attention. The company allowed the hardware wholesalers, according to the quantity purchased, the following discounts from the retail list price:

	Discount
Less than 6 coolers	30%
6 coolers	40%
12 coolers	40–5%
25 coolers	40–7½%
50 coolers	40–10%

The executives of the Garvin Company had watched with considerable interest the changes occurring in the manufacture and distribution of ice in recent years. With the advent of household electrical refrigeration, many of the ice manufacturers realized the growing weakness of their position and took active steps to preserve their markets. A considerable portion of the major companies engaged in the manufacture or harvesting of ice had undertaken the distribution of household refrigerators, usually at retail through the establishment of showrooms. The executives of the Garvin Company were considering the advisability of shifting the distribution of iced water coolers from hardware wholesalers to ice manufacturers.

The company believed that the ice manufacturers would have a much more vital interest in the sale of iced water coolers than did the hardware wholesalers. The company expected, if the plan was adopted, to have one or two ice manufacturers in each city stock a reasonable number of coolers. Partly through the missionary efforts of the ice manufacturers,

coolers were to be displayed and sold in retail hardware and office supply stores. These stores, however, would not have to stock the coolers, because they could be delivered directly by the ice manufacturer who would be interested, of course, in securing the ice business either for his own retail routes or for those of a customer. Retail ice dealers would also sell the water coolers at the same margins as retail stores.

One of the executives of the company objected to the distribution of water coolers through the ice manufacturers because of their poor record as merchandisers in the past and because they were already in the retail business selling refrigerators in competition with the hardware stores. In answering this objection, one executive stated that he preferred to distribute through poor merchandisers who were willing to learn and who were vitally interested in the product than through good merchandisers to whom the product was of relatively little interest or importance.

Should the Garvin Company have distributed iced water coolers through ice manufacturers?

32. COLBURN COMPANY (A)—CHOICE OF DISTRIBUTION CHANNELS

The Colburn Company manufactured an extensive line of valves, fittings, and tools which were distributed through plumbing, mill supply, and oil well supply houses and, in some areas, through the company's branches. Salesmen traveling from the five district offices sold the full line to jobbers and large users. Special divisions sold tools, corrosion-resisting pipe, steam valves, and other engineering products. In 1929, after a three-year period of development, the company perfected a steam-atomizing oil burner for use in domestic heating plants of all types. Up to that time no manufacturer had successfully employed steam to atomize the oil, for providing a draft for domestic oil burners. An analysis made by one of the executives indicated that the potential market for oil burners ran into the millions and that the market had scarcely been touched. The Colburn oil burner, however, could be operated successfully only in those territories where soft water was available.

A difficult problem was encountered when a study was made of the distributing systems used and the problems encountered by competing oil burner manufacturers in order to secure information which might prove valuable concerning the type of distribution to be used by the Colburn Company. Practically all oil burner manufacturers were marketing their products either through exclusive agencies or through branch organizations, not because of a desire on the part of the manufacturers but because this type of distribution was forced upon them largely by the problems of

installation and service. Three major factors were generally considered necessary in an agency: sufficient capital, merchandising ability, and a knowledge of heating engineering sufficient to insure proper installation. The third factor had been the most difficult to secure, since dealers found that they must have experienced electrical men as well as skilled plumbers or heating mechanics to install mechanical draft oil burners correctly and to service them. Selling agents frankly admitted that servicing constituted one of their most troublesome problems, especially in the case of electrical oil burners where the intricate machinery, moving parts, and motors added to the ordinary troubles due to poor combustion and clogging of oil feed lines. Since the Colburn oil burner had no motor, few moving parts, and no electrical complications, the service problem was expected to be confined to combustion and oil feed, as in other oil burners, with the addition of water feed, which was absent in other oil burners. Although the company was certain to have a definite service problem, it was expected to be distinctly simpler than that of the other manufacturers. The investigation showed that oil burner manufacturers generally allowed dealers a gross margin of about 40% of selling price, and dealers usually paid salesmen a 10% or slightly lower commission on sales. It appeared that successful dealers quite generally sold around 100 burners a year and usually maintained during the peak season a personnel consisting of two salesmen, two installation men, and one service man.

Among the several plans of distribution for the new oil burner, direct selling was studied because of the success attained with it by several competing manufacturers. The execution of such a plan would involve the establishment of branches in the major markets and the recruiting and training of salesmen, installation men, and repair men. Because of the large overhead expense involved, the difficulty of execution, and the danger of giving offense to plumbers, steam fitters, and possibly jobbers who constituted the regular trade for the valve and fitting lines, the executives hesitated to adopt this type of distribution.

The company also seriously considered marketing the oil burner through the regular jobbers who were handling its valves, fittings, and tools since these jobbers were already in close contact with the plumbing and heating trades. Because of the dual nature of the installation and servicing on the electrical oil burners, manufacturers had not been able to market them successfully through the plumbing and heating trade. Consequently, these trades were left almost entirely out of the oil burner field and were beginning to resent the new factor of competition. Because of the new mechanical features and the simplicity of the Colburn oil burner, it could be installed and serviced by any competent plumber, and it would seem logical to believe that it would prove a welcome addition to his

present lines. Certain facts, however, argued against the adoption of such a plan. Since oil burners were usually sold to individual home owners through personal contacts, the jobber would have to organize an outside salesforce to call on consumers in order to handle such a product. Several jobbers who were approached about the subject voiced objections to taking on any product which involved selling to individual home owners since such activity was clearly outside the "legitimate" trade of a jobbing house. To handle the installation and servicing, the jobbers would have to organize their own service crews or contract with plumbers or heating firms to do the work. In one case they would be in competition with the trade, and in the other they would run the risk of offending some customers by awarding work to others.

The company examined the possibility of selling the oil burners through plumbers and heating contractors who apparently would be able to install and service the apparatus satisfactorily. Inquiry among master plumbers and heating contractors revealed that the inroads made by the oil burner manufacturers into the heating installation business were felt and resented and that any oil burner which could be installed and serviced without the complication of an electrical mechanism would be welcomed by the trade. The company doubted, however, that the plumbing and heating contractors were capable of conducting satisfactory selling activity which involved solicitation and advertising. One executive expressed the opinion that the contractors were essentially mechanics who, when a customer asked for a product, were willing to provide it but who rarely sold in the manner believed necessary for oil burners.

The company finally endeavored to appraise a proposal to use selected agencies, since practically all manufacturers were using either the agency or the branch house system, and some of those using the latter method were beginning to turn to selected agencies. The agency plan would involve the selection in each city where the oil burner was to be marketed of from one to three agents, preferably with adequate capital, experience in the heating business, and freedom to give their full time and energy to marketing the oil burner. The oil burner would be sold to the agent, who would accept full responsibility for proper installation and service, although he would be free to develop his own installation and servicing crews or to depend upon independent plumbing and heating contractors.

Because of financial difficulties the Colburn Company decided to postpone introduction of the product. If the company decided to introduce the product in 1936, would the choices of channels reaching the market have been the same then as in 1930? What choice should have been made in 1936?

33. LOCKE AND COMPANY—PROBLEMS OF A MANUFACTURERS' AGENT

Mr. Locke, a graduate of an engineering college, had been employed by a large electrical manufacturing company over a period of 18 years, of which the major portion was spent in sales work. During that time he had made many friends among buyers of electrical merchandise, and in 1920 decided to establish himself as a manufacturers' agent. Although Mr. Locke's training had been largely in electrical engineering, he also possessed a thorough knowledge of mechanical design and application, and made arrangements with manufacturers of both electrical and mechanical lines to represent them on the Pacific Coast. Despite the great number of his personal friends, he believed that the introduction of lines of mechanical and electrical apparatus produced by small and comparatively little known manufacturers would require a period of several years in which the early returns would not be commensurate with the cost of selling. In order to meet this situation, two manufacturers agreed, after much persuasion, to pay him a retainer fee of $200 a month, which enabled the successful start of the agency.

While the customary commission given to agents of electrical merchandise varied between 10% and 15%, the major portion of Mr. Locke's sales yielded a return of 10%. All orders were sent to the manufacturers, who extended credit to customers and billed them direct. Mr. Locke was expected to use care in the selection of desirable customers; and although the manufacturers were technically responsible for credit losses 10 days after the acceptance of the order, in actual practice such losses were shared.

About 1925, sales of mechanical apparatus were disappointingly slow, and Mr. Locke decided to concentrate upon electrical lines. He had attributed his lack of success in the former to the dearth of personal friends among purchasers of mechanical equipment, as compared with those in the electrical field. By 1930 Mr. Locke was carrying three major lines and two minor lines, both in order to guard against the loss of his entire business through a disagreement with the manufacturer and in order to spread his sales expense over more than one product.

During the 15 years in which he had been an agent, Mr. Locke had had various disputes with companies whom he represented, and in several cases had lost business which it had taken him several years to build up. The general unwillingness of manufacturers to recognize the expense and uncertainty involved in taking on a line of equipment led many to demand excessive sales during the introductory years and to begrudge the commission once a satisfactory volume had been attained. Mr. Locke believed that, in the absence of a more equitable arrangement providing larger

commissions during the first year or so, companies should be content to allow a continuation of the original discount. Although some of these disputes had been settled amicably, others had resulted in the termination of the agency.

More serious situations occasionally arose in which manufacturers invaded the Pacific Coast territory in a manner which Mr. Locke considered illegal under the terms of his contract. In one instance he had been given exclusive selling rights for a special relay which was incorporated into sets of power house substation equipment. Since this relay was outstanding in design and performance, sales inquiries often furnished leads to projected substation installations upon which Mr. Locke was able to bid for a number of units. He stated that while the sale of the relay itself was profitable, the ability to secure a business on other lines was often more important, and that when the manufacturer began to sell direct to the producers of substation equipment in his territory, his sales suffered a marked decline. In reply to his protest the terms of the original contract were cited, in which the company was designated as the final arbitrator in any dispute. After this experience Mr. Locke was careful to insert in all contracts a clause providing for three-party arbitration, although he stated that manufacturers were unwilling to sign any contract, and that during his experience as an agent he had encountered increasing difficulty.

In another case, an eastern manufacturer who had signed a 10-year contract for the sale of an electrical unit which required a considerable amount of technical knowledge sold out to another company after three years without giving any warning to Mr. Locke. Although the latter believed the contract to be legally sound, he feared that it might require a lengthy and expensive legal battle to secure a judgment for damages.

In addition to problems of this sort which he had met in relations with manufacturers, Mr. Locke also was faced with selling problems of a more general nature. The electrical equipment industry, although containing a number of small companies, was dominated by three outstanding producers. These companies utilized large salesforces and also were closely affiliated with jobbing houses throughout the United States. Competition in the sale of electrical apparatus was therefore keen, and Mr. Locke stated that without the personal contact with his customers which he had built up over a period of years it would have been difficult for him to have entered the market successfully.

In addition to the element of personal relations he also believed that he was able to give technical service to customers somewhat superior to that which was possible from the salesmen of the large electrical manufacturers. Although the larger organizations had a force of capable technical men, it was often difficult for a medium-size consumer to secure service

quickly. Furthermore, the products of a large electrical manufacturer, although of good quality, were often not quite equal to those of smaller manufacturing companies who produced more specialized lines. Thus Mr. Locke believed that as an agent he was able to present his customers with a superior product, a more intimate technical service, and a closer personal relation than the salesmen of the larger companies. He also considered that without these three things, it was impossible for a manufacturers' agent to maintain a sound position in the business structure.

In 1936 the imminent possibility of losing two of his larger accounts caused Mr. Locke to face squarely the question as to whether or not he should continue to operate as a manufacturers' agent. What should be his decision? What is the manufacturer's interest in assigning direct salesmen to the territory or in establishing branch offices in territories where manufacturers' agents have previously had exclusive franchises?

QUESTIONS

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

2. Should a large steel company distribute its structural steel shapes through independent fabricators or should it acquire established subsidiary fabricators at strategic points to take care of fabrication for building bridges and other types of public and private constructions?

3. Does the Robinson-Patman Act, relating to price discrimination and other matters affecting the relationship of manufacturers and buyers, affect the choice of channels of distribution by manufacturers?

4. Laundry nets are of simple construction with a decidedly open mesh. They are usually woven in tubular form and then cut and hemmed to the proper size. Although they are manufactured in seven or eight sizes, the large majority of the demand is for the 24-inch by 36-inch size. Laundry nets are used by laundries as a means of keeping separate each customer's wash, thus avoiding the necessity of marking articles with indelible ink. There are only four leading manufacturers of laundry nets and five or six smaller producers. Should laundry nets be distributed direct to laundries or through laundry supply houses?

5. The Robertson Company of New York City manufactured wood panels, partitions, doors, and other wood products which were used as interior woodwork in the

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

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

What method of distribution should the company use?

6. Should a new enterprise ordinarily follow the customary channels of distribution in distributing its products? Under what conditions may it be wise for a company to depart from traditional channels of distribution?

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

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

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

10. Under what conditions should a manufacturer purchase fabricating enterprises in order to secure outlets for his semimanufactured product? Were the Anaconda Copper Company and the Kennecott Copper Company justified from the marketing standpoint in securing the control of the American Brass Company and the Chase Brass Company, respectively?

11. In what respects do the problems in distribution channels for farmers' cooperative marketing associations differ from those encountered by the private enterprise?

12. The Brilow Company manufactured Brilow, a texture wall paint, and distributed it through exclusive agencies direct to large paint dealers in cities of 25,000 or more east of the Mississippi River and north of the Ohio River. The company employed approximately 15 salesmen, who spent about two-thirds of their time demonstrating the product to dealers, to their salesmen, and to master painters and their assistants.

In the fall of 1936 the Brilow Company perfected a new product which competed with kalsomine. It was more expensive to purchase but cheaper to apply and much more durable than the best kalsomines on the market. Kalsomine was carried in all retail stores having ready-mix paint departments and was sold by manufacturers both to paint jobbers and direct to retailers.

What method of distribution would you have recommended for this new product?

13. How does rapidity of style change in a product affect the choice of distribution channels? Does rapid style change necessarily call for direct-to-retailer or direct-to-consumer distribution?

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

B. SELLING THROUGH WHOLESALE MIDDLEMEN

The manufacturer may decide to shift the performance of the marketing function to an agency which stands between him and the wholesaler. The type of the agency, whether broker, factor, selling house, or manufacturer's agent, will depend in part upon the function to be performed and in part upon the practice of the trade. Terms are so loosely used in many trades that we cannot be sure that a broker is not acting as the representative of a particular manufacturer and carrying on selling effort as though he were a manufacturer's agent, nor can we be sure that the selling house is more than an independent selling department of a manufacturing organization. However, if we assume that the manufacturer's agents or distributors or selling houses are independent, then the use of the channel represents the shifting of the marketing burden to territorial agencies which carry on the selling work and assume the credit risk in varying degrees; in some cases they do merchandising and styling, and in other cases they perform introductory work under arrangements for special compensation. In the past these agencies normally sold to the wholesaler, but in more recent times they have followed a course charted by necessity and are selling also to larger retailers—In fact, they are adopting policies and selling methods which make them differ little in outward aspects from the sales departments of the manufacturers whom they represent or, in other cases, from wholesalers, except in the range of products which they handle.

Commission houses which fall into this classification are common in the cotton, wool, and silk goods trades and are found to a certain extent in other trades. Manufacturers' agents are common in the grocery and hardware trades. Brokers are also important in the distribution of sugar, canned goods, and certain other lines. Commission houses in the textile trade generally market the whole output of each mill represented or the whole output of one of the mill's products; they sometimes perform important financial functions; they may furnish some design and style service. A manufacturers' agent, on the other hand, will more usually sell for his own clients in either a restricted or a fairly extensive territory. A manufacturer may, therefore, use two or more agents in different parts of the country. There are exceptions to this, ordinarily in the hardware trade. In the grocery trade, as well as in some other trades, these manufacturers' agents handle branded and advertised goods. Brokers differ somewhat, the distinguishing feature being limitation of the field of activity. A broker of the original type represents no particular manufacturer but places orders from purchasers with any manufacturer or sales for manufacturers with purchasers with whom he may be in contact. The

broker does not act as a principal; the buying and selling transactions are completed directly between the seller and the buyer. But there are so many variations that those who call themselves brokers may on occasion be similar to manufacturers' agents, while those who call themselves agents may be almost independent merchants.

Sale to the wholesaler, who in turn sells to the retailer, the second choice open to the manufacturer, is frequently termed the traditional channel of distribution, but examination of the present marketing structure shows clearly that the wholesale structure has been much changed internally and externally. Instead of a homogeneous group of independent wholesalers catering to the markets of various sizes, general wholesalers have declined relatively, and specialty wholesalers, that is, wholesalers who have narrowed their lines and who operate on a basis which differs to a considerable extent from the old line of wholesalers, have appeared. Independent single wholesale establishments have been supplemented by chains of wholesale establishments under one management. Wholesalers, like retailers, have varied the amount of service which they offer, so that we speak of service wholesalers and cash-and-carry wholesalers. Some wholesalers cater especially to large customers, such as hotels and institutions. Wholesalers on the borderline between wholesaling and retailing as the primary function have arisen to complicate an already confused situation. Others own and operate chains of retail stores and in addition sell to independents. Some wholesalers of consumers' goods operate under a contractual arrangement with independent retailers who constitute a select and independent group entitled to special service and special prices. Lastly, cooperative wholesalers have assumed prominence.

From the viewpoint of the manufacturer, the sales organization and sales effort required to sell to wholesalers are very much smaller in a given territory than those required for selling direct to retailers. Frequently the wholesaler is the strongest financial link in a chain of distributors and is customarily able to pay for his purchases in short-credit periods, while at the same time extending more liberal terms to retailers. Thus in one direction he may finance the manufacturer and in the other he must assist the retailer financially. A typical wholesaler handles an extensive line of goods, but this volume of business depends upon size and territorial coverage, whether local, sectional, or national. On the other hand, many wholesalers have not been able to perform their essential functions of purchasing in large lots and selling and delivering needed goods to retailers either satisfactorily to manufacturers or at a satisfactory profit to themselves. Manufacturers have found it necessary to supplement the selling effort of wholesalers and to assist in the functions of financing and storing. Manufacturers' demands have sometimes been

unreasonable and inconsistent with wholesalers' interests; wholesalers have operated without apparently being cognizant of changes in external conditions. The net result of the various forces is a confused, almost chaotic condition, which often makes the sales manager's choice a temporary one based upon expediency.

34. DAMON DRUG COMPANY—PROPOSAL TO ESTABLISH SALES BRANCHES

The Damon Drug Company had been successful in selling through wholesalers; its products were established nationally, and sales had shown annual increases. The action of competitors, who had had distribution policies similar to that of the Damon Drug Company but who had changed to direct selling, caused the executives to consider whether or not this action was indicative of a trend.

The Damon Drug Company manufactured 8,000 pharmaceutical and biological products. Its total sales volume was $7,000,000, 75% of which represented orders for 500 products. The natural division of the output was into a general line and a special line which the company had exclusive rights to manufacture under registered names. The majority of sales volume was in the former, but the latter was the more profitable in proportion to total sales. The general line of drugs was as complete as those of competitors. The production of the company was somewhat seasonal. It was impossible, moreover, to forecast the demand for serums and antitoxins because their use was controlled mainly by epidemics.

Products of the Damon Drug Company were distributed by 250 wholesalers located throughout the United States. No sales were made to cooperative buying clubs. A regular contract and a preferential contract were granted to wholesalers. The regular contract afforded from 18% to 20%, the preferential contract from 22% to 24%, profit to the wholesalers. In consideration of this extra profit, the wholesalers agreed to fill all open orders, namely, those which did not specify the maker, with the Damon Drug Company's products. A substantial portion of wholesalers' orders was of this type. No exclusive agencies were granted to wholesalers. The wholesalers maintained salesforces which solicited orders from drug retailers, doctors, and dentists. The average unit sale amounted to $10. Visits of wholesalers' salesmen varied from once a week in rural sections to four times a week in the cities. Each wholesaler maintained stock sufficient to meet requirements of his district. The stock turnover of wholesalers ranged from two to six times a year. The Damon Drug Company maintained six branches, each in the charge of a divisional manager. These branches carried stocks in order to insure

expeditious delivery to wholesalers in emergency. Branch stocks, together with the stock at the plant, served the entire United States.

The company had a salesforce of 200, with well-defined territories, under the divisional managers, who called on doctors and retailers in rural communities and in small cities; in the large cities a salesforce of 20 specialists was maintained to acquaint doctors with the company's products. These salesmen did not solicit orders. They were instructed to place emphasis on the specialty lines and to influence doctors to specify the company's drugs on their prescriptions. The salesmen also called upon wholesalers to make sure that they carried adequate stock. All orders from drug retailers received by the Damon Drug Company's salesmen were turned over to the distributor selected by the retailer. Orders from doctors who maintained drug supplies to fill prescriptions were given to a retail druggist in the district designated by the doctor. Thirty per cent of the company's products were sold by the 200 salesmen, who covered their territories once a month. The average annual salary and expense of each salesman and specialist was approximately $4,000.

The major competitor of the company had changed from selling through wholesalers to selling directly to retailers; it had distributed under this system for more than 10 years. Retention of the policy signified success. The change was attributed to the fact that this company had an unusually profitable specialty line. Another company pursued both methods of distribution. The executives of the Damon Drug Company were agreed that the two types of distribution could not be combined advantageously. A change to the policy of direct selling, it was estimated, required from 20 to 30 sales branches with complete stocks at each and a salesforce of 300 to 400. Training new salesmen was a slow process. Although stock was maintained at the factory, the suggested plan entailed an enlarged quantity of finished products. Shipping facilities at the plant were inadequate for direct distribution. It would be necessary, furthermore, to develop an extensive credit department. Under the existing system, only 250 names appeared on the books of the company, and within 10 days after the monthly tender of invoices, 96½% of the total amount was paid. If the policy of direct selling were followed, there would be a minimum of 50,000 active accounts. Executives of the company saw no justification for the adoption of direct selling as long as sales continued to increase. They did not wish to develop a larger organization until a sales decline made it necessary. It was their belief, furthermore, that direct selling was more expensive per dollar of sales than the policy which the company always had followed.

Should the Damon Drug Company have sold direct to retailers?

35. MARISTON COMPANY—PROBLEM IN COMPANY-JOBBER RELATIONSHIPS ARISING FROM CONFLICT IN PRODUCT LINE

The Mariston Company sold both a line of porcelain enamels and enamel processing equipment. Its customers consisted primarily of stove, refrigerator, and washing machine manufacturers in the finish of whose products enamels were used, and about 25 jobbers who performed processing work for producers too small to maintain their own enameling plants. Approximately 80% of the sales volume was obtained through direct sales to manufacturers, and the balance through jobbers. Relationships between the company and its jobbers often became strained because of the conflict between the two lines of Mariston products. As soon as a jobber's customer began using sufficient enamel to warrant installation of his own enameling plant, the Mariston Company made every effort to sell him the necessary equipment. Jobbers who lost customers in this manner were antagonized, and some of them subsequently refused to use Mariston enamels. In January, 1939, the same situation developed in connection with one of the larger jobbers, and the sales manager was wondering how he might solve the problem diplomatically so as to retain the jobber as a customer.

Much of the Mariston sales volume depended upon the success of personal contacts and company goodwill. Leads for enamel sales were developed, to a large extent, either by one of the company's three technically trained salesmen, who traveled throughout the United States, or by the resident service man in one of the seven territories into which the country was divided. After a salesman had made a contact with a potential customer, a service man was called in to demonstrate and test Mariston enamels under actual processing conditions. A period of a week or 10 days was often taken for this work. The local man was frequently aided by one of the five general service men traveling out of the home office.

Service men had to be extremely tactful because they really functioned as salesmen, in that the impression which they created on a prospective customer might either make or lose a sale in spite of the recognized quality of the company's products. After a service man reported that tests had proved satisfactory, a Mariston salesman visited the prospect and attempted to close the sale. If a salesman was not available, the service man himself closed the sale; and because he had had an opportunity to become acquainted with the prospect, in many cases he was in a better position than the salesman to do this. Once a customer was satisfied with Mariston enamels, he ordered by mail, and further solicitation was usually unnecessary. Jobbers were called upon by company salesmen

from time to time, but, when an original sale had been made, orders from these sources as a rule also came without solicitation.

The Mariston Company's annual advertising appropriation varied from 1% to 1½% of sales volume, which corresponded closely with competitors' expenditures. Practically no consumer advertising had been employed; in fact, in the history of the company the only consumer advertising used had been four full-page advertisements in a national publication, a major purpose of which was to obtain reprints for mailing to customers. Previous to 1939, Mariston advertising had stressed institutional themes in order to pave the way for salesmen and service men. Beginning that year the company decided that wherever possible its future advertising should employ direct-action appeals in an attempt to effect immediate sales, rather than solely to provide an introduction for Mariston representatives.

The Company's 1939 advertising program consisted of six main promotional elements: (1) a monthly edition of the company trade publication, mailed to 3,000 customers and prospects;[1] (2) the bimonthly publication of *The Mariston Digest*, a house organ; (3) three portfolios for salesmen, containing illustrations of manufacturing processes and other features designed to aid the men in making effective sales presentations; (4) several novelties, including leather cigarette cases, cigarette lighters, automatic lead pencils, and enameled ash trays, all of which were to be sent to customers and prospects; (5) monthly circular letters to be mailed to a selected list of 750 large customers and prospects, and to be signed personally by the president of the company; and (6) publicity stories and press releases relating to new uses for enamel, activities of the company, exhibits, meetings, and items of general interest to the trade.

In January, 1939, one of the Mariston salesmen reported that he believed sales of Nelson-Blackton, Inc., a company manufacturing cooking and heating appliances, were sufficiently large to warrant installation of its own enamel processing plant at a cost of approximately $50,000.[2] Until this time, Nelson-Blackton had been having its enamel work performed by the Westerley Company, a large enamel jobber and a Mariston customer.

The sales manager was again faced with the situation which had occurred on several previous occasions. If Nelson-Blackton was actually in the market for processing equipment, the sales manager was anxious to have his own company make the sale. In order to close a $50,000 transaction, considerable selling effort would first be necessary to combat the

[1] The company sold advertising space in this publication to concerns selling associated products and supplies. Although no competing products were advertised, Mariston executives stated that they might agree to sell space if competitors requested it.

[2] Costs of processing equipment normally ranged from $30,000 to $150,000.

activities of several large competing manufacturers who would also be attempting to make the sale. Aggressive selling effort and ultimate sale would bring about the opposition of the Westerley Company, however, because that company would lose a part of its processing business even though it might possibly continue to sell enamels to Nelson-Blackton. If the jobber knew that the Mariston Company had been instrumental in causing this loss in volume, he would almost certainly refuse to use Mariston enamels in future processing work.

The sales manager was in doubt as to the policy he should follow, although he realized that it would be necessary to reach a decision immediately. If Nelson-Blackton was in a position to purchase processing equipment, he knew that a competitor would make the sale if his company did not act. On this basis there appeared to be considerable justification for attempting to make the sale. After examining sales records, the sales manager found that Mariston enamel sales to the Westerley Company had approximated $35,000 annually. He estimated that about $5,000 of this amount was used in processing work for Nelson-Blackton, but he had no idea how much the Westerley Company received for the processing work itself. If the equipment sale was made and the Westerley Company refused to sell Mariston enamels in the future, the Mariston sales manager believed that his company could probably count on selling $5,000 in enamel to Nelson-Blackton each year. In other words, the company would run the risk of losing the balance of sales to the Westerley Company, amounting to approximately $30,000 annually.

An ideal solution to the entire problem would provide for the maintenance of a friendly relationship with the Westerley Company as well as allow for the sale of equipment to Nelson-Blackton. In similar situations in the past the sales manager had been somewhat successful in convincing jobbers that the equipment would have been sold by a competitor even though the Mariston Company had refused to act. Moreover, he had pointed out that the company attempted to compensate for this loss by developing new uses for enamel and by finding new customers for processing work. In several instances the sales manager had been successful in maintaining a jobber's friendship and continued business, but on a few occasions a marked breach had resulted. Since problems of this type arose quite frequently, the sales manager was anxious to establish a definite policy which could be followed in the future and which would provide a diplomatic solution without requiring much time or attention.

Should the company have attempted to sell processing equipment to Nelson-Blackton, Inc.? What policy should the company follow in dealing with similar situations in the future?

36. COLBURN COMPANY (B)—SELECTED DISTRIBUTORS FOR PART OF AN INDUSTRIAL LINE

The Colburn Company, a large manufacturer of valves, fittings, and tools, sold approximately 80% of its production to mill, oil well, and plumbing supply jobbers, and 20% directly to users. The company's complete line, including over 23,000 items, was offered to jobbers, who were selected only in so far as "legitimacy" and credit were concerned. The company maintained 10 branches, 7 of which were on the Pacific Coast. These branches operated as jobbers, approximately 50% of their sales being of products other than Colburn. Salesmen traveling from the five division headquarters sold the company's full line to jobbers and large industrial concerns. In the larger cities one or two preferred jobbers who carried a considerable portion of the company's lines were granted trade discounts for their cooperation, while all other jobbers in the territories were sold at net sheet prices only.

Three separate sales divisions maintained for the promotion of special products were under the control of sales managers responsible to the vice president in charge of sales. The tool sales division worked with industrial concerns, railroads, and jobbers, attempting to promote the sale of Colburn tools. The pipe sales division worked with the jobbers and large users on the introduction of a relatively new type of cast iron screwed pipe. The engineering products division handled the sale of steel valves, fittings, and other engineering products which were generally not carried by jobbers but sold directly by the company for use on large construction jobs.

Although valves constituted approximately 25% of the company's total sales in tonnage and valve sales generally equaled fitting sales in value, some executives were not satisfied with the company's volume of sales of valves and expressed the opinion that the trouble lay not in price, reputation, or service but in the method of distribution used, which did not give sufficient incentive or protection to jobbers. They contended that differences existed in the buying motives and buying habits for valves, in contrast to those for fittings, and that the two products could not be distributed efficiently through the same channels under one policy with the maximum results.

Fittings had a low unit price, carried low profit margins, and, having lost their distinctiveness through becoming more or less standardized, were subject to a high degree of price competition. Consequently, the existing system of distribution seemed sound for fittings because of the numerous outlets and the greater exposure to sales. However, valves were a more specialized product, had a larger unit cost, a higher profit margin, and were

not subject to the same degree of price cutting as fittings. Because of the rigid specifications and strong preferences valves required a higher type of personal selling. After performing exhaustive tests on various pipe lines to determine which valves would best stand the strain, some large companies standardized on one make of valve; and as long as it continued to give the required service, they were reluctant to adopt a valve of different make. Comparison of the Colburn valve with competitive valves showed marked technical differences, especially in the thickness of the hexes, the weight, construction of the bonnet, and various renewable features. The Colburn valve was constructed according to specifications which the company believed gave the maximum service under the recommended pressure.

Some executives believed that with a product of this nature the company's engineering knowledge should be transmitted to interested jobbers to enable their salesmen to sell the valves more effectively. Consequently, they proposed that the company try in a limited territory a new system of distribution for valves. The company was to employ exclusive or selected distributors for valves depending upon the size and nature of the territory. In small cities with only four or five jobbers one distributor would be used, while in large centers two or three would be necessary. In order to secure active cooperation from jobbers, they were to be given exclusive agencies for the Colburn valves, were to carry no other valves, and were to receive trade discounts in proportion to their cooperation and general value to the company. The executives also recommended the creation of a valve division under a sales manager responsible to the vice president in charge of sales to develop the distribution and sales of Colburn valves. A trained sales promotion man was to be sent into the territory of the jobbers accepting the Colburn valve agency to train their salesmen and to lend them aid, especially during the difficult introductory period.

One of the executives making the recommendation had spent considerable time in the field doing promotional work for valves. He stated that in many instances he had turned large orders for valves over to jobbers, hoping to prove that there existed an active demand for Colburn valves or at least that it could be created. The orders were accepted, placed with the Colburn Company, and there the matter ended. All the jobbers admitted that the Colburn Company offered high quality, fair prices, and good service but advanced the counterarguments that they had handled another valve for years, were exclusive distributors for it, had built up a good business, and did not like the Colburn Company's policy of selling to so many jobbers. When repeat sales resulted from the promotional work, either the valves were not in stock and, if urgently needed, substitutes were accepted or the valves were ordered and delivered some days later. To

distribute valves effectively, it was essential that the jobbers carry a full line of the numerous types and sizes manufactured by the company.

Other executives thought this experience was not typical since it was acquired largely in an area near the plants of three of the chief competitors of the company. Although several competing manufacturers of valves distributed through selected jobbers, none of these manufactured as wide a line of products as the Colburn Company. The opinion was expressed that one of the strongest selling points for the company was its full line and that most jobbers who carried Colburn fittings also carried Colburn valves to some extent. As individual jobbers usually served only a part of the valve and fittings market, it was pointed out that difficulty would be met in securing one or two jobbers that could adequately cover a market.

The company recognized that many difficulties would be encountered if the proposal were adopted. Jobbers handling the company's lines of fittings and tools might seriously object to the company's exclusive agency policy for valves after a demand had been created in the territory, and the friction arising might cause sales volume to suffer. Although the training and maintenance of a highly specialized sales promotion force would be costly, there was some reason to believe that an effectively managed valve division would show results which would more than warrant the expense, considering the high profit margin on valves and the fact that the company was not receiving what was considered by some executives to be its proportionate share of the valve business. The use of two salesmen in identical territories, who called to some extent upon the same customers, might cause some friction but was not expected to prove a serious problem if properly handled. The danger that the selective distribution system might limit the company's volume of sales was not considered serious by some, since the company was not receiving an entirely satisfactory volume of valve sales under the existing system of intensive distribution.

Should the company have adopted the proposal?

37. CRONIN IRON WORKS—POSITION OF LOCAL FABRICATOR AND ERECTOR

The Cronin Iron Works had for many years erected steel structures for buildings and bridges in Greater New York, the plain materials being fabricated in the company's plant in New Jersey. Practically all work was done on a contract basis, usually after the submission of competitive bids. The company secured information about contemplated construction work through newspaper reports, the Dodge Service, architects, and engineers. After securing permission to bid on a desired job, the officers of the company prepared, on the basis of the plans and specifications of the proposed

structure, an estimate of the price at which the company would be willing to undertake the work. Contracts were almost always let to the lowest bidder if adequate proof of ability to fulfill them could be furnished, since the quality of the work was considered of little importance beyond the point at which the architects and city inspectors approved it.

The competition met by the Cronin Iron Works arose chiefly from three sources: other independent fabricators and erectors, brokers, and fabrication companies owned or controlled by the steel mills. The brokers did not fabricate the steel in any way but bought it from the steel mills, fabricated ready to put into the structure, and erected it. The steel mills had facilities to fabricate about 25% to 30% of the structural steel ordinarily needed in the United States, while the balance had to be prepared in the local fabricating works. Since each broker was usually rather closely tied up with a single steel mill, that steel mill was almost certain to supply the steel for any job which the broker secured. Consequently, it was to the advantage of the steel companies, especially during a depression period, to have the brokers with whom they were closely connected secure the major jobs, since they were thereby assured of being called upon to supply the steel and also to use their plant capacity for fabrication.

There was some feeling that the steel manufacturers quoted relatively more favorable prices to brokers on fabricated steel than they did to local fabricators on plain steel without the fabrication. Consequently, the local fabricator and erector found it very difficult at times to compete successfully with the brokers, especially for the larger jobs. The relative advantages or disadvantages of local fabrication over fabrication at more distant steel works were not considerable. In the past, before transportation was so highly developed, it was distinctly an advantage to prepare the detailed materials near the place of erection, but this advantage had largely disappeared. Apparently the actual costs of fabrication were about the same in an efficiently managed local fabrication works as in a fabrication plant connected with a steel mill.

The Cronin Iron Works had always operated strictly independently, buying its plain material from the various steel producers. In view of the changes taking place in the distribution of structural steel, it was becoming questionable whether the company could profitably continue under its existing policies. With the great fluctuations in the demand for structural steel, all the capacity available was hardly able to handle the peak demands, but during periods of depression the independent local fabricators were finding it increasingly difficult to secure a satisfactory volume of work at profitable figures. In order to operate satisfactorily, it was essential that the company have a reasonable amount of work at all times, so that a

skeleton force might be maintained and some of the larger jobs might be obtained in order to supply tonnage.

What action, if any, should the Cronin company have taken to meet the competition of integrated companies?

38. ADAMS COMPANY—SELLING TO NEWER TYPES OF WHOLESALERS

(*a*) The Adams Company, manufacturers, packers, and distributors of a line of food specialties which had been widely sold and advertised in New York City, began a program of expansion. This program included the purchase of a Chicago plant, complete distribution through wholesalers east of the Rockies, and national advertising of the leading products. In the middle-western territory there were numerous "cash-and-carry" wholesalers. For example, in the Toledo area the Mixter Company operated 24 such wholesale stores which sold a limited line of fast-moving nationally advertised goods plus some bulky mark-up articles. All sales were for cash, no delivery service was given, and, except for some lines of canned goods, no broken packages were sold; total expenses averaged 7% as compared with 10.6% for service wholesalers. The Mixter Company had long been a service wholesaler and continued this business in addition to the newer form. Of the total sales of $6,000,000, half were cash-and-carry.

In the Sioux City area the Lowe Grocery Company operated as both a service and a cash-and-carry wholesaler with seven stations. In Chicago the Earlton Company had sold for 20 years on a cash-and-carry plan. It handled about 1,700 items, including private brands, but did not carry staples such as sugar and potatoes. It had no minimum order requirement. Every two weeks 7,500 price circulars were sent to prospective customers. Other nonservice grocers in the same city handled 10 or 15 specials, and all sold at somewhat lower prices than the old-line wholesalers. A comparison of prices on a group of nationally advertised articles showed a total of $44.24 for the Earlton Company and $49.20 for the service wholesaler after deducting the 2% cash discount.

In entering this new territory the sales manager of the Adams Company wished to know whether he should place the names of any or all of these companies on the call lists of the salesmen and accept orders from them.

(*b*) Some years later a somewhat similar problem was encountered with respect to cooperative wholesale grocery companies. Two requests were received for shipments at jobbers' buying prices from cooperative wholesale distributors in two large cities. The first, located in City A, had a business of approximately $2,200,000 annually and an expense ratio

of 4.5%. It had 400 members, 65% in smaller towns and only 48 members in City A. It operated on the basis of list price with dividends, had 33 employees, no salesmen, carried on operations by mail, gave 10-day credit, issued weekly bulletins, and made deliveries three times a week. It carried $185,000 in stock and had a stock turn of nine times.

The second cooperative was located in City B. There were 69 stores in this group, and the sales volume amounted to approximately $500,000 during the first six months of its existence. No one store in the group had a sales volume of less than $40,000 annually. Each member paid a $250 membership fee and the cost of goods it purchased plus expenses. The cooperative leased a public warehouse and carried a stock of $70,000. It made no deliveries and gave 10-day credit terms. The cooperative had issued $55,000 of stock.

Should the Adams Company have sold to these cooperatives at prices quoted to regular wholesale outlets?

QUESTIONS

1. On October 1 the Lenwood-Verner Manufacturing Company accepted an order for 50,000 stroppers from the Durstine Company, a chain of junior department stores. The order was completed on Friday, October 20. On Monday, October 23, the Durstine Company was declared bankrupt, with liabilities considerably in excess of assets.

The Lenwood-Verner Company desired to dispose of its stroppers and recover the cost of production. Moreover, the storage space occupied by the stroppers was needed. The manufacturing company was willing to sell the entire 50,000 stroppers at a sacrifice. How should it go about finding a purchaser?

2. Should a new manufacturing company producing in quantity a narrow line of gift novelties engage a manufacturers' representative located in New York, whose salesmen cover the United States, or should he attempt to secure sectional manufacturers' representatives?

3. Should a manufacturer of automobile radios located in Chicago, who plans to distribute through wholesalers in various parts of New England, employ a prominent manufacturers' representative to develop and maintain relations with wholesalers, paying him on a commission basis?

4. What factors are responsible for the change in the policy of several prominent textile producers from the use of independent selling houses to the establishment of their own sales organizations?

5. Why do large manufacturing firms in the food trade use so-called manufacturers' representatives in various markets to sell nationally advertised packaged products?

6. Mr. James Smith purchases curtain material such as scrim, marquisette, etc. and sends the material to converters for bleaching and dyeing. The finished material is sold to department stores who sell it to customers for making into curtains, and also to curtain makers who make finished curtains which are sold in turn either to department stores or direct to consumers.

Mr. Smith is approaching the age of retirement and wishes to persuade some young man who has selling ability and capital to invest $25,000 in his enterprise. The

company owns no real estate; its assets consist largely of established connections with outlets. Mr. Smith presents the following statement as typical of the earning power of the business:

Sales:		
To Retailers	$130,000 at 22%	$28,600
To Cutters and Jobbers	50,000 at 13%	6,500
		$35,100
Expenses:		
Discount to Jobbers, 2%	$ 1,000	
Discount to Retailers, 3%	3,900	
Commission to Salesmen on $80,000 at 5%	4,000	
Overhead	7,500	
	$16,400	16,400
Net Profit		$18,700

Would investment in this type of business be sound? What factors should be taken into account?

7. Should a company manufacturing cheese and now selling it through wholesalers and direct to large retailers contract to have its product distributed by a large wagon-jobbing organization which operates a fleet of trucks, making deliveries of mayonnaise and a few other perishable products direct to large and small retailers twice a week?

8. Is the service wholesaler in the grocery trade doomed to extinction? How is the gradual disappearance of the large general dry goods jobbers to be accounted for?

9. How can the rise of new wholesalers in the garment trade be reconciled with the statement that trends of distribution are toward more direct channels?

10. Does the manufacturer whose product requires aggressive selling ever find it possible to use wholesalers satisfactorily?

11. If only a portion of the retailers furnish sufficiently profitable business to pay for the costs of direct solicitation of manufacturers, why should not manufacturers adopt the policy of calling upon these retailers and leaving the poorer ones to wholesalers?

12. Should the grocer-wholesaler establish and push his own private brands?

13. If distribution of grocery products through chains is more economical than wholesaler and retailer distribution, as is alleged, how can the service wholesaler and independent retailer expect to survive?

C. DIRECT-TO-RETAILER DISTRIBUTION

The customary form which the third choice takes, namely, selling direct to retailers, is the sale to single or unit stores, department stores, or specialty stores of various types. Direct selling to retailers in some trades will involve relations with voluntary associations or buying syndicates. When powerful enough, these groups demand the right to purchase directly from the manufacturer, even when he customarily sells through wholesalers. Again, sale to retailers may involve sales to chains of retail establishments which sell either a single line or many lines, as in chain

department stores, mail-order houses with accompanying chains of stores, chains of leased departments, and the like.

The manufacturer sells to the retailer because this policy appears to offer certain advantages which are not offered by that of selling through wholesalers. Direct selling to retailers offers to the manufacturer a greater degree of control of the consumer market than does dependence upon wholesalers, since only one step is interposed between the manufacturer and the consumer. It is possible through this method for the manufacturer to secure the cooperation of the retailers and make his advertising more effective. He may check up the distribution of his goods among retailers' departments; he may see whether or not goods advertised are available to those among whom demand is created. Furthermore, the manufacturer who sells directly to retailers will not be sharing sales effort with the many other lines which a wholesaler customarily handles. The possibility of more intensive selling effort is, therefore, one prime advantage of direct sales to retailers as compared with wholesale channels. At the best, a wholesaler can afford to spend only a limited amount of time pushing any one product; he may refuse to handle a product and devote all of his effort to pushing his own private brands or to pushing the products of other manufacturers.

The prime objections to selling direct to retailers in many cases are the large organization required and the large costs and risks of such distribution. The task to be performed by a manufacturer in selling direct to retailers is so much greater than that of selling through wholesalers that the number of men and the financial resources required are correspondingly large. While selling direct to retailers may smooth out the curve of sales, it does not remove the increased risk of credits in selling to retailers and the increased financial burden. Only a company selling goods with wide demand and with a large potential market in comparison with the area covered can utilize to advantage the direct method. In limited areas the number of dealers is few. It may be possible for smaller manufacturers to adopt direct-to-retailer distribution, but where distribution is desired in tens of thousands of outlets, where purchase is frequent, the task easily surpasses the capacity even of large enterprises. Furthermore, the maintenance of sound policy amidst a welter of apparently or really conflicting interests calls for unusually intelligent handling of the relations of manufacturers to chain stores, department stores, mail-order houses, cooperative buying associations, so-called "supermarkets," and other newer forms of retail institutions.

39. EMERSON COAL COMPANY—PROPOSAL OF A COAL COMPANY TO USE COMPANY-OWNED RETAIL YARDS IN PLACE OF DEALERS

The producing properties of the Emerson Coal Company, with an annual capacity of 2,000,000 tons, were located in the Kentucky bituminous coal fields. Many mechanical devices, including a modern cleaning plant, were in use at the mine, and the production costs per ton of coal were low. About one-quarter of the annual production was used for domestic heating, and the company was considering the advisability of operating its own retail yards in order to supply this market more adequately.

Since it was impossible for the mine to supply a retail yard with the range of volatility in coals demanded by the consumers, exclusive agency contracts were unusual in coal distribution. An average retail yard bought coal from several mines, and executives of the Emerson Coal Company found that inferior coal was often sold under the Emerson name. Considerable sums of money had been spent in advertising to consumers, and the sales manager believed that better control over sales was necessary in order to protect this expenditure.

Furthermore, the ownership of retail outlets would enable a better production schedule and would make possible the shipment of various grades of coal to the yards at the most convenient time. It was stated that the steady production of coal for the domestic market would lower the cost of the entire output about 5 cents a ton. Under the method of dealer distribution then in use, mining production fluctuated in accordance with orders received, and a steady schedule was impossible. Most dealers were financially unable to buy in the summer when the price of coal was low, and concentrated their purchases in the fall when the price was often $1 a ton higher. The sales manager believed that in addition to production economies, the possibility of shipment during the summer would enable the company yards to show a better operating profit.

Another economy was expected in the reduction of selling cost if the coal could be shipped direct to the yards without sales solicitation. At that time most of the coal sales to retail dealers were handled by wholesale fuel companies, who received a commission of 6 cents a ton. It was expected that a considerable proportion of this could be retained as direct gain.

Much more important in the mind of the sales manager was the reduction in credit losses and the quicker payment to the mine for the sale of coal. Retail coal dealers as a class were notoriously poor credit risks and possessed little business ability. It had been the experience of the company that many men, operating an average-size yard and selling

between 4,000 tons and 8,000 tons of coal a year, preferred to conduct their business from a desk rather than to carry on active solicitation themselves. These men were not considered such good risks as energetic truck drivers who had built up a small business of their own over a period of years. The sales manager, furthermore, believed that with the use of company yards the greater certainty in time of payment would enable more accurate planning of mine operations.

As a final argument in favor of this proposal, the sales manager expected that the operation of the company-owned yards would return a considerable profit, which would increase the income of the mine.

The president of the company, however, believed that there were many objections to the plan. He pointed out that the sale of coal to the average consumer necessarily involved the extension of credit over a considerable length of time. Furthermore, since the consumption of coal usually began immediately after purchase, it was rarely possible to repossess the shipment in the event of failure to pay. Because of this, it was believed important that the dealer keep in close touch with the local situation and be able to exercise careful judgment in the selection of credit risks. The president did not believe that credit requirements could be sufficiently standardized to permit successful operation of the yard by a man unfamiliar with local conditions. The sales manager admitted that this was a problem, but pointed out that one southern dealer had made effective use of a contract providing for an assignment of wages in event of failure to pay. This contract protected the dealer from loss provided the customer continued to have steady employment. It was believed that this form might be adapted to company use and thus minimize credit losses.

Besides the difficulty of credit, the president did not think that it would be possible to secure a sufficient number of capable men to manage company yards. Although a few coal dealers were alert merchandisers, the majority would be unsatisfactory for company purposes. Furthermore, most dealers were unwilling to sell out to the Emerson Coal Company at a fair price, and as a consequence, the adoption of the program would make necessary the construction of a large number of new yards. The president objected to such an investment, even though the company was in a sound financial condition. He stated that an establishment of average size, doing a business of 8,000 tons to 9,000 tons a year, represented an investment of about $16,000, without including land rent. This was made up as follows:

Coal sheds	$ 8,000
3 1-ton trucks	2,700
1 5-ton truck	4,000
Scales	1,300
Total	$16,000

The rent of property suitable for coal yards varied with different locations but averaged about $200 a month or $2,400 a year. A ton of coal at the mine sold for about $2.50, while transportation costs to the yards averaged $3. With the price to the consumer of about $7.75, the margin secured by the yard with which to cover its expenses of operation was about $2.25. It was generally believed that a dealer should make at least 75 cents or $1 a ton in order to have a profitable business. Expenses of operation varied widely between dealers, in accordance with road conditions, geographical character of the country, severity of the winter, and business ability of the management. The president stated that a variation of 50 cents a ton between yards was not uncommon.

He also objected that it would be necessary to install a sufficient number of yards to cover the residential market completely, since dealers would refuse to buy Emerson coal once it became apparent that the company was pursuing this policy. He believed that between 50 and 60 yards would be necessary, which would represent a total investment of about $1,000,000. It was feared that the operation of even a few yards would destroy dealer morale and greatly reduce sales volume.

The president also estimated that in the territory served by the Emerson Coal Company there were over 1,000 wagon retailers who had no other investment than a truck or a cart and horses. These men customarily purchased a single carload of coal, unloading at tracks maintained by the railroad and selling it for whatever price they could secure. As this price was usually well below the established dealer's price, they furnished a keen source of competition, and the president feared that they would hamper the operation of company yards.

As a final objection, he urged that the company was securing reasonably efficient distribution through its 350 dealers at that time. Constant efforts were being made to help these dealers with advertising and sales promotional material of various sorts. Furthermore, the company maintained a force of service men who worked with consumers to solve heating problems and who had been successful in building goodwill for the company.

What action should have been taken by the Emerson Coal Company?

40. CROMWELL COMPANY—PROPOSAL TO USE SELECTIVE INSTEAD OF DENSE DISTRIBUTION IN THE CITY OF CHICAGO

The Cromwell Company, located in an eastern city, was a prominent manufacturer of popular-price home and automobile radio receiving sets. Distribution was effected through approximately 100 exclusive distributors

and 20,000 nonexclusive retail outlets. Most Cromwell retail dealers sold the radio lines of a number of well-known competitors. In the summer of 1938 there was a difference of opinion among the sales executives as to the distribution policy which the company should follow in the future. One group believed that the company should continue its policy of widespread distribution and suggested that during 1938 and 1939 an attempt be made to increase further the number of dealer outlets. The other group suggested that the company deviate from its established dealer policy and, for test purposes, experiment with selective dealer distribution in Chicago, Illinois. This group believed that if the proposed policy resulted in both a stronger dealer organization and a greater sales volume, it should be adopted in other large cities.

Previous to the depression period the Cromwell Company had engaged primarily in the manufacture of high-price radios of the custom-built type. After much deliberation a decision was made to change manufacturing emphasis from expensive sets to a complete line of home radios selling in the popular-price range. Coupled with this policy change was also a decision to increase the number of dealer outlets, since only in this manner was it believed possible to secure the large sales volume necessary to finance a popular-price line. Moreover, widespread distribution was desirable if the company was to compete favorably with other large radio manufacturers who were continually increasing the number of outlets carrying their merchandise. The executives believed that it would be unwise to allow potential radio buyers to be exposed to competitors' merchandise without being exposed to Cromwell radios at the same time. Within a period of four years the company had succeeded in increasing the size of its dealer organization from 3,000 to 20,000, its sales from 50,000 to over 225,000 radio sets annually, and its dollar volume to a substantially higher figure.

By following a nonexclusive dealer policy, the company soon found that it was placing many Cromwell dealers in direct competition with each other. Although the company had been successful in preventing dealers from cutting prices below the established Cromwell levels, actually dealers were accomplishing the same result by offering large allowances on trade-in sets. Since the majority of new radio sales were made by buying back old sets, the use of the trade-in as a competitive weapon had proved most effective for the dealer. From the company's standpoint, however, the trade-in situation created two annoying problems. Although the use of the trade-in often proved instrumental in effecting a sale, nevertheless abuse of the practice by a number of small dealers had often prevented larger dealers, less willing to cut margins below a reasonable level, from making an adequate profit. The lack of restrictions on the amount which

might be allowed on trade-ins had often been a cause of complaint from these large dealers. Correction of this situation, as far as the Cromwell Company itself was concerned, was almost impossible because of the universal practice within the trade. Since dealers employed the same trade-in practices in the sale of all popular-price radios, any restrictions placed by the Cromwell Company would tend to turn potential customers to competitors' merchandise on which a better "bargain" could be realized. Because of the importance of the trade-in policy, therefore, the executives had been reluctant to enforce any limitations which might seriously handicap sales volume, in spite of the complaints advanced by a number of large dealers. Even under the present policy, however, the executives were aware that both large and small dealers were offering no better trade-in allowances on Cromwell radios than on those of other manufacturers, so that the company was obtaining no particular advantage over its competitors.

As a result of the company's policy of widespread distribution, it was increasingly apparent that the Cromwell franchise was becoming less valuable to the individual dealer because nearby competitors offered the same line of merchandise at the same prices. Many dealers failed to display any aggressiveness in promoting the Cromwell line. To correct this difficulty, several executives suggested that the company experiment in Chicago by reducing the number of dealer outlets from 350 to 100 selective, semiexclusive accounts. By so doing, it was asserted that Cromwell franchises would immediately become more valuable, causing dealers to exert a greater willingness to promote the line through an extensive use of displays and campaigns. The discontinuance of a number of small accounts would also place distribution of the line in the area in the hands of large, widely known dealers, the most desirable outlets. Moreover, the territory of each of the remaining dealers would probably be enlarged by the removal of the small radio stores, so that the former would be given a greater incentive to promote Cromwell sales.

On the other hand, several executives doubted the wisdom of altering the company's plan of distribution, even if the change was made in but a single city. They contended that the proposed test might seriously jeopardize the company's competitive position within the test city since it was difficult to forecast the probable effect on sales volume. In addition, if the test indicated that the company's present type of widespread distribution was preferable, it was stated that it would be impossible to win back the small dealers from whom the Cromwell franchise had been taken away. One executive further pointed out that if dealers were given almost exclusive territories, as had been proposed, they would feel that they had a much better opportunity to sell Cromwell radios. While this,

in itself, would be desirable, nevertheless dealers would hesitate to cut their margins to permit a larger trade-in allowance because the absence of competition from other dealers in the area would tend to make them think this unnecessary. While it was apparent that dealers' profits were often narrowed by the trade-in practice, nevertheless it was because of this "bargain" policy that a majority of popular-price radios were sold.

The group of executives which was strongly convinced that the company's present distribution policy was most desirable and that the number of outlets should be further increased during 1938 and 1939 pointed out that sales had been steadily increasing since the plan was adopted and that 1938 was proving the most prosperous year in the company's history. To change to a selective, semiexclusive dealer policy, especially when competitors had indicated a desire to increase further the size of their dealer organizations, would cause a reversal of this upward trend.

In August, 1938, the sales manager was reviewing the suggestions made by his associates before preparing his own recommendations for future action.

41. CONTINENTAL TIRE STORES, INC.—ESTABLISHMENT OF VOLUNTARY CHAIN OF RETAIL OUTLETS BY A TIRE MANUFACTURER

The Hayden Rubber Company manufactured a wide line of tires, tubes, batteries, water- and air-hose, belting, and mechanical rubber goods in its modern factory in Des Moines, Iowa. The company distributed its products chiefly in the area between the Mississippi River and the Pacific Coast. Before 1929, tire sales averaged about $2,000,000 annually. Half of this amount was sold under the Hayden name to about 250 jobbers who handled the rest of the company's line; the other half of the tire output was sold directly to retail dealers under the name "Flexo." The company was enjoying an upward trend of sales, but difficulty was experienced in maintaining a satisfactory net profit, even though the company was strongly entrenched in its territory. Overcapacity in the tire industry led to excessively keen competition, price cutting, narrow margins, and heavy dealer turnover, with the attendant necessarily high cost of contacting and securing new dealers. Sales volume was at such a premium that each tire manufacturer came to consider the dealers handling a competing line as a marginal market and would quote extremely low prices to secure the additional volume.

After considering the causes for the unsatisfactory conditions existing in the industry, the executives of the company concluded that competitive advantage was to be gained largely through superior distribution, and particularly through superior retailing. Late in 1927 the Hayden Rubber Company began to acquire retail outlets in towns of various sizes ranging

in population from 1,000 to 200,000 and, in about a year, owned and controlled 40 such outlets which were scattered throughout the area in which the company operated. At the time the outlets were acquired, the company was not certain, because of limited capital, whether or not it should attempt eventually to secure control of sufficient outlets to absorb a major portion of its tire production. Above all, however, the company hoped to secure valuable experience in retailing. In less than two years, the experience of the company caused the executives to conclude that the plan of company-owned retail stores should be abandoned. Of primary importance was the fact that the company found it impossible to earn a reasonable return on the investment in the stores. The difficulty of securing capable managers with a real interest in the stores, the increased competition occasioned by adding new outlets to those already existing in the area, impending discriminatory chain store legislation, and the fact that stores owned by outside capital often carried little prestige in a community were important factors. From a purely social point of view, the president of the company strongly favored the preservation of the independent retailer.

The retail outlets were not immediately discontinued, but during a transitional period each store became the center of a group of stores to which it supplied stock. One man operated out of each store, contacting the associate dealers and supplying merchandising and advertising assistance based largely on experience gained in the local company-owned store. In 1929 the owned outlets were gradually sold to independent operators, and the dealer relations were centralized at the home office.

Continental Tire Stores, Inc., a wholly owned subsidiary of the Hayden Rubber Company, previously owned and operated the 40 retail outlets. The fact that Continental Tire Stores, Inc., was owned by the Hayden Rubber Company was not generally known by the trade or by the public.

Experience gained during the period of company-owned retail outlets and during the transitional period led to the development of a voluntary chain store system which attempted to avoid the weaknesses of both the independent dealer organization and of company-owned outlets. After an analysis of the potential tire sales in each area and of the most favorable dealer locations in the major towns, Continental Tire Stores, Inc., sought one or two dealers according to the size of the town. The amount and variety of stock consigned to a dealer were based largely on a study of the dealer's sales during the past year. The company endeavored to supply an inventory which could be turned at least four times a year. The value of the consigned stock varied with the size of the dealership from $400 to about $3,000.

The field organization of Continental Tire Stores, Inc., was divided into 3 zones, each zone including 12 districts. A district manager had charge

of about 50 stores. Because of the contractual relations between the dealers and the company, the district managers spent practically no time selling to the dealers but devoted their efforts to helping the dealers merchandise, display, and sell the line. The district managers, who spent about half a day each month with each dealer, were directed to use at least two hours of this time in actual consumer selling. All dealers made daily or semiweekly reports of sales, and the inventory was automatically replenished from the central warehouse. Advertising was done exclusively by the home office of the company, and no charge was made to the dealer for it. The same discount from list price was quoted to all dealers regardless of size although the larger dealers were given more advertising assistance and were consigned larger and more varied inventory.

All tires sold by the members of the voluntary chain bore only the name Continental Tire Stores, Inc. The company attached considerable importance to the idea that the chain was offering a branded service rather than a branded product. Any dealer in the chain could adjust a tire, according to the warranty, for the account of the manufacturer.

By the summer of 1931 the voluntary chain was organized along the lines outlined and had secured the cooperation of over 1,750 stores. The company still continued to distribute about 50% of its tire production through its jobber outlets under the Hayden name. It had been successful, however, in shifting its dealer tire sales from its owned retail outlets and independent unit dealers almost entirely to the voluntary chain organization. Dollar volume was maintained in spite of declining tire prices and unsatisfactory business conditions. Because of the heavy expenditures for organization, initial contacting, and advertising, the company had not yet determined whether the plan would afford lower cost distribution than the independent dealer method. The executives of the company were of the opinion that the greatly reduced turnover of dealers which the company experienced, with the consequent lower cost of maintaining outlets, would more than offset the cost of consigning stock and fixtures and of controlling the chain organization.

Was the policy of the Hayden Rubber Company sound?

42. ROCK OIL COMPANY—DISTRIBUTION POLICY FOLLOWED BY AN OIL COMPANY IN REGARD TO OUTLETS

The Rock Oil Company, a manufacturer of a complete line of oil products, was located in the middle-western section of the United States. Although gasoline, kerosene, and automobile oils accounted for the major part of the sales volume, the company also manufactured naphtha, indus-

trial oils, and an extensive line of specialty products. The marketing territory was split into four sales divisions. Each of these was headed by a division manager who correlated the activities of the industrial sales department, the service station sales department, the bulk station sales department, and the specialty sales department. The service station sales department was responsible for all products sold through the service stations, while the bulk station sales department handled the sales to all types of dealers and to large consumers. The responsibility of the industrial and specialty sales departments is indicated by their names. The Rock Oil Company was able to reach customers either through its own service stations, through its dealers, or through its authorized agents. These last were increasing in number, and the company was uncertain what policy to follow in regard to these three types of outlets.

The Rock Oil Company operated about 700 service stations which sold gasoline, automotive oils, and certain specialty products. The investment in land sites for these ranged from $10,000 to $50,000 and in buildings from $5,000 to $50,000. The average figure was about $15,000 for the land and $12,000 for the building. Over 150 of the stations had equipment for greasing. The company believed that a service station had to sell 10,000 gallons of gasoline a month in order to show a reasonable profit. From 10,000 to about 15,000 gallons could be sold with a force of two men, each working one shift a day. A gallonage volume above this figure required three attendants; where stations were equipped with greasing equipment, three was usually the minimum force. Since it was difficult to secure a gallonage of 10,000 a month in towns of less than 3,000 population, on highways, and in outlying sections of cities, the company used dealers to cover these areas. The use of dealers was not confined to such locations, however, since the severe competition among oil companies and the urge for volume and complete coverage resulted in practically all companies attempting to get representation through any dealer having a fair sales potentiality regardless of his location.

The dealer received a discount of 3 cents a gallon and, in addition, often secured free pumps, tanks, signs, and painting. The Rock Oil Company believed that this practice had been carried to extremes but was forced to conform by keen competition from other large oil companies that were operating in the same territory. The unrelenting pressure for outlets, brought about both by excess production capacity and by the desire to make most effective use of heavy advertising expenditures, resulted in a high turnover among dealers. The Rock Oil Company was using about 3,700 dealers but was dissatisfied with the results obtained. It had been found especially difficult to exercise any measure of control over these outlets, as to either the length of time they remained with the

company or the manner in which they followed company policies. It was important for the company to maintain prices on its products, as price cutting among dealers often cut into the sales of the established service stations and tended to demoralize price conditions in general.

Because of this need for better control, the Rock Oil Company had devised an arrangement whereby a dealer became an agent of the company and signed a contract which ran from three to five years. He agreed in this contract to uphold company policies and to lease his property to the company in return for a rental of ½ cent a gallon. All authorized agents were required to have drive-in filling stations, and no curb pumps or roadside stands were considered. This arrangement proved popular, and by the summer of 1930 over 1,000 authorized agents had been signed up. About one-half of these were former dealers and one-half were new outlets.

In the intensive drive to secure authorized agents, however, the company was faced with the problem of locating these agents so as not to affect the sales of established service stations. This problem was aggravated by the fact that the bulk station sales department was in charge of the campaign and did not always consider the possible results on others of newly authorized agents. Sales executives of the company stated that the attention of the division sales departments too often was centered upon gallonage without considering the cost incurred in securing that business. In this the Rock Oil Company was at somewhat of a disadvantage compared with competitors who did not operate their own stations. An outside company might locate a new dealer near an established dealer who was selling 5,000 gallons a month and, by splitting the available business between the two, sell a total of 6,000 gallons and make a greater net profit. This was not possible with a company-owned service station, since there was danger of cutting its sales below a profitable point.

The gross margin between wholesale and retail price on 50 gallons of regular gasoline was about $3, while that on the same amount of premium gasoline was about $3.50. For every 100 gallons of gasoline, a service station sold about 2 gallons of oil on which the gross margin was approximately $1.20. The sale of miscellaneous specialties and kerosene yielded about 30 cents gross margin or a total of about $8 for every 100 gallons of gasoline sold.

Since a monthly gallonage of 10,000 was sufficient to cover the overhead expenses of a service station, additional sales were largely clear profit, and the Rock Oil Company figured that any loss in volume in this range represented a loss of $8 gross margin per 100 gallons of combined products sold.

The commission received by an authorized agent was 3 cents a gallon, plus ½ cent a gallon rental for the use of his premises. Likewise he

received a commission of about 50 cents per gallon of oil. The extra expense incurred by the company for signs, painting, depreciation, supervision, and delivery cost, amounted to about $1 per 100 gallons sold. The expense of selling 100 gallons of gasoline and 2 gallons of oil through an authorized agent accordingly totaled about $5.50, leaving the company a net return of about $2.50 out of the original $8 margin.

The company attempted to meet this problem by showing the territorial field managers the necessity of considering net profit in securing a desirable balance between authorized agents and service stations. It was pointed out, for example, that a loss of 100 gallons at a company service station meant a sacrifice of about $8 profit, whereas if that 100 gallons were transferred to an authorized agent, the company could make only about $2.50 on it. Thus it seemed clear that, unless an authorized agent were to get at least 200 gallons to 300 gallons from competitors for every 100 gallons he might draw from a company-owned service station, the value of securing him would be negligible or even result in a net loss. The frequent response to this reasoning, however, was that, if a competitor secured the agent, the company would, in all probability, lose the gallonage at its nearby service station in any event. The field managers were in charge of the sales of company products through dealers, authorized agents, and service stations in a particular territory and were in a position to correlate the use of these different outlets. Despite this, however, they were slow to recognize the importance of figuring the cost of all business secured.

A recent analysis of sales volume indicated a decline in the proportion of total business in the marketing area secured through the company-operated service stations but a considerable increase in the proportion obtained through dealers and authorized agents. Although company officials admitted that the use of authorized agents might have been a contributing cause of the service station decline, they believed that intense competition from other companies was more important. These companies, besides building many new stations of their own, had offered unusual inducements to dealers in their effort to secure outlets and had advertised very heavily.

What policy should the company have adopted with reference to the further extension of authorized dealer organization.

QUESTIONS

1. A farm implement company making mowing machines, drills, harrows, plows, etc., has received an offer from a mail-order house to purchase its products and to feature them in its catalogues. The farm implement company has long been one of the smaller

companies but has had a reputation for the quality of its product. The company has been able to maintain the quality of its product by charging somewhat higher prices than those charged by principal competitors. What problems is the farm implement company likely to encounter if it accepts the offer of the contract? As part of the contract, prices will be low, though not profitless, and shipments will be made from the factory to the consumer.

2. (*a*) Should a company selling to chain stores contribute funds to an organization the purposes of which are to oppose legislation designed to tax chain stores out of business?

(*b*) Is the contention of a prominent state tax official that the agencies of the Ford Motor Company are chain outlets and that the Ford Motor Company is subject to the chain store tax valid?

3. A manufacturer of certain hardware items recently announced that it would cease selling to chain stores and mail-order houses and confine its sales to independent merchants. In the statement announcing the change the company says it believes itself acting in accordance with social interests. What are these social interests? Is the decision of such a manufacturer wise? Outline the conditions under which such a decision might be wise or unwise.

4. The Cutter Varnish Company manufactured and distributed under its own brand a complete line of enamels and varnishes. The company had followed a policy of granting exclusive agencies to wholesalers, who agreed to sell to only one retailer in a town. Sales had been restricted to New England and states east of the Mississippi River. In New England six salesmen had been employed who sold directly to retailers; in other states distribution had been secured through six exclusive wholesalers. In the latter territory six salesmen were engaged in developing sales among retail customers, each of whom was called upon three or four times a year. Orders taken were turned over to the wholesaler in the district. The company had advertised to a limited extent through local newspapers and in streetcars.

In order to secure complete distribution throughout the United States the company decided to institute a national advertising campaign through periodicals and magazines and to distribute entirely through wholesalers. Should the company continue its policy of distributing through exclusive agencies or sell to all wholesalers who could be secured and allow them to sell to as many retailers as they desired?

5. "Perhaps the most important change, or group of changes, in American life during the last two decades has come as a result of the automobile. All of us are familiar with the story. We know how the automobile has broadened mental horizons—how it has stimulated people to increase endeavor in order that they may buy their own cars—how it has been the primary cause of a road-building program such as the world has never seen—how the possession of 20,000,000 cars (or 3,000,000 more automobiles than there are telephones in the United States) has affected practically every phase of family life and has made the home over so that it is now little more than a filling station, a parking place for the night."

How has the development indicated in this quotation affected retail institutions and practices?

6. A spice company sold 95% of its output to independent retailers. Should it accept a contract for an amount equal to 20% of its total annual sales from a chain store? The prices offered were considerably lower than the prices at which the product was sold to independents, but the company figured that it would make a substantial profit on the annual business.

7. Should a manufacturer sell to the new supermarkets which have been established in various sections of the country and which are getting prices below those customarily charged either by voluntary chains or by corporate chains?

8. Of the five types, mail-order houses, department stores, private chains, voluntary chains, and independents, which is able to distribute food products to the consumer at the lowest cost?

9. Under what conditions does it appear that the voluntary chain organizations are most successful?

10. What are the chief reasons for operating retail stores in the case of the following firms: Dennison Manufacturing Company, L. E. Waterman Company, Sherwin-Williams Company?

11. How may the manufacturer who establishes retail stores for the purpose of using them as service and laboratory stations in order to cooperate with dealers convince independent dealers, who constitute his chief market, that his intentions are not to displace them by selling direct to the public?

12. When should a manufacturer adopt an exclusive agency policy? If the exclusive dealer policy is adopted, should formal contracts with dealers be used? In what cases are limited or selected agencies better than exclusive agencies?

13. What instructions should be given to the salesman of a shoe company to guide him in the selection of exclusive agencies in towns in which the company is not already represented?

14. How may a manufacturer of specialty food products secure aggressive promotion of his product in chain stores?

15. Is the proposed legal requirement that every drug store owner be a registered pharmacist in the public interest? In the interest of independent druggists?

16. Should a company manufacturing portable typewriters grant agencies to department stores?

D. DIRECT-TO-USER DISTRIBUTION

Three forms of sale direct to consumer may be distinguished:

1. Sales through stores owned and operated by the manufacturer or a controlled subsidiary.
2. Sales to users or consumers through a salesforce.
3. Mail-order selling.

For manufacturers having wide distribution of goods which are used by large numbers of persons or businesses, direct-to-user distribution involves a relatively much larger task than selling directly to retailers. In the case of consumer goods, house-to-house canvassing has been utilized with success in some exceptional cases. Distribution in this way requires an extremely large organization; the costs of maintaining the sales organization are constantly mounting, and the effectiveness is being decreased by a growing public resentment at the practices and policies of house-to-

house canvassers. The primary advantage of direct-to-consumer distribution for consumer products is that the contraction of the marketing process brings the consumer much nearer to the manufacturer and renders it much more likely that the manufacturer will keep a firm hold upon the consumer market. No middleman intervenes to weaken the effects of advertising or other sales effort; concentration of effort and aggressive salesmanship become possible. Nevertheless, house-to-house selling is to be regarded primarily as an exceptional policy, successful application of which is becoming more unlikely. Direct-to-user distribution of consumer products through owned stores or agencies—in the case of automobiles, expensive electrical appliances, shoes, and other products—does not show so checkered a history, but the manufacturer who attempts to follow such a course must anticipate the assumption of all the problems and risks of retail business, with some advantages and certain disadvantages which trading companies do not possess.

The situation differs as one enters the field of industrial equipment or supplies. Companies selling only to a limited class of users goods which need special salesmanship and demonstration frequently sell direct to the consumer. Manufacturers of textile machinery sell through their own sales representatives or branches; road machinery companies sell their products directly to users; manufacturers of tractors and farm machinery sell through their own branch houses directly to consumers in the corn belt; makers of bakery or confectionery machinery sell directly. Yet one finds that manufacturers of some finished textiles will sell through brokers to finishers; that machinery of more general types will be sold by dealers; that manufacturers of more specialized machinery will utilize independent agents to reach territories in which they do not wish to maintain their own forces.

43. WARSAW COMPANY—OPERATION OF LABORATORY RETAIL STORES BY MANUFACTURER

The Warsaw Company, with an annual sales volume of approximately $11,000,000, was one of the large manufacturers of canvas and rubber footwear. A salesforce of 170 men, paid a drawing account against commissions, sold the company line direct to independent and chain retail stores throughout the country. Independent outlets provided approximately 75% of the Warsaw sales volume, while 12 large chain organizations and several private brand distributors accounted for the remainder. The salesmen traveled out of 15 branch offices, each of which functioned independently in carrying stocks, keeping accounts and sales records, and controlling the salesforce. In March, 1936, the company purchased a

shoe store in Utica, New York, for the purpose of obtaining market information under conditions of actual retail operation. Subsequently, in November, 1937, a second store was opened in Fitchburg, Massachusetts, and in April, 1938, a third store was purchased in Dover, New Hampshire. In the fall of 1938 the sales manager was considering the extent to which the company should go in acquiring and operating retail stores for laboratory purposes.

Owing to the highly competitive conditions in the footwear industry, independent retailers had been experiencing difficulty in operating at a satisfactory profit. Although they attempted to keep pace with the aggressive merchandising policies employed by the chain shoe stores, nevertheless many dealers were unsuccessful, either because they lacked the required imagination and ability or because they lacked the advantages afforded by the centralized guidance of a chain organization. The operation of the several stores for experimental purposes was undertaken in order to bring about better understanding of the merchandising problems of the independent retailer and thus to find a sound basis for helping him solve them. The sales department planned to use the stores to test display material, obtain new merchandising ideas, and study dealer and consumer reactions.

So as to make the stores appear actually to be independent outlets, the sales manager decided not to permit the company name to be associated with the establishments in any form. Even the individual store managers themselves were not informed of the relationship existing between the company and these outlets. The general manager of the stores, who was on the company pay roll and reported direct to the sales manager, was represented as being sole owner of the stores. He maintained full responsibility for establishing the complete line to be carried in each store, although after express approval the local managers had authority to supplement the line with merchandise designed to meet special local conditions. Sales of Warsaw merchandise constituted from 5% to 7% of the volume of each store, the balance being made up in sales of leather shoes and women's hosiery.

The Utica store was selected because it was considered average in physical size and sales volume for an independent outlet and was located in what the company considered to be a representative city. The store's business was obtained not only from residents of the city itself, but also from people living in small, nearby towns. The Fitchburg location was chosen because it was regarded as an active trading center and was the scene of strong chain store competition, and the Dover store because it was located in what the company believed to be a typical market for heavy footwear sales. Both the Utica and Dover stores, which required an

investment of $10,000 and $6,000, respectively, had been in operation for some time before they were purchased by the Warsaw Company. The Fitchburg store, however, was newly opened by the company and involved an investment of $10,000.

In a number of instances the company had found its stores useful as a testing ground for merchandising ideas. For example, it was found on one occasion that a window display featuring a tennis shoe soaking in a bowl of water, together with the explanation that tennis shoes could be easily cleaned by washing, proved very successful. This window display was then introduced to Warsaw dealers throughout the country, and a majority of them reported that the plan had been instrumental in increasing sales volume. This same theme was adopted by the company in its advertising program for the year. On another occasion the Warsaw sales department developed the idea that three pairs of women's sport sandals, normally selling at $1.75 a pair, could be sold at the same time if packaged in an overnight or shoe bag for $5. The idea was believed to be worth while until tested in company stores, where it was found to possess little sales value. If the company had not had available its own stores for testing purposes, the sales manager stated that this plan would have been presented to the trade at considerable expense before being found unsatisfactory. On numerous other occasions the sales manager reported that the experiences and observations of the general manager of the three stores were invaluable in the formulation of effective merchandising plans.

In November, 1938, the sales manager was considering what future action should be taken in regard to the operation of company-owned stores for testing purposes. At that time, each of the three stores was operating at a small loss,[1] but this was believed a result of the business recession which began in August, 1937, and it was anticipated that operations would be on a profitable basis during 1939. The sales manager was interested not so much in the profitability of each store, however, as he was in obtaining valuable market information which would prove useful in the formulation of merchandising policies. There remained a question in his mind whether several additional stores should be purchased. Several members of the sales department believed that, while the addition of a few more stores would offer some advantages, nevertheless the move would not be warranted. These men believed that adequate information could be secured on the basis of present operations without incurring a greater investment. Another member of the department suggested that several additional stores might well be obtained so that the company could test

[1] The salary of the general manager of the stores was not allocated among these outlets and thus was not considered in obtaining the operating profit or loss for each store.

merchandising plans on a broader basis with greater assurance that the sample was representative and adequate.

44. WESTERN SHOE MANUFACTURING CORPORATION—PROPOSED HOUSE-TO-HOUSE CANVASSING PLAN

The Western Shoe Manufacturing Corporation had for a period of over 30 years manufactured a full line of men's and women's shoes, which it had sold through salesmen direct to exclusive agencies in the Middle West and Rocky Mountain territory. As competition became more severe among shoe manufacturers, the Western company found greater difficulty in maintaining or replacing satisfactory agencies. The situation became so serious that the company was compelled to borrow heavily from the banks. Finances became so involved that bankers took charge.

The junior partner of a New York banking house was sent to investigate the situation. His report to his principals declared that the company had been losing in number and quality of exclusive agencies and that in styling it had not been particularly successful and had tended to fall back on conservative styles which appealed to a gradually narrowing market except where such styles were sold at very low prices. Furthermore, the company's production organization was not sufficiently competent, and external conditions were not so favorable as to permit the company to produce shoes at the required low costs. The junior partner, therefore, finding that the average price received for shoes by the firm was about $4 per pair, proposed that the company adopt a plan whereby it would receive $4.50 per pair. The shoes were to be sold by house-to-house canvassers, under the direct guidance of Western Shoe Manufacturing Corporation executives, in all counties in which the company did not have fully satisfactory exclusive agents. The plan as worked out proposed that salesmen be trained to take measurements and accept orders on the basis of a down payment of $1. When the salesmen received the shoes from the factory, they were to make delivery upon receipt of the balance of payment. The proposed commission to the salesmen was 50 cents per pair, to be taken from the final payment made by the consumer when the shoes were delivered. The proposed retail price was to be $5.50 per pair, which was 50 cents to $1 less than the customary retail price for such shoes to consumers at the time. Fifty cents per pair was to be allotted for advertising, sales promotion, and shipping costs.

Was the proposal of the banker a sound one? To what extent would the introduction of so-called "Green River" ordinances affect the soundness of the proposal?

QUESTIONS

1. The Kiley Company, which manufactured medium- and high-grade haberdashery, sold its products to retailers through a field force of 90 men. For many years the majority of the outlets had been in small- and medium-size towns. The company had been reluctant to grant price concessions and advertising allowances necessary to secure any substantial portion of the urban market. But with the shift in consumer buying from the towns to the larger cities and the increase of chain stores, the outlets of the Kiley Company were becoming less desirable, and the company realized the necessity of shifting its distribution toward the larger centers.

It therefore set up 28 company-owned retail outlets under the direction of a successful chain store operator. These stores were operated under individual names, and their connection with the Kiley Company was not generally known. Since these stores were competing with local and suburban dealers handling the Kiley lines, considerable care was taken not to give them preferential treatment, and they were restricted from selling merchandise at prices lower than those usually charged by dealers and from holding sales out of season.

Several years later the names of the owned stores were changed to Kiley Company Stores, Incorporated, in order to associate the retail stores with general promotional work and advertising of the company. Following this step, many of the city dealers closed out the Kiley lines; others refrained from giving the company aggressive cooperation. The operating results of the Kiley stores were unsatisfactory chiefly because of inadequate sales volume.

Should the company discontinue operation of its chain of company-owned retail stores?

2. Should an agricultural machinery producer sell his product to farmers through Sears Roebuck & Company?

3. What types of products are particularly adapted to house-to-house canvassing? Are such products adapted indefinitely for such distribution or only temporarily? Under what conditions may the same goods be sold both by house-to-house canvassers and by retailers in the same city? What is the basis of license and other legal restrictions placed on house-to-house canvassing? Are such restrictions economically sound?

4. Should a company manufacturing a blower and ventilating equipment sell through direct mail to the consumer a new vacuum cleaner which it has been developing? It is proposed that the price be fixed at $39.75 as compared with other comparable cleaners selling at from $20 to $40 more.

5. What classes of manufacturers have most commonly established their own retail outlets? Can any generalizations be made as to the types of products especially adapted to distribution through owned outlets?

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V

PRICING AND TERMS OF SALE

Every enterprise engaged in selling encounters a series of difficult problems relating to the price at which its product is to be sold. Since profit or loss is determined by the relation of selling price to cost, the importance of correct pricing and terms of sale cannot be overestimated. From the broader economic point of view likewise, pricing is a subject of great importance. Price determines in large measure the distribution of commodities, the shifting of goods from places in which surpluses exist to those in which there are shortages.

To secure the free interplay of forces which influence price is the objective of much of governmental regulation designed to prevent or eliminate monopolistic controls. Yet it must be recognized that "perfect" competition is an ideal rather than a feasible goal for present-day society. The businessman endeavors to get a price which will yield him a profit. He may widen that profit margin by raising prices or lowering costs or both. The pressure of intra- or inter-industry competition, both short-run and long-run, is likely to place upper limits on price. This exerts a desirable influence upon the business executive to lower costs in order to

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A. PRICE LEVELS; UNIFORMITY OF PRICES; PRICE MAINTENANCE

The manufacturer who must sell his goods in order to make a profit to keep his factory or trade enterprise in operation finds that an important problem which soon confronts him is that of pricing his product. Depending upon the type of product he makes and the market in which he sells, three choices are open to him. He may sell his goods at the market price or at what passes currently for the market price; he may sell at prices which are above the market, in which case he must provide means for influencing buyers to pay higher prices either through superior product or through creating an impression that his product or service is superior; he may sell at less than market price, which is unusual except for brief periods. A manufacturer or trading company may sell at a lower-than-market price as a means of influencing buyers to purchase, with the expectation of raising prices to market levels or higher after buyers have become acquainted with both the commodity and the seller. The sounder, and more unusual, aspect of the below-market price policy is that of selling goods regularly at lower-than-market prices where such reductions are warranted by lower costs through superior efficiency of production and management.

The problems of prices are not confined to the initial stages of a business. The sales manager must be continuously on the alert to see that his prices are not out of line with those of competitors, particularly in periods of declining price levels. Many a sales manager has found his trade slipping away from him because he had not taken proper care to see that changes were made in his prices to correspond to changes required by market conditions. In a period of rising prices a sales manager will have to choose between taking advantage of changes with higher prices or of sharing such advantages with buyers to create goodwill.

Uniformity of Prices. Closely connected with problems of price levels are problems relating to uniformity of selling prices. The use of uniform prices enforced without variation is a comparatively recent development. The old policy was that of getting as high a price as possible for goods sold, sometimes taking account of future relations, sometimes not. Each sale was the result of bargaining, and the prices at which goods were sold were the net results of the shrewdness of the buyer and the sales ability of the seller. It developed, therefore, that, when sales were made to several merchants in a city, one might be paying considerably more for his goods than another. Whenever this was discovered, there was a complaint and sometimes friction and loss of goodwill. Salesmen were permitted, and are still permitted, by many wholesale companies to make variations of prices

within limits. Weaker salesmen tend to make most of their sales at the lowest prices permitted. Few enterprises have been willing to discontinue the practice, although some of its evils are recognized; the pressure of competition, the desire of the buyer to get concessions, and ignorance of market conditions are in part responsible for its survival. It is also true that the net result of many discount policies with reference to chains and jobbers is to bring about a lack of uniformity in prices. There are other cases where the multiprice policy seems to have some justification. There are some companies which consciously adopt a higher price level for certain classes of trade, partly because such trade demands a bargaining level from which reductions may be made and partly because a credit risk or other cost is involved which is disproportionately large. In the retail field the practice of varying prices between customers has been eliminated by all the better and larger stores.

Resale Price Maintenance. Price maintenance is a market policy adopted by some manufacturers of imposing restrictions upon the price at which an article identified by trade-mark, copyright, brand, or patent may be resold to a purchaser. Price maintenance refers solely to identified goods. The policy does not affect the great bulk of commodities entering into commerce, nor do manufacturers generally follow the practice.

Arguments for maintaining prices need to be examined from the point of view of the consumer, the retailer, the wholesaler, and the manufacturer.

1. From the point of view of the consumer, price maintenance is declared to be justified because it keeps goods conveniently in the stocks of local dealers and protects the public from excessive retail prices. It is stated that where prices are not maintained, many dealers are inclined to eliminate such items from their stocks so that customers are unable to procure them. Price maintenance is said also to influence maintenance of quality, because the manufacturer is relieved of the pressure of price cutting to lower the quality of his goods.

2. The retailer, particularly the independent retailer, is protected from the price cutting and competition usually connected with newer types of retail organizations, such as chain stores, "pine boards," supermarkets, and department stores. He believes he is thus assured of a suitable market for the identified goods he sells at prices which yield him a profit.

3. From the viewpoint of the wholesaler, price maintenance is a relief from the pressure to cut his margins to an unprofitable point. Many wholesalers have found it necessary to quote prices to independent retailers which are much lower than the prices which give them the customary margins. Because the welfare of the wholesaler is tied up with the welfare of the independent retailer, the wholesaler is inclined to favor those policies which promise maintenance of the independent.

But the arguments against price maintenance are also plausible. The manufacturer must sell his goods under the implied guaranty whether the prices are cut or not; it is identification of the product which places responsibility on the manufacturer and protects the consumer, not the maintained price. The retailer is not protected from competition by price maintenance but only from one form of competition. If competition does not take the place or form of price reduction, it may well take the form of greater advertising or more sales effort, so that the net result is not protection for the retailer but an increase of cost to the retailer and to the public.

In the past decade the policy of price maintenance has received a decided impetus from its legalization in forty-four states and the passage of the Federal complement by Congress entitled the Miller-Tydings Act. The state laws follow closely a single pattern typified by the California Fair Trade Act, as quoted below:

An act to protect trade-mark owners, distributors and the public against injurious and uneconomic practices in the distribution of articles of standard quality under a distinguished trade-mark, brand or name.

The people of the State of California do enact as follows:

Section 1. No contract relating to the sale or resale of a commodity which bears, or the label or content of which bears, the trade-mark, brand, or name of the producer or owner of such commodity, and which is in fair and open competition with commodities of the same general class produced by others shall be deemed in violation of any law of the State of California by reason of any of the following provisions which may be contained in such contract:

1. That the buyer will not resell such commodity except at the price stipulated by the vendor.

2. That the vendee or producer require in delivery to whom he may resell such commodity to agree that he will not, in turn, resell except at the price stipulated by such vendor or by such vendee.

Such provisions in any contract shall be deemed to contain or imply conditions that such commodity may be resold without reference to such agreement in the following cases:

1. In closing out the owners' stock for the purpose of discontinuing delivering any such commodity.

2. When the goods are damaged or deteriorated in quality, and notice is given to the public thereof.

3. By any officer acting under the orders of any court.

Section 1½. Willfully and knowingly advertising, offering for sale or selling any commodity at less than the price stipulated in any contract entered into pursuant to the provision of section 1 of this act, whether the person so advertising, offering for sale or selling is or is not a party to such contract, is unfair competition and is actionable at the suit of any person damaged thereby. (This section added by amendment in 1933.)

Section 2. This act shall not apply to any contract or agreement between producers or between wholesalers or between retailers as to sale or resale prices.

Section 3. The following terms, as used in this act, are hereby defined as follows:
"Producer" means grower, baker, maker, manufacturer or publisher.
"Commodity" means any subject of commerce.

Section 4. If any provision of this act is declared unconstitutional it is the intent of the Legislature that the remaining portions thereof shall not be affected but that such remaining portions remain in full force and effect.

Section 5. This act may be known and cited as the "Fair trade act." (Approved, 1931.)

These laws are primarily a part of the effort of organized small retailers to bring legislation to their aid in competition with newer types of retailing institutions such as chains, department stores, and supermarkets.

The experience of the past few years with price maintenance laws has been insufficient to permit sweeping conclusions. Neither the claims of the proponents nor the worst fears of the opponents have been realized. In the drug, cosmetics, liquor, and publishing trades considerable use has been made of the permissive claims of these laws, usually mistitled "Fair Trade Laws." Manufacturers have had varied experience with price maintenance; many have established prices under the law and a few have withdrawn the policy.

In addition to price maintenance laws several states have passed laws prohibiting the sale by retailers at prices below invoice cost or below invoice cost plus a specified percentage. A typical law provides that it is illegal to sell any article at less than cost. The Nebraska law does not define cost as applied to production. As applied to distribution, retail cost is defined as whichever is lower: (1) the purchase price to the retailer at the retail outlet within 30 days prior to the sale by the retailer; or (2) the replacement cost, in the quantity last purchased within 30 days prior to the sale by the retailer, less any trade discounts, but exclusive of any cash discounts, and plus a mark-up amounting to less than the minimum cost of distribution by the most efficient retailer, which mark-up, in the absence of proof to the contrary, shall be 6%.[1]

Such laws give rise to many interesting and perplexing long-run problems, such as the relationship of cost to prices, freezing of distribution structures, and change in the nature of competitive tactics.

45. BRANLEY COMPANY—PRICING OF SPECIALTY PRODUCT

The Branley Company manufactured a number of products used in the automobile and aviation industries. For several years the president of

[1] Cf. Grether, E. T., *Price Control under Fair Trade Legislation* (Oxford University Press, New York, 1939), pp. 441–443.

the company had wished further to diversify his business, and he believed that the greatest opportunity for development and profits lay in the home appliance field. In April, 1934, after two inventors had approached him with plans and drawings for a revolutionary type of home washing machine, the president decided to manufacture this product if, after a period of further research and testing, it proved satisfactory. He realized that no major improvements had been made in washing machines for a number of years; fundamentally, the only important change in 40 years had been the replacement of hand power with electric power for the actual washing action of the machine. The scope of the company's manufacturing activities made it financially possible to provide unlimited research facilities and the best available man power.

A tentative survey was made to determine the potential market for a new Branley home laundry. The company estimated that 2,000,000 washing machines had been in use 10 years or more, for which their owners paid an original price of $175 or higher, and that 3,000,000 machines had been in use between 5 and 10 years. According to figures supplied by the American Washing Machine Manufacturers' Association, the average life of the conventional type washing machine was 6 years. The majority of the prospects in the 5- to 10-year market were therefore thought to be as logical prospects for the Branley home laundry as the group owning machines more than 10 years old. Combined, there were 5,000,000 badly worn, outmoded washing machines in better-than-average homes whose owners were perhaps ready and eager to replace them with something better as soon as it proved itself available. To this amount the company roughly added an unknown number of possible installations in a large portion of the estimated 250,000 new homes built annually.

By November, 1936, the research and production departments announced and demonstrated through tests that a revolutionary type of washing machine possessing a surprising number of exclusive features was ready for marketing. The Branley home laundry washed, rinsed, and dried clothes automatically; it saved time, labor, and money on cost of soap, hot water, and electricity; it was far more sanitary than any other washing machine because it was self-cleaning; it saved materials and washed fine silks and woolens without harm; it was comparatively easy to service; and it was a machine which could be built into the modern kitchen because it was equipped with a beautiful, modern cabinet design.

To insure that the machine was foolproof and would work efficiently during practical use, and to get an impartial verdict from a large number of people in the shortest possible time, group demonstrations were held before women's clubs, social, church, and civic clubs, and similar organizations in Chicago, Illinois. The company believed that the machine was

so revolutionary that demonstrations were necessary in order to sell it. A home in Chicago was purchased and equipped with the Branley home laundry so that housewives might see how it could be conveniently located in the basement, kitchen, first-floor service room, bathroom, or other parts of the home, with either a flexible or permanent installation. At first the company paid from 10 cents to 25 cents to various ladies' group treasuries for each person brought into a group demonstration. After the first few meetings, however, it became unnecessary to do any further canvassing to attract attention, since the requests for demonstrations far exceeded the available space and time at the company's disposal. A majority of the women expressed the opinion that the price of the machine should be about $200.

It was finally decided that the factory-to-distributor-to-dealer method of distribution would be the most desirable method of distribution since an outstanding distributor in every area might be obtained with less expense and in a shorter time. Once a distributor was secured for a particular territory, sales through dealers would follow almost immediately, because each distributor would already have an established clientele of responsible dealers to whom he sold other products. Moreover, the distributors would be responsible for the warehousing, installation, and servicing of the product, since the discounts allowed would compensate for these services. The distributors' salesmen could be trained more easily, because they already possessed a technical knowledge of washing machines and could comprehend the new mechanical changes. After these men had been trained, they in turn could educate the dealers' men, so that this responsibility would be largely removed from the company. Since only the best distributor would be permitted to handle the product in any one territory, the executives also believed that required aggressive promotion would be forthcoming. The distributors would bear their own credit losses, so that the company would also be relieved of this financial problem.

To determine the proper distributors' discounts, questionnaires were sent to 400 selected distributors (see Exhibit 1), of whom 300 replied. Subsequently, the sales manager and his assistants interviewed a number of distributors personally. In addition to securing information concerning discounts, the company also wished to obtain further information concerning such trade practices as prices, advertising and sales promotion, cost of doing business, and trade-in policies. It was found that the highest discount offered by a washing machine manufacturer was 50% and 10%, and the decision was made to allow this top discount to all distributors. The sales manager believed that a discount of this size, particularly during the introductory period, would win the enthusiastic and aggressive support of all distributors.

EXHIBIT 1

BRANLEY COMPANY—DISTRIBUTOR QUESTIONNAIRE

1. What washer line do you handle?
2. What is the dollar and unit volume during the past twelve months? Dollars? _____ Units? _____ Average price per unit sale? _____
3. Price list by units?
   Distributor Discounts?
4. Does the Factory have an allowance for trade-ins?
   Do they participate in any trade-in policy?
5. What is the most popular price bracket in your present line?
6. What per cent of your volume is represented in price classification over $100?

_____

7. What is your advertising policy to the dealer? _____
8. What is the Factory's advertising policy in their participation to you?
9. Do you pay for all your sales promotional material?
10. Does the Factory represent that it is standing part of the cost on sales promotional material?
11. Do you split the cost of sales promotional material in any way with the dealer?
12. Do you work salesmen exclusively on washers, or do your regular line men handle washers?
13. What other products do you distribute?
14. How are your wholesale men paid?
15. Do you have any other bonus plan for your salesmen?
16. Do you put washers out with your dealers on consignment?
17. If dealers put machines out on trial, do you participate in the cost of this?
18. What advertising mediums do you use?
19. What is your average turnover on complete line?
20. From a distributor's standpoint, do you think it advisable for Factory to have an advertised list, but with a billing list at a lesser price, using that differential for trade-in or sales promotional purposes?
21. In your opinion, what turnover should you get on your complete line per year?
22. Do you favor a sliding scale of discounts based on quantities to dealers?
23. Taking a net distributor's cost of $75 f.o.b. Factory, what should be your selling price to the dealer? What should be the dealer's selling price to the consumer public from an ideal profit making standpoint (the starting base on this factory would be taken from present practices in the washing machine industry)?
24. As a distributor, would you prefer to have your net price include the total amount for advertising, sales promotion material, salesmen's bonus, etc.?
25. From your knowledge of the dealer, what is the ideal way that would best suit him which in turn would lower your sales resistance on a product as far as the handling of advertising, discounts, cost of sales promotion material, window trims, etc.?
26. Do you think a floor plan for dealers is necessary?
27. What per cent of washers sold are made from actual demonstration in the home?

In January, 1937, an outside research organization was employed to conduct surveys among dealers in 20 cities. Approximately 1,000 dealer outlets of all sizes and classifications were visited, including hardware stores, electrical specialty stores, department stores, radio stores, and furniture stores. (The questionnaire used is reproduced in Exhibit 2.) Another 1,700 similar questionnaires were mailed to a list of dealers selected from the files of *Electrical Dealer*, a trade publication. Several important facts were obtained from the questionnaire data. First, it was learned that discounts allowed by washing machine manufacturers had been too small to permit dealers to perform a specialty selling job. Second, very little money had been allowed by manufacturers for local advertising. Third, the market had been insufficiently cultivated by manufacturers through newspaper and magazine advertising. Fourth, indications of a lack of adequate cooperation between manufacturers and dealers were definitely shown, particularly in regard to cooperative selling programs. After careful study the company suggested the following dealer discounts: 40% to small dealers; 40% and 5% to medium-size dealers; and 40% and 10% to large dealers. Determination of what composed a large-, medium-, or small-size dealer was left to the discretion of the distributor. It was estimated that a distributor's sales volume was proportioned as follows: 25% to small dealers, 50% to medium-size dealers, and 25% to large dealers. The suggested dealer discounts were considered the most generous in the trade, but the company could not, of course, insist that the distributors follow them precisely.

The sales manager next considered the retail price which should be charged to cover discounts and manufacturing costs, and to provide a margin of profit for the company. The absence of major improvements in washing machines over a number of years had focused the competitive argument primarily on price, and the company wished to remove the Branley home laundry from competition of this nature. The executives believed that the product was so revolutionary and possessed so many exclusive and unusual features that a higher selling price could be charged without adversely affecting the sales volume. Prices of the two most important brands of washing machines and those of a mail-order company were as follows:

Company A	$49.50	$89.50	$159.50
Company B	49.50	74.50	149.50
Mail order[1]	39.50	49.95	69.50

[1] About 25 % of the washing machine business was obtained by mail-order houses.

EXHIBIT 2

BRANLEY COMPANY—DEALER QUESTIONNAIRE

1. How many lines of washing machines do you carry? _____
2. What make is your best-selling washing machine? _____
3. What are the advertised prices of this line? _____
4. What is your discount on this line?
   - High-priced machines _____
   - Medium-priced machines _____
   - Low-priced machines _____
5. Do these discounts allow you to pay salesmen commissions and still leave you a satisfactory profit? _____
6. What per cent commission would you have to pay to get the very best retail specialty salesmen? _____
7. What is the least per cent commission you must pay to get any men at all?
8. What is your trade-in policy? _____
9. How do you dispose of your trade-ins? _____
10. What trade-in allowance does the factory make? _____
11. What percentage of your total sales are trade-in deals? _____
12. What is the average amount you allow for trade-ins? _____
13. Does salvage value on traded machines equal trade-in allowance? _____
14. What allowance per machine do you get from factory for cooperative advertising?
    - High-priced machines _____
    - Medium-priced machines _____
    - Low-priced machines _____
15. What allowance per machine do you get from factory to sales promotion?
    - High-priced machines _____
    - Medium-priced machines _____
    - Low-priced machines _____
16. Do you pay for:
    - Literature? _____
    - Mailing pieces? _____
    - Postage? _____
    - Neon signs? _____
    - Displays? _____
17. How much does it cost per washing machine for delivery, service, and operating instructions to the buyer? _____
18. How long a guarantee do you give on a washing machine? _____
19. What free service do you allow? _____
20. Have you any suggestions in regard to manufacturers' policies or other matters that you feel need corrections? _____

General Comments on Interview: _____

Dealer's Name _____

City _____ State _____

_____

Investigator

After the prices of other machines and the nature of competition had been considered, a decision was made to produce but a single model to sell at retail at $169.50, which was $10 above the highest price washing machine on the market. Although competitors produced an average of eight yearly models, the executives believed that it would be best to produce only one standard model, without providing for year-to-year changes except, of course, when drastic mechanical improvements made it advisable. It was felt that such a policy would speed up turnover, reduce investment in inventory, lessen the risk of obsolescence and price cutting, require a smaller parts inventory, increase the ease of manufacture at a lower cost, and make for better selling efficiency, since the attention would be centered on one model only. The executives were convinced that all of this could be accomplished without curtailing the dollar return to the distributor or dealer.

The retail price of $169.50 was chosen only after much deliberation. A price higher than $159.50 was considered permissible, because research had proved the product so desirable as to make price of secondary importance. Moreover, a higher price in itself would tend to establish the superiority of the product. Again, information obtained from the questionnaires indicated definitely that the most desirable distributors preferred a higher price to permit a margin sufficient for proper promotion. An additional margin was also deemed essential, because the Branley washer was in the promotional stages; if competition eventually became stronger, it was contended that at that time it would be opportune to lower prices and shorten profits.

Were the decisions as to prices and discount correct? If a competitor had brought out a comparable machine priced at $149.50, what action should Branley executives have taken?

46. MOTION PICTURE COMPANY—PRICING OF MOTION PICTURES

In January, 1940, there was considerable speculation among motion picture exhibitors as to the rental charge which would be asked for Walt Disney's then forthcoming production, *Pinocchio*, by R.K.O., distributor of the film. Although it had been unusual in the past for percentage rentals to exceed 35% of gross receipts, 50% had been obtained from all theaters which had exhibited the first Disney full-length feature cartoon, *Snow White and the Seven Dwarfs*. Exhibitors were also wondering whether the high rental charges for *Gone With The Wind*, David O. Selznick's production released through Metro-Goldwyn-Mayer, would tend to cause other distributors to seek higher rental terms for other out-

standing productions. It was known that *Gone With The Wind* had been sold to exhibitors on one of two bases: (1) a straight 70% of gross receipts, establishing an all-time high for percentage terms of sale; or (2) 70%, guaranteeing the theater a profit of 10% on gross receipts for the engagement. If an exhibitor did not care to open his books of account so as to disclose profit and loss data, he would take the straight 70% plan.

Motion pictures, unlike most other commodities, are seldom sold; nor in reality are they leased or rented. Although it is common for persons in the trade to speak of the "buying" or "selling" of films, and although the term "rental" is used, what actually happens is that the producer or distributor who holds the copyright to a picture grants the exhibitor a license which gives him the right to show the picture and supplies him with the film in order that the licensee may exercise his right. This right is normally confined to a certain location and to a specified time.

There is no one-price policy for any individual film. The price which an exhibitor must pay depends upon the estimated box-office success of the picture, the ability of his theater profitably to pay, and, above all, his bargaining strength relative to that of the distributor of the film. There is no necessary relationship between the production cost of the picture and its selling price to the exhibitor. A million-dollar production may be able to command a rental two or three times higher than one which costs three hundred thousand dollars to produce, or, on the other hand, an inexpensive film may command a higher rental than the most pretentious undertaking. Although distributors attempt to influence selling prices by emphasizing the amount of money necessary to produce the year's "big" pictures, production cost in itself means little to the exhibitor unless it reflects favorably on the possible box-office success of a film.

Motion pictures are sold to exhibitors on two bases: flat rental and percentage. Under a flat-rental plan, the charge is a specified dollar amount agreed upon by the distributor and exhibitor in advance of a picture's showing. Under a percentage plan, the rental charge is based upon a specified percentage of a theater's gross receipts during the engagement of a particular picture. Percentage terms may involve a minimum guarantee plus a split of the gross, a straight split, a split over the exhibitor's operating expenses, or any other arrangement mutually agreed upon by the distributor and the exhibitor. Ordinarily, the exhibitor favors the straight split percentage plan, because he feels that the distributor should share proportionately in poor as well as in good box-office returns. On the other hand, the distributor usually opposes a straight percentage plan, contending that this policy tends to reduce the exhibitor's advertising and promotional efforts. As a rule, the distributor attempts to obtain as a

minimum guarantee the expected rental and arranges for a division of receipts above that figure.

Should an exhibitor in a large, first-run house lease the film *Pinocchio* if distributors insist upon terms similar to those for *Gone With The Wind?* Would the distributor be wise in insisting upon such terms?

47. HUTSON COMPANY—EFFORT OF A MANUFACTURER TO PREVENT PRICE CUTTING UNDER VOLUNTARY PRICE MAINTENANCE POLICY

Originally established in 1879 as an importer of nettings and veilings, the Hutson Company by 1937 had become one of the world's largest manufacturers of women's hosiery, underwear, gloves, knit goods, and kindred items. Silk and rayon were the principal raw materials used in the manufacture of Hutson merchandise. For years the company had conducted advertising campaigns in national magazines and had succeeded in creating a national reputation and strong consumer preference for its products. Local newspaper advertising supplemented the magazine campaigns in many localities. Sales were made by a large salesforce direct to department stores and women's specialty shops throughout the United States. The company, relying on the cooperation of retailers, had succeeded in avoiding price cutting and had maintained resale prices in practically all retail outlets. In February, 1937, the company had been informed that a large department store in Chicago, Illinois, was selling Hutson merchandise at prices substantially below the established retail prices. The sales manager was anxious to correct the situation before other stores in the city lowered prices to meet this competition or discontinued the brand because of cut-price competition.

In 1937 resale price maintenance had been legalized in 44 states.[1] Compliance with the laws in many states was voluntary with a manufacturer. If, however, a manufacturer invoked the provisions in a contract with a single dealer, the provisions were automatically applicable to all dealers within that particular state.[2] Although the sales manager believed that price maintenance legislation might be sound, he felt that there were several advantages in refraining from actually signing contracts under the law. Invoking the law would have made it necessary for the company to adhere to the provisions throughout an entire state where such a law prevailed, making it impossible to have sectional price cuts to liquidate stocks or meet some local competitive condition. It had often been

[1] Price maintenance not legalized in Alabama, Mississippi, Missouri, Texas.

[2] Except in Delaware, Vermont, and Virginia, where noncontracting dealers do not have to abide by established prices.

found necessary to lower prices temporarily in certain areas to meet unusual circumstances. Moreover, he believed that a great amount of retailer resentment had arisen in other businesses when manufacturers had exercised options under price maintenance laws. He considered this resentment to be prevalent even among retailers who would not ordinarily have cut prices but who "just didn't like to have a manufacturer tell them how to run their business." The stores selling Hutson merchandise were generally considered as "high class," and experience had shown that the sales manager's original belief that they would not cut below established prices, even in the absence of restraining laws, had been true; in fact, the cases where price cutting had been reported were surprisingly few. Stores which had not cooperated in maintaining resale prices had been found to be poor customers in other respects also, and the company had refused to continue selling to them.

Early in 1937, when the Downing Women's Shop of Chicago, was closing its business, the entire stock was purchased by Elfson's, a department store also located in Chicago. In the purchase, Elfson's received a large stock of Hutson merchandise, which it began selling at drastic reductions from the normal retail price. In Elfson's newspaper advertising, the Hutson name was featured with low prices in large-size type and the "bargain" argument was strongly presented. In the store each item of Hutson merchandise carried a tag identifying it as a first-grade Hutson product and stipulating the established retail price, under which was written the reduced price. Although other large department stores in Chicago continued to maintain prices for several weeks, they notified the sales manager of the Hutson Company that their business on Hutson products would be materially affected if Elfson's was allowed to continue its destructive practice.

Twice the sales manager threatened to invoke the price maintenance laws if Elfson's did not raise prices to the established level, but on both occasions the management of that store had replied with a blunt refusal to alter the practice. The sales manager was undecided what his next move should be. He realized that Elfson's had sufficient stocks of Hutson products to sell at cut prices for perhaps 10 or 12 weeks. He also realized that the other stores would not and could not continue to maintain normal prices under present conditions. On the other hand, he did not want to enter into price maintenance agreements with retailers under protection of resale price maintenance laws because of the effect on future policies of the company.

What action should the sales manager have taken in the light of the above circumstances?

48. OLIVER COMPANY—CHANGE IN PRICE POLICY TO MEET COMPETITION

The Oliver Company, of Chicago, had sold spices for more than 100 years. It followed the practice of its large competitors, which was to import its spices directly from the producing countries or to purchase them from producers' agents in New York. Although the adulteration of spices by manufacturers was not uncommon, the Oliver Company did not practice it. The company frequently had sacrificed both sales and profit for the purpose of maintaining its established reputation for quality. It sold its merchandise in cartons to wholesale grocers and grocery chains, and in bulk to bakers' supply houses located in the Middle West. The company did no advertising. A letter from the Clide Company, the most important customer in the wholesale grocery classification in one district, stated that, because of the low price offered by a large St. Louis company, it was seriously considering the refusal of further purchases from the Oliver Company. The latter company wished to determine what policy to adopt.

Through one of its salesmen the Oliver Company ascertained that the prices which were offered by its St. Louis competitor to the Clide Company were as shown in Exhibit 1.

EXHIBIT 1

COMPETITOR'S PRICES COMPARED TO PRICES OF THE OLIVER COMPANY

Product	Competitor's Prices, Cents per Pound	Oliver Company's Prices, Cents per Pound
Black pepper	15	17
White pepper	22½	28
Red pepper	19½	23
Cinnamon	13½	18
Ginger	26	28
Cloves	40	50
Allspice	11	15
Mustard	16	23
Fancy mustard	30	36
Nutmegs	45	55
Paprika	21–29	25–31
Celery seed	37½	37½
Poppy seed	12	12
Anise seed	21	20
Cumin seed	27½	29½

The Oliver Company had secured the Clide Company as a customer when the latter had been organized in 1924. Its credit rating was low, and in the first year its purchases amounted to only $1,000. By 1933,

the purchases totaled $5,000 a year, which was the size of the average account of wholesale grocers with the company. About 80% of the sales to the Clide Company were made under the private brand of that company. The customary mark-up of wholesale grocers upon spices was 15% of the selling price.

Ordinarily the Oliver Company disliked to sell its merchandise under the private brand of its customers, because it then did not receive the benefit of its established reputation. The actual cost, furthermore, of this merchandise was often more than that sold under the Oliver brand. Although the customer paid for the carton in which the product was packed, it cost the Oliver Company $15 each time that it was necessary to change the packing machine, because of a change in the size of the cartons. The carton of the Clide Company was of the same size as that of the Oliver Company.

Between 1924 and 1934 the company had succeeded in convincing the president of the Clide Company of the desirability of selling only a high quality of spices under its own brand. It had been unable to persuade the company to use the Oliver brand, however. The Clide Company frequently purchased by mail. The Oliver Company wished to retain such customers, since the prices of its merchandise were based upon the assumption that it would be unnecessary to sell each order through salesmen.

Although the Oliver Company frequently had to meet lower prices offered by its competitors, the increase in competition had made the problem more serious. During the first six months of the year the company had lost almost all its orders from four of its important customers because of the lower prices quoted by competitors. These losses had amounted to between 2% and 3% of total sales. In each instance the company had decided to maintain its prices and its quality rather than to meet the competition from what it was convinced was a product of cheaper quality.

There were two possible explanations of the lower prices offered by the St. Louis competitor. Its merchandise might have been adulterated by the maximum quantity of spent or foreign material admissible under the United States Government standards; or it might be selling below cost in order to secure the orders of the Clide Company. The executives of the Oliver Company knew of previous instances in which its competitor had adulterated his product and knew of no instance in which he had sold below cost.

Although the Oliver Company was convinced that the prices quoted on most spices by its competitor would yield a profit to the manufacturer, provided spent materials were used, it was certain that the price of 45 cents

a pound quoted upon nutmegs could not yield a profit unless the nutmegs were impure. The cost of nutmegs to the Oliver Company delivered at Chicago, including freight, insurance, and letter of credit charges amounted to 43 cents a pound. Ten per cent of the product was lost in shrinkage in the process of manufacture. It cost 5 cents a pound to manufacture and pack the product. The total cost was thus 52.3 cents a pound. The price quoted by the Oliver Company was 55 cents a pound, while the price of its competitor was 45 cents a pound.

There were several courses which the Oliver Company could have pursued in respect to this situation. It could maintain the quality and price of its products as it had done previously. It was frequently difficult, however, to convince the purchaser of small quantities of the difference between pure pepper and pepper which included ground hulls. The company, furthermore, did not wish to establish the reputation of losing customers. The St. Louis competitor did not have a foothold in the territory, and the Oliver Company wished to keep his sales in the territory to a minimum. Moreover, it believed that the losses which it had incurred in the early part of the year were serious enough to justify it in changing the policy which it had followed in the previous instances.

On the other hand, the company could adopt the policy supposedly followed by its competitor, or it could go even further and add any quantity of foreign or spent material necessary to obtain a profit. It was convinced, however, that it was unethical to add a foreign or spent material, whether the quantity was large or small.

A third possible course was the purchase of a cheap quality of raw material to fill orders upon which it was necessary to quote a low price. While the company paid 18 cents a pound for the grade of cassia which it sold, other grades could be purchased as low as 6 cents a pound. The cost of cloves could be reduced from 28 cents a pound to 22 cents, and the cost of ginger from 19 cents to 17 cents. Although these spices would be of the lowest quality that could pass the regulations of the United States Government, the company could not sell them at the prices offered by its competitor and make a profit. It estimated that its costs, omitting indirect charges, which fluctuated between 10% and 15% of sales, would equal the selling price of its competitors. Although the actual financial loss in this instance might not be large, yet, if the policy were adopted for all future occurrences of the problem, the losses might increase heavily. The company's salesmen, furthermore, who received a salary based upon the volume of their sales, would object when they learned that one salesman was enabled to maintain his volume through special price reductions. Objections would also come from customers who learned that other purchasers were receiving a special offer.

On the other hand, if the Oliver Company disregarded the indirect charges and sold the spices at the prices offered by its competitors, it would be able to retain the Clide Company as a customer. It believed that if it were able to retain the orders of this company until the fall of the year, the St. Louis competitor would become discouraged and would refrain from sending representatives into the territory. After the competitor had withdrawn from the market, the company believed that it would be possible to increase slowly both the quality and the price of the product which it sold to the Clide Company.

In accordance with these contentions, the company wrote to the Clide Company and offered to meet the price and quality of any of its large competitors. It also offered to buy through the Clide Company any part of 10,000 pounds of nutmegs at the price quoted by the competitor in St. Louis and to pay the former a commission of 2% for the purchase.

Because of the low price quoted by its competitor on nutmegs, the Oliver Company did not believe it advisable to attempt to meet this price. It was convinced that the price was below the cost of production for quality which would pass government standards. The loss which it would be necessary to incur if the same procedure were adopted as with the other spices was more than the company wished to incur. Through its offer to purchase 10,000 pounds or any part of that quantity, it believed that it could bring about the desired result. If the president of the Clide Company accepted the offer and delivered the nutmegs to the Oliver Company, they could be turned over to the government if they were impure. The St. Louis competitor then either would have to stand prosecution by the government officials or would have to deliver to the Oliver Company 10,000 pounds of nutmegs which would pass government standards satisfactorily. In this way the Oliver Company would have received at a low price a large quantity of high-quality nutmegs. If it happened that the nutmegs were being sold below the cost of production by the St. Louis competitor, the same result would be obtained so far as the Oliver Company was concerned. Since the order was extraordinarily large to be made by a company such as the Clide Company, the Oliver Company believed that its competitor would not deliver the order but would withdraw the cheap nutmegs from the market. This action would not only discredit it with the Clide Company but would also rid the market of any product which was being sold below the cost of production.

Should Oliver executives have met price cutting in this way?

QUESTIONS

1. Should a radio manufacturer whose regular line contains models ranging from $29.95 to $350 introduce a low-price line in May, 1940, in order to stimulate sales in the

slack summer season? The new line would be priced at from $14.95 to $29.95, and discounts to distributors and dealers would be somewhat lower than on the regular line.

2. The Duro Leather Luggage Company numbers among its New York customers certain high-grade Fifth Avenue department stores and several exclusive luggage stores. It has been a pioneer in suggesting prices which give dealers an adequate profit. Because of its attitude on the question of price maintenance, it has not approached, or has refused to sell to, the R. H. Macy Company of New York City, whose announced policy is to cut resale prices below those of competing retailers.

The Haven Trunk Corporation, which has become a part of the Duro concern, has for many years had satisfactory relationships with the Macy organization. The R. H. Macy Company has sold considerable numbers of the former's trunks, lunch kits, etc. From its own experience, therefore, the Haven Trunk Corporation is in favor of continuing to sell to Macy's. The Duro executives believe that sooner or later they will have to face the question of whether they should sell their whole line to Macy's or whether they should refuse to sell the Duro line of products.

What policy should be recommended?

3. In the winter and spring of 1940 the Kelvinator Corporation took large newspaper space to announce a policy of reduced prices upon its refrigerators. It stated its decision to concentrate manufacture on popular sizes, increase volume, and lower prices. To the trade, the announcement was made early in January. On January 18 the Gibson Refrigerator Company announced a reduction on its refrigerators, following a reduction on Sears Roebuck & Company lines. The Westinghouse Electric and Manufacturing Company announced a reduction on its line on February 1. Are makers of electric refrigerators generally compelled to follow such reductions? Are there any alternative policies?

4. How should a manufacturer who sells his product at about $25 quote prices in various geographical districts? Freight on the produce is $2 to $2.50 to the Middle West; to the Far West it is $4 to $5. Shipments of the products are made principally direct to dealers but sometimes through jobbers. The manufacturer believes that western competition cannot be met successfully by increasing the price of his goods to western dealers. Should prices be quoted f.o.b. eastern points, f.o.b. point of delivery, f.o.b. western spot stocks, or on a delivered basis?

5. Should a manufacturer of aircraft assume that market demand is flexible and elastic or that it is inelastic? More specifically, was the policy of the large aircraft companies in reducing prices to a very low level in 1931 and 1932 consistent with the facts as to demand?

6. Noticing the success of lower price reprints of expensive books on the one hand and the large sales of magazines on the other, executives of Blue Ribbon Books, Inc., introduced a new line of reprints to sell at 39 cents under the name Triangle Books. Since the introduction of Triangle Books, other publishers have issued series at 25 cents, *e.g.*, Pocket Books, Inc., Pilgrim Series. Should the Blue Ribbon Books, Inc., now attempt to get into the 25-cent price class with Triangle Books, making such changes in format as appear necessary?

7. The Holden Stamping Company of Worcester, Massachusetts, produced a variety of stamped metal products, such as milk cans, strainers, garbage pails, and ice cream cans. The market was primarily in the vicinity of the factory. The products were well thought of in more distant territories, but difficulty had always been encountered in selling them in these territories because of the high freight costs relative to competing concerns. The two principal competitors were located in Cleveland, Ohio.

The sales manager proposed that in order to secure $50,000 extra business in automotive equipment, that is, funnels and measures for service stations, freight on shipments to jobbers should be prepaid provided each invoice amounted to a specified minimum of $75 to $150. He estimated the cost of such prepayment of freight at from $3,000 to $4,000. He felt that the increase in the amount of sales expected was well within a reasonable goal for a company in the automotive field, which in his opinion should have been $250,000 a year, as compared with $100,000 the company was then selling. Competitors had occasionally equalized freight in coming into territory adjacent to the Worcester plant. The Holden Stamping Company had never done so.

What should the Holden sales manager decide?

8. A large manufacturer of overalls who produces a wide line of work clothing and cooperates with dealers in resale matters proposes to furnish dealers with one line of work garment for a price of $1.20 each with a recommendation that he resell it at $1.25. The purpose is to give dealers in smaller communities a value which will at least compete with, and perhaps exceed, the leading value of certain chain store organizations. In other words the manufacturing company is attempting to sell one number in its overall line to be used as a loss leader in the competition of independent stores with chain stores. Is this sound policy?

9. A manufacturer of men's suits in New York, that supplied department stores with medium-price clothing, received a request from one of its good customers for 100 suits to be used for a special August sale in 1939. The price at which these suits were to be billed was $1 per suit less than the price quoted for fall deliveries of equal quality. Since the department store purchases of spring, 1939, suits, the cost of woolens had advanced substantially, and the suit manufacturer had raised prices for fall delivery to absorb part of the additional costs, but he was somewhat concerned as to the possibility of further advances before fall deliveries could be made. He was undecided therefore whether the department store request for 100 suits at the old price should be accepted or not. Factory capacity was sufficient to take care of the business without difficulty.

10. The Colburn Company (see page 151) had not decided at what price its oil burner should be sold to the users or what the margin of the agents should be. Investigation showed that there were about 300 companies manufacturing domestic oil burners which were sold to the users at prices ranging from $200 for the cheapest units to considerably above $1,000 for the most expensive. A large number of manufacturers were trying to make oil burners to sell for $250 or less, but practically all the successful domestic oil burners had been priced at between $400 and $500. However, during the season 1930–1931 the prices of oil burners declined considerably. Executives of the company estimated that a satisfactory manufacturing profit would be secured if the Colburn Company obtained for the burner a net price of $75 exclusive of any marketing expense, assuming that 1,000 units a year would be manufactured. If production reached 5,000 per year, this price could be lowered approximately $10 without decreasing the company's margin of profit. Along with the burner the company supplied two globe valves, a constant level device, a purolater, and a draft adjuster.

Installation costs, determined from practical experience, varied from $11 to $28 according to the amount of pipe necessary, the type of wall to be penetrated to place vents, the amount of bricking-up required, and the distance of the place of installation from the dealer's warehouse. The automatic thermostatic control device which was necessary for a complete installation cost the dealer approximately $25 installed, and the fuel tank also cost approximately $25 installed.

At what retail price should the burner have been sold? How should the margin to be allowed to dealers have been determined?

11. Should salesmen of a wholesale grocery company be permitted to vary prices among customers? How may excessive price cutting be curbed if price discretion is allowed to salesmen?

12. The Glenwood Company, a wholesaler of flowers and florist supplies, sold its products at market prices. It was considering changing its pricing policy to one of adding 15% to the cost of every article it sold. The prices quoted would be the costs to the Glenwood Company, to which in each case was to be added the 15% for wholesale service. Since average margins were customarily much greater in the florist business, the net result would be a substantial reduction in prices. Should the company have adopted the suggested pricing policy?

13. Should the Normand Company, which has added a metal polish to its line of furniture polishes, sell its product upon a list price basis about 12% higher than competitors? Under what conditions may the policy be successful?

14. Should a piano manufacturer have announced radical revisions of prices in 1930 or 1931, or should he have made small revisions from time to time in keeping with declining price levels? If prices had been cut drastically, would the fear that pianos sold on installment terms might be returned in embarrassingly large numbers have been realized?

15. A large oil company, selling fuel oil as well as other petroleum products, has proposed to provide for the installation and servicing of oil burners at a nominal price of $100, provided householders sign a five-year contract for fuel oil requirements at prices to be fixed each year according to the prevailing market. From the viewpoint of the householder is the pricing of oil burners on such a basis a sound one?

16. Should a manufacturer of 50,000 hardware items and parts package and price his products by the dozen or gross for distribution to customers, or should he adopt a policy of packaging and pricing them by tens and hundreds?

17. Should motion picture distributors price films rented to exhibiting houses upon the basis of flat amounts per film or lump sums for groups of films or upon a percentage of the admissions collected by exhibitors?

18. A company proposed to sell one item in its line at a price which covered only slightly more than manufacturing and other direct costs. The other item was sold at a price including all indirect costs and a profit. A member of the board of directors declared that it was unethical and uneconomical to sell any product at less than full cost including a proper share of overhead expense. Do you agree?

19. What attitude should a manufacturer who sells to wholesalers as well as to chain department stores adopt toward the policy of price maintenance? Toward the proposed laws to enforce maintenance of retail prices on manufactured and identified goods?

20. Is the distinction sometimes made between predatory price cutting and price cutting based upon efficiency significant from the viewpoint of the consumer? From the viewpoint of competitors?

B. DISCOUNT POLICY; TRADE, QUANTITY, AND CASH DISCOUNTS

In the hardware, furnishing, automotive, radio, and other lines it is common practice to quote prices which are not the actual sale prices but which yield information as to actual price levels only by the deduction of certain discounts, called trade discounts. Sometimes the base price from which discounts are taken, usually called the list price, is intended to be the consumer price; sometimes the price is intended to be the price at which the goods are to be sold to retailers; sometimes the list price bears little definite relationship to either retail or wholesale prices but may be considerably larger than any of them. But in any case, the actual prices to be paid by any group are determined by the prevailing rates of discount either for the trade or for particular commodities. The retail price may be set by the manufacturer upon a radio; the retail dealer may get from 25% to 40% discount from the wholesaler, who in turn may secure 50% to 60% discount from the manufacturer. The wholesaler frequently varies discounts to the retailer with quantity.

There are two reasons for list prices. The first is to facilitate quotation of prices and price changes for a large number of related commodities. For instance, if the price of nuts and bolts increases or decreases, it is much simpler to change the single discount figure in quoting prices than to change the prices on the hundreds of different sizes and types of nuts and bolts. Furthermore, in industries in which it is customary to issue catalogues it is impossible to provide economically for keeping prices up to date without some short cut such as that of fixing relative prices and notifying prospective buyers merely of changes in discount. It is likewise much more convenient for the manufacturer or wholesaler and for a salesman in dealing with prospective buyers to say that discounts upon certain classes of goods have increased or decreased than to give a long series of new net prices. The second advantage claimed for list prices with trade discounts is the alleged secrecy which enables a competitor to keep his net prices to himself, merely giving information, when required, as to discounts. While eventually competitors may secure such information, the difficulty will delay action.

More important is the policy of making reductions in prices according to the standing or business of the buyer, or according to the size of the purchases. We must distinguish, therefore, between the dealer or jobber discounts and between quantity discounts, although the initial purpose and intention are much the same. The chief justification for quantity discounts seems to be the lower cost of handling large orders in comparison with small orders, but many quantity discounts contain elements which

are not represented by differences in costs. Many other factors have contributed to the development of quantity discount plans besides that of securing larger orders. Many quantity discounts are merely disguises to enable the manufacturer to yield to the pressure of powerful buyers for lower prices without unduly antagonizing purchasers of smaller quantities. The quantity discount has been forced by the action of those who purchase in large quantities and who frequently refuse to buy where such discounts are not granted. While there can be little doubt that quantity discounts are justified up to the point where differences in cost of selling and handling are offset and the point where quantity discount induces purchases in economic quantities, there is much question as to the justification of many of the discounts now offered under various guises. The newer types of retailers who purchase in large quantities secure a decided price advantage which enables them to sell at lower prices with higher profit. In so far as the quantity discounts tend to favor the large inefficient concern in comparison with the small efficient concern, they are thoroughly undesirable.

The forms which the quantity discount takes are numerous. The discount may be a simple one, increasing with quantity up to carload lots. It may be a discount upon purchases within a period from which the firm may reap only the satisfaction of having a particular customer on the books, although the number of orders and shipments may not be more favorable from a cost point of view. The quantity discount may increase or decrease on a sliding scale. It may be made contingent upon increase of sales in one period over a previous period. All of these variations are not intended primarily to compensate for lower costs of handling but rather to reduce costs of selling, to procure assurance of custom or, more frequently, to veil concessions in price which would constitute discrimination if given openly.

Closely related to quantity discounts are the so-called jobbers' discounts or the various price levels between different classes of distributors, particularly where one class of dealers resells to another class. The practice is most common in trades in which commodities are handled by wholesalers and manufacturers' agents, commission men or brokers, who in turn resell to wholesalers or retailers. In so far as the wholesaler's function is that of purchasing in large lots and reselling in small lots to retailers, the justification for jobbers' discounts is in part the same as the justification for quantity discounts. But other considerations have entered into jobbers' discounts. The manufacturer in some cases realizes that the wholesaler performs other functions, that of credit extension and selling, which would otherwise have to be performed by the manufacturer himself. The opinion of the courts that jobbers' prices as contrasted

with retailers' prices were not justified unless there was a substantial difference in the quantities purchased has not been upheld because it ignored other functions performed by middlemen. Functional discounts are apparently consistent with the interpretation of the Robinson-Patman Act, but much more litigation will probably be required before the boundaries between illegal discriminatory discounts and justifiable differences are clarified.

The cash discount is a deduction allowed by the seller on condition that payment is made within a specified time. While superficially a cash discount is considered a premium for prompt payment, in many cases a cash discount constitutes deduction from the selling price, and selling prices are really computed on the basis of invoice prices less discount. In addition to these two elements, a cash discount frequently contains a third, namely, an interest payment upon the amount of the remittance for the unexpired credit term. As with all other discounts, there is a substantial difference of opinion as to the uses and limitations of cash discounts.

49. TARTON MANUFACTURING COMPANY—DISCOUNT POLICIES

The Tarton Manufacturing Company produced a line of products which were sold through drug and department stores. The unit value of these products varied from 50 cents to several dollars. The lowest price product had a frequent repeat purchase and was in the nature of a refill item. The Tarton Manufacturing Company had advertised this product heavily over a long period of years, and the consuming public recognized it as the standard of quality in its field.

The company had consistently pursued a policy of using a direct sales-force since it believed that the closer contact with the retailer and the more careful selection of outlets thus possible was necessary to aggressive sales effort. The number of dealers in a given territory was carefully regulated in accordance with the potential market, in order that every outlet could attain a profitable volume of sales. By following this policy the company hoped to secure the active cooperation of the dealers in pushing the sale of the complete line. It was believed that one of the important factors in this plan was the ability of the outlets to stock the 50-cent item A, which carried a high margin and which, because of its widespread consumer recognition and its nature as a refill item, necessitated practically no selling effort. This had proved to be true around 1920, but over a period of years the popularity of the item led a large number of retail outlets to procure it through various channels and sell it to the public. The Tarton Manufacturing Company recognized that this division of the

available business among a large number of outlets defeated the original purpose of the item as an incentive for the promotion of the entire line of products but did not see how the situation could be changed.

The company salesforce sold item A to selected retail outlets at a 33⅓% discount. As the demand for the product increased and stores other than the selected distributors wanted to stock the product, some of the larger distributors agreed to resell at 25% off list, reserving for their own profit 8⅓%. As this practice grew in importance, wholesale druggists received requests for the item from many of their customers and approached the Tarton Manufacturing Company. Although sales executives did not think that a mixed distribution policy was desirable, demand was so insistent that they decided to sell to wholesalers upon the same terms as retailers. The volume of sales passing through this channel grew in importance, and the wholesalers demanded a trade discount. Since the company did not wish to encourage this type of business too far, a discount of 5% was allowed instead of the discount of 15% or more which was customary in the wholesale drug trade. While jobbers were not entirely satisfied with this discount, the volume of sales passing through this channel grew in size.

At this point some of the larger retailers who had built up a moderate-size wholesaling business on item A approached the Tarton Manufacturing Company and demanded the 5% trade discount which was given wholesalers. The company did not wish to grant this request since the sales to such accounts were a mixture of retail and wholesale, but in order to be consistent it allowed the 5% on that portion of purchases which was sold to other stores. The company was forced to take the word of the retailer in the majority of cases, since individual checks on all stores would have entailed prohibitive expense. As it was, a certain number of investigations were necessary where reports seemed altogether out of line, and an executive of the company stated that this phase of sales work had proved troublesome.

As a result of the entire situation, the sales volume on item A secured by the original selected outlets declined noticeably and resulted in considerable dissatisfaction. The company felt that the selling effort expended by such dealers on the complete line had suffered and attempted to correct this situation by producing item A under a special brand which was to be sold exclusively to wholesalers. At the same time the original brand on item A continued to be sold through the direct salesforce to retail outlets. Although no advertising was used, the special brand had been familiar to the public for many years through an allied product. Wholesalers were granted an original trade discount of 33⅓% and 15% as well as discounts for quantity which at that time were available to all classes of

customers on that portion of their business which was sold at wholesale. This discount consisted of 33⅓% and 5% for annual purchases of $10,000, 33⅓%, 5%, and 5% for annual purchases of $25,000, and 33⅓% and 15% for annual purchases of $50,000. Few customers were able to receive the highest discount. A favorable reception was given the new brand as wholesalers saw an opportunity for securing a wider margin than was possible on the standard brand. Considerable sales effort was expended, and distribution was secured in a large number of retail outlets. From that point on, however, sales were very disappointing. The consuming public evinced only a casual interest in the new brand and continued to buy the standard brand as formerly. The company did not wish to advertise heavily and, in view of the negative results, abandoned the plan.

After the failure of this attempt, the situation remained as before. Although the company would have preferred to sell entirely direct to selected outlets, it continued to sell a large portion of the sales volume on item A through wholesale channels.

What distribution policy should have been followed by the Tarton Manufacturing Company?

50. ACE BRUSH COMPANY—DISCOUNTS TO DISTRIBUTORS PERFORMING SPECIAL FUNCTIONS

The Ace Brush Company manufactured a wide line of brushes and brooms; its sales volume was about $1,500,000. Considerably over half the sales were made to the industrial market, either directly or through mill supply firms. The remainder of the sales were made to the consumer market through various wholesale and retail outlets. While earlier the company had sold on the same terms to any satisfactory mill supply firm that would carry Ace brushes, in 1927 it began granting special privileges to mill supply firms which would promote sales of Ace products to the exclusion of competing lines.

The Ace Brush Company made over 1,000 different kinds and sizes of brushes. Its main lines were paint and varnish brushes; floor sweeping brushes and brooms; window and counter brushes; brushes for creameries and dairies; automobile and foundry brushes; wire wheel brushes for buffing, cutting, grinding, cleaning, and polishing; and various special brushes for large users. Prices of individual brushes ranged from 10 cents to $15 on stock items and amounted to as much as $250 on some special types. Of the brushes sold to the industrial market there were two classes, those to be used as tools in production and those to be used for maintenance

purposes. The two most important types of industrial firms buying the company's products for production purposes were automobile tire manufacturers and manufacturers in the various metal trades. In selling to this type of customer, salesmen sometimes required a little technical knowledge regarding the use of the brushes. The chief buying motive of manufacturers buying brushes as tools was thought to be economy in use; promptness in delivery was relatively unimportant.

The company sold to 200 mill supply firms. Many of these mill supply firms complained of direct selling by the manufacturer. The Ace Brush Company wished to have amicable and mutually beneficial relationships with its distributors. Its attitude toward them and toward the question of direct selling is indicated by the following hypothetical dialogue, which was written by an officer of the company who sought to answer the more common complaints of the mill supply firms.

DISTRIBUTOR: "You sell us and then sell our customers."

MANUFACTURER: "What can you expect if you don't *sell* my product to your customers when I know they can be sold our product?"

DISTRIBUTOR: "But you sell them at lower prices than I can afford to."

MANUFACTURER: "Not if I am wise, for except in a few cases my selling expense direct is probably at least as large as yours plus what it costs me to sell you."

DISTRIBUTOR: "That is fair enough but what are those few cases?"

MANUFACTURER: "The occasional extremely large industrial user who buys in very large quantities. If I do not sell him direct at a better price than you can, someone else will and you will not get the business anyhow."

DISTRIBUTOR: "But if all manufacturers would refuse to sell direct at lower prices that would fix matters."

MANUFACTURER: "Yes it would help you but it would not be economically sound in cases such as we are discussing, for my selling expense direct is less than what it would cost me to sell you plus your own sales expense."

DISTRIBUTOR: "Well perhaps you are right, but what I want is some real cooperation."

MANUFACTURER: "Fine, there are a number of things I'll be glad to do for you in the way of advertising support, selling helps for your men, protection on direct selling and from local competition. On the other hand, you must do your part with real consistent sales support instead of shopping around on a price basis. In other words, I'll be glad to look on you as my selling agency and help you build sales and profits if I can count on you to stick by me and really cooperate in selling my line to the exclusion of competitive lines."

The essence of the policy developed by the Ace Brush Company in 1927 is expressed in the last sentence of the dialogue. The company wanted each distributor to promote the sale of Ace brushes and not merely to catalogue the brushes, as was the usual practice. In return for the cooperation of those distributors who agreed to give special attention to Ace products, the company granted a price averaging 10% lower than that allowed other mill supply firms. Prices to the other supply firms were not increased in order to be able to offer this differential. The company also

turned over to its distributors inquiries from manufacturers and gave them all manufacturers' accounts which could not economically be sold to directly. Generally, all accounts of $1,000 a year and over could be advantageously handled directly; but the company would fill orders from some smaller manufacturing accounts, the decision depending upon the kind of brushes and the assortment of brushes desired and upon the attitude of the manufacturers.

The company made no exclusive agency agreements with distributors. It usually had only one or two preferred distributors in a city, but it continued to sell to other mill supply firms. In a few cases these other mill supply firms gradually discontinued handling Ace brushes. The regular distributors were required to drop other lines of competing brushes as soon as possible; generally, these firms had sold several brands of brushes, sometimes carrying considerable stock of each brand and sometimes carrying practically no stock.

The preferred distributors were expected to carry sufficient kinds and quantities of Ace brushes in stock to meet local demands, which, of course, varied greatly in different territories. In many cases the distributors' stocks of Ace brushes had to be increased greatly in order to supply adequately the local market. In other instances mill supply firms already had been carrying good assortments of Ace brushes and did not have to increase their stock to any great extent upon becoming special distributors.

In the main, the distributors did not lower their prices of Ace brushes upon receiving the special 10% discount. This reduction was given as a compensation for additional selling effort, and, as the sales manager of the Ace Brush Company stated, the reduction, even in the eyes of the distributors, hardly justified any change in their prices.

The company put its new policy into effect gradually. Distributors were given the special discount only after careful investigation and only when the distributor agreement would be mutually beneficial. In four years the company had made special agreements with 40 of the 200 mill supply firms which handled its products. This policy was gradually being extended to additional distributing centers.

During the first four years in which the company undertook to secure special distributors its sales volume increased approximately 25% in those territories where the new policy had been put into effect. In some territories results were extremely satisfactory. Within four years one distributor increased its annual sales from $1,700 to $7,250; another, from $1,800 to $4,200; a third, from $5,000 to $20,000. Another distributor in a three-year period increased its sales volume from $1,500 to $9,500.

Part of the increase in sales of distributors resulted from the fact that the Ace Brush Company turned over to them, when practicable, orders and

inquiries from manufacturers. But the company attributed the increase primarily to the concentration of distributors on one line of brushes and to their greater selling efforts.

In spite of the fact that the company granted its special distributors a discount 10% greater than that previously allowed, it made a greater net profit than it had before. The reduction of price to preferred distributors was more than offset by the larger sales volume and by the lower cost of handling a smaller number of large orders, as compared with a larger number of small orders.

Is the policy of the Ace Brush Company sound? Is it consistent with the provisions of the Robinson-Patman law?

51. DENNY COMPANY—DISCOUNT POLICY

The Denny Company of Denver, Colorado, manufactured and packaged the Denny baking powder for home consumption. The product was sold entirely through wholesalers and chains, but the company maintained a missionary salesforce which called on retail outlets soliciting orders which were turned over for filling to the wholesale houses chosen by the retailers. This salesforce on an average of four times a year visited practically every retail grocery store in the territory which the company covered. The executives believed retail cooperation to be so necessary that the expense of maintaining this sales force to get such cooperation was justified. In addition, the company had canvassing crews and store demonstrators who were sent to localities where the sales volume was low. In 1931 voluntary chains were demanding that they be allowed the same discounts as the chain store systems. The company was undecided as to the stand it should take.

The company packaged its baking powder in 4 sizes: ½ pound, 1 pound, 5 pounds and 10 pounds. The jobber list price, the price at which the company billed the jobber, less discounts, the price at which the jobber was to sell the product to the retailer, and the retail price are shown in Exhibit 1.

From these prices the wholesaler was allowed discounts varying according to the type of shipment, that is, whether the company shipped the order from the plant (a drop shipment) or the wholesaler delivered from his stock, and according to the quantity purchased at one time by the wholesaler. The terms were 2%, 10 days, net 30 days, freight prepaid. Jobbers' discounts are shown in Exhibit 2.

To encourage quantity buying on the part of the retailers, which the officials felt was of value in stimulating sales effort on the part of these

outlets, the company offered them a quantity discount of 4% on purchases of 5 boxes and 7% on 10 boxes. All billing of retailers was done by the wholesaler, but the executives, in order to avoid dishonesty and disagreements which would result if the wholesaler passed this discount on to the retailer, devised a plan whereby the wholesalers were to deliver the goods to the retailer, were to bill him at the list price, and were to issue to him a draft on the Denny Company for the amount of the discount. Special

EXHIBIT 1

DENNY COMPANY—JOBBERS' PRICE LIST

Denny Baking Powder	Price per Box	Retail Price per Can
Box ½ pound (2 dozen)	$2.75	$0.15
Box 1 pound (1 dozen)	2.30	0.25
Box 5 pounds (½ dozen)	4.50	1.00
Box 10 pounds (½ dozen)	8.00	1.75

quantity allowances on the larger sizes were made; 4% was allowed on 2 boxes of 5-pound cans, and 7% allowed on 4 boxes of 5-pound cans or 2 boxes of 10-pound cans. The conditions of this quantity offer were that deals should not be split between retailers and that full delivery must be made to the retailer at one time. Both of these conditions were violated to some extent, but a knowledge of the customers and the presence of the company's salesmen in the field gave a check which prevented any flagrant abuse of the plan.

EXHIBIT 2

DENNY COMPANY—JOBBERS' DISCOUNTS

Drop Shipments in Any Quantity	10%
Less than 25 Boxes	10%
25 Boxes, or Less than 50 Boxes	12½%
50 Boxes, or Less than 100 Boxes	12½% and ½%
100 Boxes, or More	12½% and 1%

After the rise of chain stores to importance in the grocery field, the company had allowed them the jobber discount, according to the type and quantity of their order, and also the 7% allowance which they gave to retail outlets for quantity buying. In return for this 7%, the chains were to advertise the company's product and were to give it display space. These terms had been given only to recognized chain systems for several reasons: (1) The competition for this business had been keen, and the chains had demanded a price which would enable their stores to compete with any independent store. (2) The company's missionary salesforce still had to do merchandise and display work with the majority

of the voluntary chain stores, while such work was not necessary with the chain stores. (3) Voluntary chains had been placing so much emphasis on quick turnover that the company felt it was more necessary than ever to offer the quantity discount to the retailer to encourage him to stock the item in large quantities. (4) If the discount were allowed to the voluntary chain, it would go to the wholesaler, thus to the retailer only indirectly, and so the company would gain little or no goodwill with the individual retailer as a result of this discount. The company felt that in spite of the voluntary chain control, the average retailer still needed the incentive of a large volume on hand before he would give the amount of sales effort the company desired to the product.

On the other hand, some strong voluntary chains were as closely controlled and as well managed as were chain stores; and, since such chains were as easy to sell, were as good credit risks, and required no more selling effort than did chain stores, they deserved as good a price. Such voluntary chains very often would manufacture their own product unless they received a reasonable price. Furthermore, the importance of this type of retail outlet was increasing in the company's territory.

Still other factors were present to complicate the problem. Voluntary chains were springing up rapidly and varied greatly in form and in the extent of control. Some, as has been mentioned were closely knit and well managed; others were very loosely controlled, and the management was left almost entirely in the hands of the individual storekeeper. Thus the company could not apply the same terms to all of them, since they would require different services, would present varying credit risks, and would give the company varying degrees of cooperation. Yet if the company allowed certain discounts to the well-managed voluntary chains, all so-called voluntary chains would demand like treatment. Another difficulty presented itself in that very often all of a wholesaler's business did not go through the voluntary chain with which he was associated. Was the company then to allow him the 7% discount on all his purchases or only on the amount which he sold to the voluntary chain, and could this latter amount be decided upon without dispute?

The company was considering several solutions to the problem. One was to give each store in voluntary chains a certain advertising allowance each year. Another was to give the wholesaler who was associated with a voluntary chain a special advertising allowance during certain periods of the year. Still another was to give the wholesaler who was associated with the voluntary chain a discount of 4% and allow an additional 1%, 2%, or 3% for quantity purchases by the individual stores. Lastly, the executives considered letting the wholesaler make out a draft on the company for all the purchases which went to units of the voluntary chain.

None of these plans seemed entirely sound, either because they were unsatisfactory to the voluntary chain or to the company, or because disagreements were certain to arise in their attempted operation. The company was seeking some solution to the probem which would be satisfactory in light of all the various considerations.

What policy should have been adopted?

QUESTIONS

1. Customers of a food manufacturing company were in increasing numbers taking cash discounts on purchases, although remittances were being made 12 to 20 days after the date of invoice rather than strictly within the 10-day limit, as prescribed by the 2%, net 30-day terms. Should the executives of the food company take action to secure strict adherence to price terms? If so, what should be done?

2. In order to meet the lower prices of so-called "short-line" drug jobbers, the president of the Midwest Drug Company proposed to offer a 10% discount off list upon 5,000 proprietary items—about 10% of the total lines carried—provided retailers purchased in at least one-dozen lots. The usual cost to the Midwest Drug Company for such items was list less 15% and 2% for cash within 10 days. Should the proposal have been adopted? Could the Midwest Drug Company expect to make a profit upon the cut-price items?

3. A biscuit manufacturer, in addition to offering 1%, 10-day cash discounts, offered volume discounts to retailers based on average monthly purchases. If a store purchased under $100 of merchandise a month but more than $25, a 10% discount was granted; from $100 to $1,000 a month a 15% discount, and over $1,000 a 17½% discount. Chains usually secured the 17½% discount, because purchases were in the highest bracket. In one highly competitive territory the executives of a voluntary chain demanded the maximum discount for members because, in the aggregate, members purchased over $1,000 a month from this manufacturer. The products were not bought exclusively from any one source; nor were the voluntary chain executives in any position to force members to purchase from one source.

What reply should have been made to the request for the maximum discount?

4. In view of higher costs because of social security contributions and corporation taxes, a manufacturer of optical goods proposes that prices be raised by reducing the cash discount from 2% to 1%, explaining to customers the reason for the change, asserting reluctance to make price changes, and expressing the hope that the change in the rate of cash discount would suffice. Should cash discounts be lowered?

5. A manufacturer of motor trucks, listing in chassis price from $1,545 to $8,000, f.o.b. Detroit, offers to allow the dealer two discounts: the first, a regular discount of 17½% to 25%; and the second, a special discount based on volume, ranging from 1% for annual volumes $20,000 to $35,000 at net prices, to 6⅔% for sales $200,000 and over. Is this discount plan designed to secure aggressive and intelligent selling on the part of dealers?

6. A Dayton, Ohio, company making small metal parts to order is troubled by price cutting of a competing company, founded by a former stockholder and director of the Dayton company. The competitor does not make a superior product but is getting some business on the basis of lower quotations on competing items. The Dayton company executives do not believe the competitor can make a profit at the prices quoted

and know that their company could not do so. Should the Dayton company meet the prices? What factors need to be considered?

7. Are quantity discounts in the interest of the consuming public? To what extent do quantity discounts tend to foster monopoly contrary to public welfare?

8. A shoe manufacturing company whose standard cash discount to department stores was 6% was informed by buyers that executives required them to obtain a 10% discount on all purchases. Should the company inform salesmen that if buyers insist upon higher discounts, they may have the shoes billed at a sufficiently higher price so that the 10% discount quoted will leave the same net price to the manufacturing company?

9. What should be the policy of a wholesale grocer toward the practice of salesmen who offer to customers special discounts which they promise to pay out of their own earnings?

10. The following passage occurs in a letter from the sales manager of a company manufacturing leather belting and other mechanical leather goods:

"A customer purchases a bill of goods, which are sold on terms of net 30 days, 1% 10 days for cash payment. *He pays his bill within 10 days, deducting the 1% for cash* and, upon receiving and inspecting the goods, he finds that they are not suitable for the work for which they were intended. The matter is reported to the seller, and he is permitted to return the goods for credit.

"Upon receipt of the goods, he is sent a credit memorandum, showing the net amount of the original invoice less the 1% deduction. The net amount shown on the memorandum being exactly that which he paid for the goods.

"On receiving the memorandum he takes exception to the 1% deduction, insisting that in the purchase of the goods there are two separate transactions involved. First, the purchase of the goods at a definite price, second, the bank transaction whereby he is given 1% for the use of his money between the tenth day from date of invoice, on which day the right to make a cash deduction expires, and the thirtieth day from date of invoice, on which day the net amount of the invoice is due.

"He, therefore, insists that the seller send him a credit memorandum for the gross amount of the invoice as originally rendered; in other words, he wants 1% more returned to him than he actually paid for the goods received.

"It is our contention that in this case the buyer is wrong and that the seller is under obligation to return just exactly what he paid for the goods and no more."

Is the opinion of the sales manager correct?

11. Would a specialty food manufacturing company which has been having difficulties because retailers have deducted discounts, although not making remittances before the expiration of the 10-day period, find it wise to enforce rigidly its terms? Do any circumstances exist in which it might be unwise to enforce announced terms?

12. What are the reasons for trade discounts? Under what circumstances may it be advisable to eliminate trade discounts and quote net prices?

13. A company, located in a Connecticut city, manufacturing pressed metal ware, found it difficult to distribute through wholesale hardware companies in the Middle West because of adverse freight rates. Should it increase its discount in Chicago territory, or should it prepay freight, quoting delivered prices?

14. A company making 70% of its sales of antiseptic solution to chain and unit drug and grocery stores, and the remainder to wholesalers, granted a discount of 20%, off the list price on all orders for at least two cases. Its market has been demoralized by the price cutting of its product practiced by both retailers and wholesalers. Should

the company lower its discount to 15% and raise the minimum order necessary to secure that discount to five cases?

15. Are quantity discounts to retailers consistent with advocacy of the policy of maintaining resale prices? Is it economically sound to quote different prices to different classifications of middlemen irrespective of quantities purchased?

C. SPECIAL SELLING TERMS

Consignment. The term consignment is applied to the practice of making shipments of goods to persons who may or may not have consented to such shipments but whose purchase in the legal sense of the term is not made except under certain conditions. The consignment arrangement may provide that the consignee buy only those goods he desires from the consignment, the title to the rest of the goods remaining with the seller, unsold or unused goods to be returned to the manufacturer without obligation on the part of the consignee. Frequently used in certain types of business, consignment may be justifiable; it may, on the other hand, be utilized in such a way as to constitute an uneconomical, wasteful, or undesirable practice. Buyers, particularly when they are in fear as to future developments, may be overcautious and may be induced by consignment terms to have goods on hand so that when calls are received they will be able to fill demands. Or buyers may not wish to carry a sufficiently full stock to meet all demands in terms of sizes, colors, and styles; with consignment terms the responsibility of carrying such a stock is much less. Consignment methods are used by the large electric lamp producers as a means of maintaining prices; since stocks are owned by the manufacturers, they are in a position to insist that they be resold at stated prices. However, the dealer does not ordinarily take the same interest in consigned goods as in goods which he purchases outright. Consigned goods are likely to be left without proper attention, or they may be returned by the dealer long after the style or design has changed, the manufacturer thereby incurring large losses.

Leasing Terms. Much less common are leasing terms. Like consignment, lease does not involve sale although, like consignment, leasing does look forward to ultimate sale and payment. The lease provides for the use of equipment, particularly of machinery equipment, under conditions whereby the lessor makes periodical payments in return for the use of such equipment. The most notable example of lease terms is furnished by the United Shoe Machinery Company, whose machinery is leased to shoe factories in return for a periodical payment based on the number of pairs of shoes manufactured.

From the viewpoint of the manufacturer, the objective of leasing terms is to increase the utilization of machinery by making it more convenient for those who have ability but little capital to enter into business. It simplifies the selling program because the buyer is not compelled to weigh the expenditure of a large sum for equipment but considers only the payment per unit of production or per period. Theoretically, also, the manufacturer or lessor of the machinery can keep that machinery in working order and replace it with more up-to-date machinery as often as he pleases; practically, as the volume of machinery on lease increases, there is more and more of a dead weight upon the manufacturing company, which may tend to retard the introduction of new methods and new machines.

Guaranty against Decline in Price. In many trades the practice has grown up of guaranteeing buyers against loss through decline in prices below the prices quoted in the order. Such guaranty is of special importance in the case of goods purchased for future delivery, in which purchases are made a considerable period in advance of the selling season for which they are intended. In the shoe, textile, and canning trades, the purchasers are accustomed to gauge the extent of their operations by means of orders on hand. Future orders are not willingly placed by many retailers, unless there is some guaranty that they will secure the benefits of any decline in price which may take place between the time of placing the order and the time when the order is shipped. The terms of the guaranty offered by concerns may vary. Some concerns guarantee the prices upon the orders taken for future delivery against their own decline in price up to the date of shipment. A few companies extend their guaranty beyond the date of shipment to the time of the sale of the goods by the dealer.

The first reason advanced in favor of this policy is that, without such guaranty, future orders are difficult to secure. This is particularly true of the periods in which there is a considerable degree of hesitation and waiting on the part of buyers. Those dealers who are too timid to place future orders, or who are unwilling to take the risks involved, may be induced to make further commitments if they are guaranteed against losses due to a change in price levels. Furthermore, where orders have been placed and there develops a period in which it is fairly evident that prices may decline, the tendency toward excessive cancellations is decreased if there is a guaranty against price decline.

From the viewpoint of the manufacturer, securing orders for future delivery enables him to make manufacturing plans which are probably more in accordance with actual consumer demand than might be the case if no inducements were made to secure future orders. And, while the manufacturer who guarantees against price decline assumes a serious financial risk in the case of such decline, the loss through such guaranty may be

considerably less than the loss which would be incurred if he should plan operations without guaranty. From the viewpoint of the wholesaler, the guaranty against decline makes it possible for him to relay the guaranty to retailers in an inducement to purchase. Thus, the guaranty tends to keep stocks in movement, to maintain stocks in periods of hesitation, and to meet normal demands when stocks might not be maintained if the additional risk of fluctuation in price were not to be assumed in part by the manufacturer. Against the price guaranty is, of course, the great financial risk. A concern which sells a large amount of goods on a declining market may find itself confronted with serious financial obligations at a time when its resources are strained by other adverse developments. In a period of declining prices, therefore, there is the distinct tendency under the guaranty for the manufacturer to retard price reductions. On the other hand, in periods of rising prices, future contracts made at a fixed price tend to slow up the advance in prices.

52. GROCERY SPECIALTY COMPANY—GUARANTY AGAINST PRICE DECLINE

The Grocery Specialty Company was confronted with a problem regarding the sales terms granted to warehouses of chains. Chain stores which warehoused their products had been given a warehousing discount. On the other hand, chains which bought on the basis that shipment should be made direct to member stores were not granted such a discount. With the establishment of supermarkets in warehouses maintained by the chains, manufacturers were faced with the question whether or not to extend the usual protection against decline in price of floor stocks carried in such establishments.

Buyers insisted that floor stock protection in price declines which, like warehouse discounts, was not given to ordinary retailers was justified in the case of the so-called super-warehouse, which served the chain units in its district in addition to housing a supermarket for the retailer of foods on a volume scale. Executives of the Grocery Specialty Company believed that, if the request was granted, every retail store would be able to designate a floor or part of a floor of the retail store as a warehouse and claim price protection for its goods. On the other hand, it was pointed out that no logical reason should exist why a warehouse performing a legitimate wholesale function should be denied the price protection which had been accorded to wholesalers as a matter of course for many years by manufacturers.

What policy should have been adopted? What is the consumer interest in guarantees against declines in price?

53. HOLBROOK OIL COMPANY—PROPOSAL TO USE CONSIGNMENT CONTRACTS TO STABILIZE PRICE STRUCTURE

The Holbrook Oil Company distributed gasoline, motor oils, and other petroleum products purchased from affiliated companies in 13 states in the northeastern part of the United States. The Holbrook name was extensively advertised in magazines, in newspapers, and on billboards and was well known by the public. The company had been distributing in this area for only four years, although affiliated companies had been distributing in other sections of the country for a considerably longer period. A substantial portion of the company's sales was made through filling stations owned and operated by it, while the rest was made directly to independent filling stations and to large users by Holbrook tank wagon salesmen. The company-owned outlets were organized under a separate division and were controlled directly from the home office in New York; tank wagon salesmen did not call on company-owned stations. The field sales organization of the company, consisting of about 135 salesmen, was divided among five districts, each in the charge of a district manager responsible to the general sales manager. Each district contained from four to nine supervisors, under each of whom worked from three to nine tank wagon salesmen who were furnished automobiles and who called on accounts; the products sold by the tank wagon salesmen were later delivered by tank wagon drivers. Each salesman was assigned a definite territory; the number of accounts in the territories ranged from 25 to 60 and averaged about 37, although the number was increasing as the company became better established in the eastern area. The gasoline and motor oils sold by the Holbrook Oil Company were received largely in ocean steamships at Atlantic seaboard ports and were shipped in tank cars or were sent in barges to terminal stations strategically located throughout the territory. Each terminal station was equipped with storage facilities and trucks for the delivery of the products. A terminal area usually corresponded to the territory assigned to a supervisor.

The Holbrook Oil Company entered into some type of dealer agreement with each independent outlet that distributed its products. Several types of contracts were in use, but the one most widely used was a simple contract providing essentially that the dealer handle only Holbrook gasoline and that he pay for that gasoline a price 3 cents below the posted service station price at Holbrook stations in the vicinity (Exhibit 1). Usually a verbal agreement was made to allow the station 1 cent additional margin, but this agreement could be withdrawn at any time. Loans of station equipment and other concessions were usually provided for by special agreements. In some cases, in order to obtain more effective

EXHIBIT 1

HOLBROOK OIL COMPANY—DEALER'S SALES CONTRACT

THIS AGREEMENT is made this _____ day of _____ 19____, by and between the HOLBROOK OIL COMPANY (hereinafter called "Holbrook") and _____ (hereinafter called "the Buyer").

During the year beginning _____, 19____, Holbrook agrees to sell and deliver to the Buyer at the Buyer's filling station at _____, and the Buyer agrees to purchase from Holbrook the Buyer's entire requirements of gasoline for said filling station. The price to be paid for such gasoline shall be Holbrook's prevailing Tank Wagon price at _____ *provided, however*, that the Buyer shall at no time be required to pay a price per gallon in excess of Holbrook's posted Service Station price at said _____, less 3c per gallon. The Buyer shall pay for such gasoline as it is delivered, unless special arrangements for credit are made.

Holbrook shall notify the Buyer promptly of any change in its prevailing Tank Wagon and/or posted Service Station prices.

Holbrook shall not be obligated to sell or deliver to the Buyer more than _____ thousand gallons of gasoline during any calendar month and shall not be liable for failure to make deliveries or for delay in making deliveries due to the elements, strikes or other causes beyond its control.

The Buyer agrees during the term of this agreement to handle, deal in, advertise and sell only Holbrook and/or Super Holbrook gasoline and not to sell or deal in gasoline of any other manufacturer, jobber or person.

The Buyer shall operate said filling station in compliance with Holbrook's rules, regulations and directions and in a manner satisfactory to Holbrook, and upon the Buyer's failure so to do (as to which Holbrook shall be the sole judge) Holbrook shall have the right to cancel this agreement.

This agreement shall continue in full force and effect not only for the year above specified, but as well from year to year thereafter until one of the parties gives to the other a 30-day written notice of intention to terminate the same on the next following anniversary date thereof.

This agreement shall not be assigned without Holbrook's written consent, and shall not become effective until signed by Holbrook's District Manager.

IN WITNESS WHEREOF, the parties have caused this agreement to be executed the day and year above written.

HOLBROOK OIL COMPANY
By

_____
District Manager

_____
Salesman

_____
Buyer

_____
Address

control over the station, the company leased the property from the owner and then re-leased it to the station operator under a contract with stipulations similar to those in the contract referred to above.

The Holbrook Oil Company, in common with all the other major oil companies, was having considerable trouble during 1930–1931 in maintaining the price of gasoline at a level which would allow a reasonable profit to

the company and to the dealers. The serious overproduction of crude oil and the consequent large stocks of gasoline were major factors underlying the extremely keen competition for distribution outlets. Frequent changes in prices and the low margins sometimes resulting caused discontent among the dealers, with a consequent heavy turnover and a tendency to substitute products with a wider margin but oftentimes of inferior quality.

Usually all the major oil companies quoted the same retail price in any area, and this price was necessarily the lowest which any one of the companies desired to quote. Brand preferences in gasoline were apparently not strong enough to allow any single brand of regular gasoline to command a premium for any considerable length of time. Under normal circumstances the retail price of gasoline in the northeastern part of the United States was based on the "cargo price," that is, the price per gallon on board ship in any of the Atlantic seaboard ports. The "tank car" price at any given point was the cargo price plus approximately 1 cent per gallon for storing and handling, plus the tank car rental and freight costs to the terminal in that vicinity. The posted service station price was the tank car price plus approximately 5½ cents per gallon; 4 cents were usually given to the dealer, and 1½ cents were retained to cover the operating expenses and overhead of the oil distributing company and to yield a profit. The tank wagon price, which was usually 2 cents under the posted service station price, was theoretically quoted on gasoline sold directly to users from the company's delivery trucks; the price was used to some extent in dealing with commercial accounts but was becoming less important. The same posted service price was normally quoted throughout the entire terminal area.

Several factors, however, made difficult the maintenance of the posted service station price throughout the terminal areas. Tank car service stations and wholesale distributors of so-called "gyp" gasoline were two very unsettling influences on the price structure. Concerning the former a writer had made the following statement:

> In this connection the activities of the so-called tank car service station deserve particular attention. The number of outlets of this type has grown very noticeably in the past two years. The entrepreneur typically gets a service station location at the juncture of a railroad and a good traffic artery; he then puts up a station, usually an inexpensive one, and enough storage capacity to receive deliveries in tank cars. He buys his gasoline direct from a refiner—usually one who has no other marketing interest in that territory but who has excess gasoline to dispose of. With this set-up he begins business, usually at a price from 1 to 3 cents below the prevailing posted level. If, as frequently happens, he gets a good gallonage, he enjoys some success—even though his margin is small, his expense of distribution per unit also is small. He capitalizes at once not only the overexpanded marketing condition of the industry which has made

for generally wide margins, but also the immediate oversupply of gasoline which enables him to buy cheaply. Not infrequently also he poses as the friend of the people who will serve them by selling at lower prices. When such a marketer is successful in obtaining a large gallonage at cut prices, the companies adversely affected usually meet his prices; then, of course, his business wanes, for it rests primarily upon price rather than upon quality of products or service.[1]

Independent wholesale distributors also purchased gasoline directly from the refiners. Sometimes the gasoline was of standard grade, but more often it was of a grade inferior to that offered by the major distributors. Usually within limited areas close to storage facilities the wholesale distributor would offer the gasoline to service stations at a price several cents under that quoted by the larger distributors.

In order to maintain gallonage, the company-owned stations in the area of price cutting were forced to meet, or almost meet, the lower prices. This was not done, however, by lowering the posted service station price throughout the terminal area but by quoting a cut price "for cash and today only" in selected company-owned stations. The independent stations selling the Holbrook gasoline in the immediate vicinity were, of course, forced to meet the retail price also, even though they continued to pay for gasoline 4 cents under the posted service station price; in some cases the dealers' margin was thus entirely wiped out. Such a situation demoralized the dealer organization, caused heavy turnover, substitution, and other attendant evils.

In order to avoid this general situation, the executives of the Holbrook Oil Company were considering the adoption of a new type of dealer agreement to be used only with the independent stations in key locations in each area. The sections of the new consignment agreement containing the major changes are quoted in Exhibit 2. The commission per gallon was to range from 3 cents to 4 cents according to the type of gasoline on sale and the bargaining power of the dealer.

EXHIBIT 2

HOLBROOK OIL COMPANY—CONSIGNMENT AGREEMENT

(Selected Sections)

First. Holbrook Oil Company shall from time to time deliver to the Consignee on consignment at the Consignee's service station or garage located at_____ such quantities of Holbrook gasoline as Holbrook deems necessary to meet the demands of the trade at said station. Title to all such gasoline so delivered shall remain in Holbrook until sold. The proceeds of all such sales shall be Holbrook's property.

Second. The Consignee shall be responsible for all gasoline consigned to the Consignee, and for any loss of or damage to the same, and shall sell such gasoline at the prices from time to time fixed by Holbrook and for cash only, *except* that to the extent

[1] SWENSRUD, SIDNEY A. "Distribution Problems of The Oil Industry, I," Vol. IX, *Harvard Business Review*, July, 1931, p. 389.

EXHIBIT 2.—(*Continued*)

authorized by Holbrook the Consignee shall sell such gasoline on credit to persons approved in writing by Holbrook as credit customers. The Consignee shall keep for Holbrook accurate records of all gasoline received and sold at said station. Such records shall be in such form as Holbrook may from time to time prescribe and shall at all times be open to Holbrook's inspection. Such records shall be the property of Holbrook and may be removed by Holbrook at any time.

Third. Holbrook shall allow, and the Consignee shall accept, as full compensation for the performance of all the Consignee's obligations hereunder, the following commissions on Holbrook gasoline sold at said station:

1. _____ cents per gallon on all Holbrook regular gasoline sold at the highest retail price posted at the time of sale at said station for such gasoline, whether for cash, or on credit to persons approved by Holbrook as credit customers.

2. _____ cents per gallon on all Holbrook regular gasoline sold, with Holbrook's approval, for cash at less than the highest retail price posted at the time of sale at said station for such gasoline.

3. _____ cents per gallon on all Holbrook regular gasoline sold, with Holbrook's approval, on credit to persons approved by Holbrook as credit customers at less than the highest retail price posted at the time of sale at said station for such gasoline.

Should the company have adopted the proposed consignment contract?

54. FLORENTINE MACARONI COMPANY—FREE DEALS

The Florentine Macaroni Company had adopted the policy of selling its macaroni, 24 packages to the case, at a list price of $1.80 a case. It was sold in single cases to retailers at $1.80, although all deliveries were made to jobbers. The company maintained a small force of missionary salesmen who visited retailers from time to time and took orders for macaroni usually in so-called "special deals." Instead of granting quantity discounts, it was customary to give a certain proportion of "free" goods. If a customer ordered six cases, he received one-half a case free; that is, he was billed for five and one-half cases. During the summer season when business was slack, it was customary to increase the discount so that with each order for ten cases two cases were given free.

A representative group of macaroni manufacturers met in the offices of the Federal Trade Commission and made the following recommendation:

That the giving of premiums or so-called free goods to the trade which in any way tends to influence the sale, or constitute a reduction in the list price of such seller to all such class of buyers, be declared to be an artificial practice of selling, an unfair method of competition, an unfair trade practice, undesirable merchandising practice and contrary to the public interest.

The vote was affirmative except for one in the negative.

The exception was suggested that this practice might be justified if the seller is compelled to adopt it in order to meet a similar act in competition. If, however, the

judgment of the industry is correct and this is an unfair method of competition, a competitor need not himself adopt it in self-defense but may protect himself against it by invoking the aid of the Federal Trade Commission to prevent his competitor from using it.

What attitude should the Florentine Macaroni Company have taken toward this declaration upon the part of its competitors? Explain briefly.

QUESTIONS

1. Wholesale dry goods merchants have on occasion adopted resolutions to the effect that price adjustment should stop with the shipment of the goods to the buyer and that no rebates should be made to buyers after such shipment, meaning therefore that guaranties against price decline extended only to the date of shipment. Are there conditions under which a dry goods jobber would be wise in granting a price adjustment beyond that time, provided the goods shipped and received by the buyer corresponded in quality and quantity and in date of delivery to his order?

2. A prominent cosmetics manufacturer was considering a proposal to offer a "special holiday" deal with free goods. It asserted that the offer would give the dealer an unusual profit. Dealers were to be advised to "order without delay and anticipate your entire season's requirements in advance." Sales were to be guaranteed by the manufacturer. The Christmas deal offered one dozen 35-cent-size jars of cold cream and one dozen 35-cent jars of vanishing cream, with an order for 11 cosmetic items in quantities from 2 to 12. The assortment was to be priced at $46.35 list, less 40% and 5%. Should the Christmas deal have been approved?

3. Should the publishers of a new and revised edition of a currently popular book of nonfiction endeavor to stimulate sales of the new edition priced at $3.50 by a "trade-in" offer of 50 cents for each copy of the unrevised edition?

4. A substantial annual business is done in second-hand machinery, particularly in second-hand machine tools of the general-purpose type, such as lathes, punches, drills, presses, shapers, etc. Manufacturers of new machinery must frequently take trade-ins of old machinery. To prevent trade-ins from serving as a basis for progressive price cutting, a plan has been proposed in a large industrial center for meeting the trade-in problem by establishing a central office with a secretary and staff. Whenever a trade-in comes up for consideration, the seller will telephone a central office, describe the machine briefly giving its serial number and location, and will ask if any dealer has registered it as a trade-in possibility. If not, the seller will do so, stating that his offer is, say, $200. This offer is to be later confirmed in writing. This $200 offer is a firm offer to buy for cash, even if a competitor gets the business and thus acquires the trade-in. The firm making the $200 offer obligates itself to pay that amount in cash for the machine at the designated delivery point. Is the plan sound?

5. Should a farm implement company guarantee the prices it now quotes upon implements against reduction for the coming season? Should it take orders at firm prices for the coming season?

6. What are the economic and social advantages and disadvantages of a guaranty against price decline?

7. Should the manufacturer of a new fast automatic loom lease his product to various textile mills, many of which are in financial difficulties, at unusually attractive terms which they will probably require if rapid introduction of the looms is to be secured?

8. Should a manufacturer of cosmetics price his specialties by making a combination offer of a bottle of perfume and a package of face powder at a price but little more than the customary retail price for one? Under what conditions are combination sales advisable and desirable?

D. CREDIT TERMS

The forms of credit terms which the manufacturer may extend are sometimes of great importance in determining whether or not a particular manufacturer is able to secure orders. Since most business is conducted on the basis of credit, the terms which the manufacturer will choose as a basis for his operations will help or handicap him in competition for business. The first question which he must decide is obviously that of whether he shall extend credit or not. If credit is customary in the trade, he may find his market narrowly limited by failure to extend credit. He will find, furthermore, that only by offering other advantages can he get over the hurdle of a no-credit policy. The alternative policy, if no credit is to be extended, is that of shifting the marketing of the product or financing of sales to other agencies. Credits may sometimes be guaranteed by insurance companies, loans may be made against receivables by banks, although in all cases some credit risk will be assumed if the enterprise markets its product. The only reasons for adopting a no-credit policy in an industry in which credit extension is general are likely to be either lack of financial resources or unwillingness to assume credit risks.

To those who desire to extend credit, the essentials of a satisfactory credit policy are briefly formulated: to extend credit required by desirable customers so as to stimulate sales while keeping credit risks or losses within narrow limits; to take risks only when the company is able to assume them and where experience shows that the volume of profits to be gained by taking such risks is in favorable relation to average losses.

The importance of credit terms in stimulating sales needs careful appraisal. To those whose credit is good and whose custom involves small risks, the offer of liberal credit terms is likely to be translated into a demand for larger anticipatory discounts. On the other hand, the extension of the length of the credit term may help the manufacturer to secure sales in seasons which otherwise would be dull and may offset peak periods in which prompt delivery is required under difficult manufacturing conditions. It is not possible here to go into the nature of credit or the considerations affecting the length of credit terms. It is necessary only to point out that credit terms, whether long or short, and the forms of credit extension, whether on open account, on acceptance credits or otherwise,

have a distinct bearing upon the acceptability of the sales proposition to the buyer and thus need to be considered in conjunction with sales policy.

Partial Payment Plans. Partial payment terms of sale have become an important consideration for many manufacturers, wholesalers, and retailers, particularly for those engaged in the manufacture and sale of more expensive commodities. Installment selling, as it is usually termed, refers particularly to the form of credit terms whereby a buyer makes his payments on a large purchase in definite amounts at definite intervals. Usually a partial payment plan includes a down payment of some size and smaller payments monthly or weekly. Usually, also, the sales are made as conditional sales, so that title remains with the seller until the last payment is completed. Partial payment plans are particularly prominent in the automobile, furniture, and musical instrument trades, but examples are to be found in a great many different types of industries. Extension of the plan to its present vast scope is a development of the past 30 years.

Partial payment plans are of several types. Some of these plans provide for the extension of credit to the consumer in connection with his purchases. Other plans are intended to help the dealer, who in turn extends credit to the consumer, while others refer particularly to the wholesaler. All these plans usually provide for conditional sale with repossession of the article sold if payment is not made. Special financing companies undertake to finance dealers and consumers. Where financing is done through these companies by dealers, the dealer ordinarily assumes a part of the risk through the contingent liability for payment to the finance company.

From a business point of view, installment selling possesses both advantages and disadvantages. It possesses the advantage of permitting the sale of industrial goods to other producers or traders without the requirement of immediate payment; it may increase volume without affecting the rate of margin or expense particularly. The extension of installment credit to the retailer likewise may not be undesirable. The controversial question from the business viewpoint is the justification of installment credit extension to the consumer on consumer goods. If the consumer is induced to purchase more than he would otherwise purchase because credit terms are available, the manufacturers will benefit temporarily; if the result is merely to speed up the purchases so that, instead of a steady flow of purchases over a long period of years, many more purchases are made over a period of a few years, the effect may be that of increasing the distributive organizations and increasing productive activities to a level which cannot be maintained over a long period. There is some reason to believe that this has been the case in the automobile and radio industries. On the other hand, the installment credit system has

apparently shifted the nature of purchases of consumers from many small things to a few large purchases which may or may not give more satisfaction to the consumer. More important economically is the possibility that installment credit may have increased the vulnerability of the economic system to fear. Installment credit, except that based upon housing accommodations, has usually been most fully developed in articles which were not among the prime necessities of life. As a consequence, installment industries are the industries which are most largely affected by a change in the psychological attitudes of the public. The extent of the influence of such attitudes and the extent of the destruction which may be caused by fear were amply illustrated during the depression which began in 1929.

55. EDGERLY PAINT COMPANY (B)—INSTALLMENT FINANCING OF HOME REDECORATION BY A PAINT COMPANY

The Edgerly Paint Company, located in Syracuse, New York, manufactured a line of quality paints and varnishes. Although small in size compared to the large companies in the paint industry, sales in 1937 amounting to somewhat less than $1,000,000, the company had grown rapidly under new management. Edgerly packaged paint and varnish products were distributed in New York State and adjacent territory through 11 branch stores selling at both wholesale and retail and approximately 45 hardware and wallpaper stores. At each of the branch outlets a small stock of carefully selected wallpaper patterns was carried as a means of reducing overhead expense. In addition to the sales of the packaged line to painters and the general consuming public, an equal volume of sales was made in bulk to industrial users who purchased largely on special order. In the summer of 1931 the company was considering the use of an installment payment plan to encourage home redecoration and improvement.

The plan as outlined by the sales manager was to be available to both painters and paper hangers, and included outside painting, interior painting, kalsomining, floor refinishing, furniture painting, and paper hanging. The contractor was to be furnished with a rate schedule, shown in Exhibit 1, from which he could calculate the improvement plan contract price, the initial deposit, and the amount and number of the monthly payments necessary. Contracts were figured in units of $10, starting with $100 and running to a maximum of $500. If, for example, the contractor estimated that the labor and materials necessary to redecorate a certain house, plus a reasonable profit, were covered by a $250 cash contract, he would turn to the rate schedule and find that the home improvement contract price

EXHIBIT 1

EDGERLY PAINT COMPANY—RATE SCHEDULE OF EDGERLY HOME IMPROVEMENT PLAN

Cash Price	Improvement Plan Contract Price	Down Payment	Note for Unpaid Balance	Monthly Payment	Number of Months to Pay
$100	$113.00	$ 20.00	$ 93.00	$15.50	
110	123.10	22.00	101.10	16.85	
120	133.50	24.00	109.50	18.25	
130	143.00	26.00	117.00	19.50	
140	153.10	28.00	125.00	20.85	
150	163.50	30.00	133.50	22.50	6 months
160	173.00	32.00	141.00	23.50	
170	183.10	34.00	149.10	24.85	
180	193.50	36.00	157.50	26.25	
190	203.00	38.00	165.00	27.50	
200	213.10	40.00	173.10	28.85	
210	225.20	42.00	183.20	22.90	
220	236.00	44.00	192.00	24.00	
230	245.20	46.00	199.20	24.90	
240	255.20	48.00	207.20	25.90	
250	265.20	50.00	215.20	26.90	8 months
260	275.20	52.00	223.20	27.90	
270	285.20	54.00	231.20	28.90	
280	295.20	56.00	239.20	29.90	
290	305.20	58.00	247.20	30.90	
300	315.20	60.00	255.20	31.90	
310	328.00	62.00	266.00	26.60	
320	338.00	64.00	274.00	27.40	
330	348.00	66.00	282.00	28.20	
340	359.00	68.00	291.00	29.10	
350	370.00	70.00	300.00	30.00	10 months
360	380.00	72.00	308.00	30.80	
370	390.00	74.00	316.00	31.60	
380	402.00	76.00	326.00	32.60	
390	412.00	78.00	334.00	33.40	
400	422.00	80.00	342.00	34.20	
410	437.20	82.00	355.20	29.60	
420	447.00	84.00	363.00	30.25	
430	458.00	86.00	372.00	31.00	
440	468.40	88.00	380.40	31.70	
450	478.20	90.00	388.20	32.35	12 months
460	489.20	92.00	397.20	33.10	
470	500.20	94.00	406.20	33.85	
480	510.00	96.00	414.00	34.50	
490	521.00	98.00	423.00	35.25	
500	532.00	100.00	432.00	36.00	

would be $265.20, the down payment $50, and each of the eight monthly payments $26.90. The contract form itself, shown in Exhibit 2, contained the terms of payment, the property owner's statement, the assignment of the contract to the Edgerly Paint Company, and the property owner's note. On the back side of the contract space was provided for a detailed specification of the work to be done. Accurate listing of all such information was believed extremely important in forestalling possible arguments between the home owner and the contractor.

After filling out the property owner's statement, the contractor was to submit it to the manager of the nearest Edgerly branch store for investigation and approval. The home owner was then to make the down payment, out of which the contractor could purchase for cash the necessary Edgerly paints and varnishes. After the work was finished, the note at the bottom of the contract form was to be filled out, signed by the home owner, and brought to the company branch store. There the contractor was to make out the assignment and endorse the note. After receipt by the home office, a check was sent to him for the balance of the cash contract price, less a discount charge of 5%. In this way the contractor would receive, in the case assumed above, $190; or, including the down payment of $50, a total of $240. The Edgerly Paint Company was to hold these notes until fully paid. The sales manager expected that the cost of this financing would be amply covered by both the 5% discount charge and the margin on the improvement plan contract price. This amounted, as shown in the rate schedule in Exhibit 1, to $13 on a $100 cash contract and $32 on a $500 cash contract. The company was in a sound financial position and was free to use a portion of its liquid funds for the operation of this plan.

In support of the proposal the sales manager pointed out that there were many houses in need of repainting whose owners were unable to pay for such work out of accumulated savings. He thought that a substantial section of this market could be reached if painters were able to offer a deferred payment plan. Other executives of the company, however, questioned the desirability of this program, especially in view of the fact that between two-thirds and three-fourths of the cost of painting a building was represented by labor charges and only one-fourth to one-third by paint and painting materials. The exact proportion in any particular case depended upon the number of windows, the condition of the old paint, the amount of staging necessary, and other factors of this type.

The sales manager replied that he did not contemplate that any large proportion of the company's business would be secured by the Home Improvement Plan and that this objection was therefore not of great moment. He expected rather that the plan would be one phase of a

Edgerly Home Improvement Contract

As recommended by the Edgerly Paint Co., Syracuse, New York

FOR PAINTING - DECORATING - PAPERING, Etc.

Contract to be completed as per specifications on reverse side hereof: IMPORTANT

.....
(City) (State)

Date.....19

.....
(Owner's Name) (1) (Street) (City or Town)

.....
(Owner's Name) (2) (Street) (City or Town)

.....
(Name of Contractor) (Street) (City or Town)

Terms of Payment:

Within five days after completion of the contract, I, or we, jointly and severally promise to pay the Contractor or his legal representatives and assigns $.....,

of which amount $..... is to be paid upon the signing

of this contract and the balance of $..... is to be

payable in ..... equal monthly installments of $ .....

each, payable as follows: $..... on the ..... day

of ....., 19 , and the same sum on the ..... day of each successive month thereafter until all of said installments have been paid.

Payable at .....
(Name of Bank) (Address)

Upon failure to pay any installment when due, all unpaid installments shall immediately become due and payable, with interest thereon from date of completion of the work called for by this contract.

Upon completion of the contract the owner also agrees to execute and deliver to the contractor a promissory note, in the form hereto annexed, representing his liability for said installment payments.

..... } *Signature of Owners*
....
(Witness) .....

Contractor

PROPERTY OWNERS STATEMENT

.....19
(Date)

.....
(City or Town Where Property is Located) (Street and Number of Property) $.....
(Assessed for)

$ ....
(Amt. of 1st Mtg.) (Name of Holder of 1st Mtg.) (When Due?)

$ ....
(Amt. of 2nd Mtg.) (Name of Holder of 2nd Mtg.) (When Due?)

....
(Employer's Name) (Street and Number) (City)

..... $..... .....
(Owner's occupation?) (Monthly Income) Bank Reference (Name of Bank)

....
(Personal Reference) (Street and Number) (City)

....
(Personal Reference) (Street and Number) (City)

Being over 21 years of age, I, or we, certify the above statements are true, and are made for the purpose of obtaining credit.

.....
(Signature of Owner)

[If the above property is owned jointly by husband and wife, the signatures of both are required.]

.....
(Signature of Owner)

EXHIBIT 2.—Edgerly Paint Company—Home improvement contract.

ASSIGNMENT

In consideration of one dollar and other valuable considerations, the receipt of which is hereby acknowledged, I, the undersigned, hereby sell, transfer, assign, and set over to

.....

all my right, title and interest in and rights under the foregoing contract, and hereby authorize and empower my said assignee, and his legal representatives and assigns, either in my name, but for his own use, or in his own name, to demand, enforce and receive all payments agreed to be made thereunder; and all relief concerning the same to obtain in the same manner, to all intents and purposes as I myself might or could do were this assignment not executed.

And for the same consideration, I hereby agree to deliver to said assignee, endorsed and guaranteed by me in the form appearing on the reverse side thereof, the promissory note to be executed by the above-described owner in accordance with said contract as and when said note shall be executed and delivered to me by said owner.

Dated ..... 19 .....

Contractor.

$..... 19

(City) (State) (Date)

For value received, I, or we, jointly and severally promise to pay

to .....or order,

(Contractor)

the sum of ..... Dollars

100

in ..... equal monthly installments of $..... each, payable as follows: $ ..... on the ..... day of ..... , 19 , the same sum on the ..... day of each successive month thereafter until all of said installments have been paid.

Payable at .....

(Address)

Upon failure to pay any installment when due, all unpaid installments shall immediately become due and payable, with interest thereon from date hereof.

....
(Owner's Address) (Street and Number) (Town or City) .....

....
(Owner's Address) (Street and Number) (Town or City) ..... } OWNERS

The assignment and property owner's note appeared on the front of the contract below the terms of payment and property owner's statement.

DATE	PAYMENTS		BALANCE DUE	

For value received, the undersigned hereby unconditionally guarantees payment of the within note in all its terms and waives demand and notice of Protest for non-payment, and consents that extensions of time of payment may be granted the maker without notice to and without releasing the liability of the undersigned hereunder.

(Contractor)

This section appeared on the back of the property owner's note below the specifications shown on the next page.

EXHIBIT 2.—(*Continued.*)

SPECIFICATIONS

☐ HOUSE (OUTSIDE)	NO. OF COATS	COLOR		NO. OF COATS	COLOR
Body			Storm Doors		
Trim			Storm Windows		
Window Sash			Fence		
Roof			Piazza Ceilings		
Foundation			Piazza Floors Oiled or Painted		
Lining Brick			Piazza Steps Front and Back		
Chimney			Piazza Railings		
Rain Gutters Cleaned and Painted			Garage		
Spouts and Valleys			Barn		
Blinds			Out Buildings		
Screens			Glass (No. of Windows)		
Screen Doors			All Outside Doors (Painted - Varnished - Stained)		
Re-putty					

☐ ROOMS	INSIDE			
	WALLS	CEILINGS	FLOORS	MISC.
KITCHEN	Paint Paper Kalsomine Paint Paint Varnish Radiators Pipes Woodwork	Paper	Wax	Etc.
	WALLS	CEILINGS	FLOORS	MISC.
DINING ROOM	Paint Paper Kalsomine Paint Paint Varnish Radiators Pipes Woodwork	Paper	Wax	Etc.
	WALLS	CEILINGS	FLOORS	MISC.
LIVING ROOM	Paint Paper Kalsomine Paint Paint Varnish Radiators Pipes Woodwork	Paper	Wax	Etc.
	WALLS	CEILINGS	FLOORS	MISC.
LIBRARY	Paint Paper Kalsomine Paint Paint Varnish Radiators Pipes Woodwork	Paper	Wax	Etc.
	WALLS	CEILINGS	FLOORS	MISC.
BEDROOM	Paint Paper Kalsomine Paint Paint Varnish Radiators Pipes Woodwork	Paper	Wax	Etc.
"				
"				
"				
	WALLS	CEILINGS	FLOORS	MISC.
HALLWAY	Paint Paper Kalsomine Paint Paint Varnish Radiators Pipes Woodwork	Paper	Wax	Etc.
"				
	WALLS	CEILINGS	FLOORS	MISC.
BATHROOM	Paint Paper Kalsomine Paint Paint Varnish Radiators Pipes Woodwork	Paper	Wax	Etc.

EXHIBIT 2.—(*Continued.*)

complete sales program and that the business so obtained would not have been available by any other method.

Should the Edgerly Paint Company have adopted the Home Improvement Plan?

56. CATERPILLAR TRACTOR COMPANY—PROPOSAL TO LIBERALIZE CREDIT TERMS DURING THE PERIOD OF BUSINESS DEPRESSION

The Caterpillar Tractor Company, with its chief plant at Peoria, Illinois, manufactured a line of track type tractors, road machinery, and combined harvesters. Distribution was effected entirely through dealers who held exclusive franchises over rather large territories. The investment of a dealer usually ranged from $50,000 to over $100,000. The company followed a strict one-price policy and allowed neither cash nor quantity discounts. Prices of equipment were reduced as soon as manufacturing economies warranted, but no substantial reductions had been made in the prices of farm tractors or combines since the business depression set in. Total sales of the company are shown below:

1927	$26,928,088
1928	35,071,600
1929	51,812,461
1930	45,355,435
1931 (six months)	16,857,050

The severe decline in sales volume during the depression had affected adversely the earnings of both the company and its dealers. A considerable part of the company's plant was idle, and the carryover of inventory was large. Strenuous efforts were made, however, to expand sales volume; advertising and promotional work were continued vigorously, and the district representatives were directed to spend practically all of their time in helping the dealers close sales. During the harvest season of 1931 some of the product specialists and district representatives who were in close contact with the dealers suggested that the company liberalize its credit terms in an effort to meet competition and expand sales.

The company recognized the importance of granting credit in the sale of equipment with such high unit value, especially since it manufactured high-grade machinery which necessarily bore an initial price higher than that of competing machinery of perhaps inferior quality. The gross margin which the company secured on the machinery contained no allowance for financing or credit losses. The company's statement to dealers on the question of credit is quoted below:

Most customers for "Caterpillar" machines who are unable to pay all cash are fully entitled to expect reasonable credit from the Dealer. Such reasonable credit should be

the least possible deferred balance with the earliest possible maturity on proper evidence of secured obligation.

The closing of a sale depends on how the deal was handled from the start, and real salesmanship means the exercise of every effort to get all cash or the largest possible down payment.

When every effort to get it has been exhausted, and when the Dealer's own and local credit facilities have been fully availed of, the Manufacturer stands ready to help in handling deferred deals which are of an acceptable character.

Most deferred payments on machines should mature well within 12 months—although some cases might require up to 15 months, and occasionally might justify 18, or even 24 months.

The credit terms granted varied with the type of equipment and the use to which it was to be put. The rapidity of depreciation of the machine in the particular work to be handled and the length of time necessary to pay for the machine out of the earnings of the business were important factors. In order to avoid repossessions, care was taken to see that the buyer's equity in the machine was always greater than the amount that would be equivalent to reasonable compensation for its use and rental. On this basis, contractors were allowed terms ranging from 6 to 12 months, logging operators 10 to 14 months, and farmers a maximum of 24 months. The terms to farmers had been extended from 18 to 24 months in December, 1929, with favorable results.

After a dealer closed a sale and arranged terms with the purchaser, a description of the equipment, the terms offered, and the apparent net worth of the purchaser were telegraphed to the home office of the company. The credit department gave a tentative decision as to whether or not the company would be willing to help finance the sale. The dealer then forwarded additional data including the purchaser's order, the dealer's offer of installment settlement, purchaser's application for credit, together with necessary signed notes and legal documents. The purchaser's order supplied a detailed description of the machine and special parts and gave full shipping instructions. The dealer's offer of installment settlement described in detail the proposed terms between the dealer and the purchaser and also the terms between the dealer and the company. The purchaser's application for credit gave in considerable detail the purchaser's net worth, financial obligations, income, and activities.

Although the company was not obligated to accept a deal until all of the papers had been approved by the credit and legal departments, the dealer could proceed with considerable assurance because the maximum terms which the company would accept were known. If the machinery were purchased for use on a farm, at least 25% of the value had to be paid in cash or used equipment as a down payment. The remaining 75% of the

value had to be covered by notes maturing in not over two years. Deals with more liberal terms could be financed independently by the dealer, but in rare cases only would the company lend assistance. In order to make the dealer interested in the quick payment of the notes, he was required to deposit with the company 20% of the value of the notes as an installment reserve fund and, after the notes were paid off, a proportionate part of the reserve fund was returned to him with interest at the rate borne by customer notes. All purchasers' notes were endorsed by the dealer and in case of default were charged back to him for collection.

During the harvest season of 1931 various proposals were received for liberalizing the credit terms that the dealer could offer and still receive company assistance in financing. One plan proposed that the maximum terms offered on the sale of farm equipment should call for only a 20% initial payment and allow three years in which to pay the balance. Some field men believed that the more liberal terms were necessary because of the current low earnings of farmers and the small amount of ready cash in their hands. They furthermore believed that a 20% down payment was ample to cover the first year's depreciation and was more than a reasonable rental for such a period. Some competing equipment manufacturers were offering terms involving practically no down payment until after the first harvest and were allowing three years in which to pay the balance. The Caterpillar Tractor Company was financially able to allow the proposed terms if the executives deemed the action expedient.

What action should have been taken?

QUESTIONS

1. A large metropolitan coal company is endeavoring to stimulate the sale of coal and of automatic coal stokers. It has engaged a research and promotional agency to question consumers to determine their attitude toward a proposal to extend credit to customers on coal and stokers. It is suggested that the entire yearly requirements be delivered in the late spring and that an automatic coal burner be installed, payment for coal and rental for the stoker being included in eight monthly payments beginning in the following October and continuing to May 15, with no interest or service charges. Is this plan a desirable one from the standpoint both of dealers and of consumers?

2. An industrial clock company encountered difficulty in developing its sales of recording time clocks for employees. The market for such clocks included a large proportion of firms having 10 or more employees. The price varied with the size of the clock and the number of employees to be accommodated. The average price of clocks was $200, a few models being sold at less than $100. To increase sales of time clocks, the manager of a prominent sales branch proposed that the company offer installment terms of 25% down payment, the remainder to be spread over a period of 10 months and to bear interest on unpaid balances of 6%. Should the plan have been adopted?

3. Should a relatively small agricultural implement company discontinue its policy of helping dealers to sell on credit terms by accepting farmers' notes? Should it change

its policy, reducing its prices 10% and quoting cash terms to dealers and insisting that they sell only for cash to farmers? To what extent should decision be based upon existing farm conditions? Would your answer have been different under conditions similar to those prevailing in 1932, in 1922?

4. How should costs of installment selling be calculated, from the viewpoint of the consumer, retailer, or manufacturer? Is installment credit more expensive than open account credit? If so, why?

5. How does a firm's credit policy affect its sales policy?

6. Is installment selling economically and socially sound?

7. Should a firm liberalize its credit policies under existing conditions in order to increase sales?

8. How is a firm to determine the policy which will affect sales and profits favorably without involving the company in large credit losses?

9. To what extent are credit terms related to rates of turnover?

10. Should General Foods, Inc., use trade acceptance methods in selling to retailers? Under what conditions should trade acceptances be used?

11. To what types of products and to what types of buyers is installment credit especially adapted?

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VI

SALES PROGRAMS AND SALES PROMOTION

When the sales proposition has been determined and the task of the sales organization has been decided, the next problem is to formulate plans for accomplishing the task. How is the task of selling a million units of a particular commodity at certain prices to be accomplished? Available to executives and to sales managers is a variety of tools with which to make sales, some of which may be effective under particular conditions, many of which will not be effective under other circumstances; the choice of methods for a plan even for smaller enterprises is a difficult one.

Broadly, the most important problem of the sales department is to choose proper methods and to combine them in the proper way. The difficulty of solution is enhanced by the fact that there is no great amount of data with which to determine proper proportions. Every sales manager is working toward an ideal proportion of personal salesmanship, advertising, and minor means of selling, so that he can effect distribution at minimum cost and maximum profit, in the long run, for the seller. That such an ideal proportion exists is only conjectural, but a study of the experience of many companies seems to show that it is possible to have too much personal salesmanship and too little advertising; or that it is possible to have too little personal salesmanship and proportionally too much advertising. There are many instances of accomplishment of increased effectiveness in selling brought about by some variation in the application of the chief selling methods or by some application of one or more of the minor means. A tendency analogous to the law of diminishing returns seems to be operative. With a given amount of advertising, for example, the returns may come in increasing measure if the amount of personal salesmanship is increased; but beyond a certain point, which it is difficult to determine, additional personal salesmanship may be increased to such an extent as to yield less than proportionate returns for additional expenditures.

The important methods of effecting sales may be classified briefly as follows:

1. Personal solicitation, personal salesmanship, or personal selling.
2. Advertising in its various forms.
3. Correspondence, which at times approaches direct-mail advertising.

4. Samples, frequently used in combination with personal solicitation or with advertising or correspondence.
5. Fairs and exhibitions.
6. Auctions, a method of selling used not only in emergencies but as a regular device for selling both raw materials and finished products in limited lines.
7. Competitive bids.
8. Reciprocity.

These methods may be classified also on the basis of the method of application. Wherever distribution is carried on through middlemen, advertising, personal selling, and other methods may be used either to sell to particular buyers or to sell to those who buy from these buyers. Selling may be regarded as a "pushing" process when sales effort is devoted directly to those to whom the transfer of the goods is to be made and as a "pulling" process when the endeavor is made to help sell for, or to reduce the difficulty of selling for, those who resell. All selling efforts directed at consumers who buy the goods from retailers are "pull" methods. All selling efforts directed at retailers by a company which sells its products to wholesalers may likewise be called pull methods. All efforts directed toward wholesalers in such cases are "push" methods. In brief, successful application of pull methods results in selling for a distributor, therefore ultimately in selling to a given buyer. Push methods aim at selling to the buyer.

A. DETERMINING THE SELLING PROGRAM

It is the task of the sales manager to choose those selling methods which from a long-run viewpoint will effect the distribution of his product with the smallest expenditure of time and money. That point of view may compel a higher cost of distribution at the outset as a means of developing a foundation of goodwill for lower costs in the future. It is evident, without going into detail, that the manufacturer or wholesaler of finished products customarily uses several types of selling methods. There are many variations of the personal selling method; there are many forms of advertising; there are differences in the use of samples, resulting in the existing wide differences in practice. The problems of the sales manager are so complex that in the great majority of selling departments the choice of selling methods has had to be made on the basis of trial and error, tempered by experience.

In arriving at any choice of methods to be used in order to sell a product, several different sources may be utilized. The sales manager may base his decisions upon his own experience or that of the business or

upon the experience of other executives personally engaged in selling goods. Firms which have been in business for any length of time have built up certain funds of experience, possibly traditional methods, and, though these may not be the most profitable methods, the least profitable are likely to have been discarded on the basis of experience. Among wholesale and manufacturing firms, personal salesmanship has commonly been used since the Civil War as the chief method of effecting sales; as a consequence, any consideration of change of distribution method has frequently taken the form of considering the use of other methods, often the addition of one or more forms of advertising.

The second basis for choice of selling methods is the practice of the trade or the customary practice of individual competitors. The majority of firms in a particular field of business usually employ the same general combination of selling means. It is easy for the sales manager to assume that, because competitors use a particular combination of means, the evidence is in favor of that method. Though in many lines of trade there are distinct departures from generally accepted methods, the average manager looks upon any such deviation with suspicion. If some of these departures are unusually successful, they are imitated, sometimes wisely, often unwisely.

Experimentation, research, and analysis constitute the most modern means for securing facts and reducing the risk in making changes in selling methods. Preliminary tests as to particular combinations or applications of selling methods may be made in small selected territories. The company may experiment in the use of newspaper advertising or in the use of a particular type of salesman in a restricted area, so that the unsuccessful outcome of such an experiment will not be disastrous to it, while success will give a greater assurance and point out methods of improvement in the adaptation of the new plans to the entire market area. For instance, a sales manager or salesman may have the idea that more sales could be made provided better dealer service were given in the way of furnishing and installing window displays. It may frequently not be profitable to take the salesmen's time for such service; consequently, the plan of using two or three men to go from town to town to set up those window displays may be tried out in a small territory considered representative. If successful, the plan may be used in the entire United States, or perhaps only in the more congested areas. Or again, in the introduction of a new product in one territory at a time by a company having national distribution, the sales manager faces the question of using regular salesmen or special salesmen during the period of introduction. There may be much greater economy in the use of the regular salesmen, provided the regular salesmen can introduce the product effectively. On the other

hand, it has been the experience of many companies that the introduction of a new product or the development of new customs is a type of work which cannot be done so effectively by salesmen who solicit the regular trade as by special salesmen.

For advertising, certain tests have been developed to determine relative effectiveness of particular pieces of copy. The effectiveness of headlines, type faces, and color has been subjected to scientific study by psychologists. The results obtained point toward definite accomplishment in the application of scientific study to advertising copy. So far, however, little has been accomplished in scientifically determining what combination of selling methods will give the maximum results at the lowest cost of distribution, and yet that is a question which should be decided before scientific methods can be applied to the selection or supervision of a salesforce. Really valuable experiments are also those in which a company tries out in certain experimental territories combinations of selling methods to determine those which are most effective.

Sales Campaigns and Sales Programs. Sales campaigns should be distinguished from sales programs both on the basis of the length of time for which they are ordinarily effective and on the basis of the inclusiveness of sales methods. The general-purpose plan, one which ordinarily includes all the methods for effecting the work of the sales department for the period of a year, may be termed the sales program. The limited-purpose plan, used perhaps to introduce a new product, to carry on intensive selling work in order to increase sales at some predetermined rate, or to increase sales of a single product or line which may have been falling behind, may be accorded the term sales campaign. There is, of course, a distinct advantage in a careful definition of the purpose of a campaign at the outset, because only by such definition can a proper correlation of the various means of selling be brought about.

The choice of methods to be combined in the selling campaign will, of course, be dependent upon the purpose. A general plan for increasing sales throughout the year may include all of the types of advertising, all of the forms of personal selling, and other means which may be considered effective by the particular sales department. In more detail, the program requires decision as to the number of men to be used in the campaign, the work which each man or each class of men is to do, the types of advertising methods, and, possibly, display of the product at fairs or exhibitions, the utilization of window displays, resale equipment, and the like. In settling the question as to when the various means are to be used, sales managers frequently resort to a layout of the campaign in which its various elements are analyzed and definite dates fixed for such

work. The time elements involved in a program or campaign are often overlooked by the inexperienced or careless. Seasoned experience has in the past been needed to recognize the careful planning necessary to get the maximum result from any combination of selling methods.

Creative, organizing, and executive abilities of the highest order are required to develop, plan, and execute the large-scale programs of American enterprise. It is upon the success of sound sales programs that American industry must depend to furnish the basis for social security and progress.

57. ZENITH RADIO CORPORATION—SALES CAMPAIGN FOR INTRODUCTION OF NEW PRODUCT

The Zenith Radio Corporation, oldest manufacturer of home radio sets in the United States, in 1938 ranked as industry leader in volume of production. The company's sales volume had been expanding gradually over a number of years, but it was not until after 1933, when a decision was made to change manufacturing emphasis from high-price radios to sets selling at popular prices, that sales jumped precipitately. By 1935 the number of retail outlets carrying Zenith merchandise had increased from 3,000 to 3,500; by 1936, to 12,000; and by 1938, to 20,000. Dealer franchises were not exclusive, and normally Zenith outlets sold competitive radio lines. Dealers were given discounts averaging 40% off the regular retail price. The company's 98 distributors had exclusive Zenith franchises and were allowed a discount of 50%–10% on models retailing at $69 and above, and 50% on models below that price. A salesforce of 13 men, paid a drawing account against commissions, sold the complete Zenith line. Because of the excellent service performance by distributors and dealers, the company did not maintain traveling service men on its staff.

In February, 1938, Zenith introduced a new device, utilizing radio principles, designed to warn persons of unusual noises in distant rooms in a home or building. The "Radio Nurse," as the revolutionary product was called, consisted of two units: a "broadcasting" set and a speaker, each of which operated when connected with an ordinary household electric light outlet. By placing the broadcasting unit in a room occupied by a small child, for instance, sounds could be transmitted through a speaker located in another room. So sensitive was the broadcasting device that it was said to be able to pick up the slightest sound. The Radio Nurse was considered an invaluable aid to persons caring for bedridden invalids or small children since duties in other parts of the home could be performed with the complete assurance that every sound would be

transmitted there. Similarly invaluable was the product in any home having a window or door vulnerable to the entry of an unwanted intruder since it gave an immediate warning of all unusual noises.

Credit for the ingenious device went to Commander E. F. MacDonald, Jr, president of the Zenith Radio Corporation. Commander MacDonald maintained a year-round home aboard a yacht, which also served as an experimental radio laboratory. When it became apparent to MacDonald that either his wife or a trained nurse was continually required to stay in the presence of his six-months-old child and that the child could be left only temporarily, and then with great fear for his safety, the Commander set about constructing a radio device sensitive enough to pick up a baby's sounds and transfer them to speakers in other parts of the yacht. When the apparatus was perfected, it worked so satisfactorily in operating tests that it was decided to place the product on the market as another Zenith innovation. The executives believed that the Radio Nurse would win immediate acceptance by the public, because it possessed so many revolutionary features. No studies or tests were made to determine the size of the potential market, although it was estimated that the product would appeal to a wide section of the middle- and upper-class income groups. A retail price of $29.95 was established for the two units. Additional units were available for $15 each, either broadcast or speaker. Distributors were given a discount of 40%–8% while dealers were allowed a discount of 30% off the retail price.

On February 20, 1938, the Radio Nurse was first introduced to the public by means of the company's nation-wide Sunday evening radio program. For a period of six consecutive weeks, this half-hour broadcast over the Columbia Broadcasting System was devoted exclusively to the new product, and brief skits were presented to illustrate the value of the Radio Nurse in cases of illness, accident, emergency, robbery, and the care of small children. The cost of the radio campaign including talent approximated $60,000 for the six-week period.

Twelve leading magazines, with a combined circulation of over 12,000,000, carried a single advertisement for the Radio Nurse in either March or April, 1938. Included in the group were *The Saturday Evening Post*, *Good Housekeeping*, *Ladies' Home Journal*, *Woman's Home Companion*, *Parents' Magazine*, *Child Life*, *Hygeia*, *New Yorker*, *Baby Talk*, and such medical publications as *Journal of the American Medical Association*, *American Journal of Obstetrics and Gynecology*, and *Surgery Gynecology and Obstetrics*.

The appeals presented in the magazine advertisements varied according to the type of reader reached by each publication. Advertisements in the medical journals, for instance, carried such headlines as: "And Now

the Zenith Radio Nurse Offers Continual Watchfulness Over Patients—Science Again Assists the Doctor Both While the Nurse Is On Duty and After She Leaves." Advertisements in general publications stressed the protection afforded by the Radio Nurse and employed such headlines as: "Oh, Why Didn't I Hear Her Call Me?" "Don't Worry—Rest Peacefully—and Let the Radio Nurse Guard Your Loved Ones," or "Startling New Invention—Science Now Guards the Health and Safety of Your Loved Ones." With the exception of those appearing in the medical journals, each advertisement included a coupon containing the following message: "Without obligation send me complete information about what the new Radio Nurse can do for me." Upon receipt of a mail inquiry, the company immediately returned a small booklet which explained the advantages of the product in greater detail. Readers were urged further to inquire about the Radio Nurse at any Zenith dealer's. Exhibit 1 presents the magazine schedule followed during the introductory period. The total space cost of this phase of the campaign was $20,274.

EXHIBIT 1

ZENITH RADIO CORPORATION—MAGAZINE SCHEDULED FOR "RADIO NURSE" INTRODUCTORY CAMPAIGN—1938

Publication	Circulation	Insertion Date	Closing Date	Date Circulated	Space	Cost
Good Housekeeping (monthly)	2,140,680	April	February 1	March 25	2 columns	$ 4,200
Ladies' Home Journal (monthly)	2,949,817	April	January 20	March 10	½ page	4,250
Woman's Home Companion (monthly)	2,981,602	April	January 20	March 15	½ page	4,275
Parents' Magazine (monthly)	433,225	April	February 10	March 15	2 columns	1,335
Saturday Evening Post (weekly)	3,024,851	March 12	February 5	March 8	½ page	4,000
Hygeia (monthly)	115,603	April	March 1	March 25	1 page	400
Journal American Medical Association (weekly)	92,847	March 12	March 2	March 10	1 page	440
Child Life (monthly)	160,331	April	February 20	March 25	½ page	300
Baby Talk (monthly)	47,596	April	February 25	March 10	2 columns	200
American Journal of Obstetrics and Gynecology (monthly)	11,924	March	February 10	March 1	½ page	104
Surgery Gynecology and Obstetrics (monthly)	13,676	March	February 15	March 1	½ page	100
New Yorker (weekly)	140,056	March 26	.....	March 24	2 columns	670
	12,112,208					$20,274

Approximately $70,000 was appropriated for a newspaper campaign conducted in major cities throughout the country. The campaign, which began on March 20, 1938, consisted of a series of seven advertisements, the first of which was a four-column by 240-line announcement introducing the product. The second and third newspaper advertisements, each

of which measured three columns by 224 lines, emphasized the value of the Radio Nurse in caring for invalids and children. The remaining four advertisements in the series, each of which also occupied a space of three columns by 224 lines, stressed the use of the product as a source of warning in event of fire, robbery, accident, or emergency. Advertisements were not run in any city unless at least five dealers also ran a small accompanying advertisement at their own expense stating that the Radio Nurse could be purchased at their stores. The type and size of these advertisements were left to each dealer's discretion.

In an effort to stimulate cooperation from radio dealers, approximately $25,000 was spent in the free distribution of window and counter displays, posters, consumer literature, and various promotional items. Moreover, the company obtained the cooperation of editors of a number of women's magazines and women's pages of newspapers in publicizing the Radio Nurse through their columns. Much of this publicity was of a local nature, so that it was possible for dealers to employ "blow-ups" of newspaper articles for window displays.

Demonstrations were tried for a brief period in several large department stores, but it was soon found that they were not satisfactory. Owing to the extreme sensitiveness of the product, all store and street noises were picked up so easily that attempted demonstrations under normal home conditions were impossible. Following the failure of this plan, the company decided to give demonstrations within the home and employed an independent group, experienced in selling infants' needs, to conduct the work. It was believed that this would be one of the most effective methods for accomplishing sales, since only by a home demonstration could a potential buyer be fully impressed by the value of the Radio Nurse.

Examine critically the introductory sales campaign with reference to objectives, media, and timing. Are the objectives clear, the elements of the sales program well chosen, and the timing such as to make the campaign most effective?

58. KENSINGTON, INC.—SALES METHODS: INCREASING THE SALE OF GIFTWARE

Kensington, Inc., was incorporated in 1934 as a subsidiary of the Aluminum Company of America to market a giftware made from an aluminum alloy. The formation of the company was the outgrowth of the desire of executives of the Aluminum Cooking Utensil Company[1] to

[1] Also a subsidiary of the Aluminum Company of America.

increase the use of aluminum in the household for other than kitchen purposes. After a period of laboratory research and production experimentation, an aluminum alloy, subsequently named Kensington Ware, was produced. Although the giftware was sold by Kensington, Inc., under the Kensington name, the headquarters sales activity was directed by the sales executives of the Aluminum Cooking Utensil Company, and the field selling was done by former salesmen of the utensil company. The problem continually before the executives of the company was that of increasing sales of Kensington Ware.

Kensington Ware possessed unusual beauty, did not fingerprint, tarnish, or stain; required no polishing; was durable enough to withstand normal wear without scratching; and possessed a lustre which harmonized well with silver. Competition came from other types of giftware made from such materials as chromium-plated copper and steel, pewter, copper, bronze, glass, wood, combinations of silver and plastic, and plated silver. All these materials were fabricated into popular gift items, but the use of any one material, with the possible exception of silver, was usually characterized by cycles of popularity. For example, when Kensington Ware was first introduced on the market, chromium-plated copper had been popular for several years, and cheaper chromium-plated steel was beginning to be sold widely. By 1937 chromium had lost much of its popularity, and hammered aluminum with a bright or dull finish was currently in favor. Plated silverware, however, was always in demand for gifts. Kensington executives believed that the product resembled plated silver not only in appearance, but in the permanence of design which they attempted to give it and in the freedom from frequent style changes common to other giftware. One of the company's problems was to educate dealers to this similarity between silverplate and Kensington Ware. For example, when a price rise on Kensington Ware appeared necessary in the summer of 1937, some retailers objected; and when Kensington officials attempted to justify the advance on the ground that plated silver prices had recently been increased, they countered that Kensington Ware was not comparable to silver.

With no experience in the giftware trade in 1934, Kensington executives did not know what type of outlet, whether jewelry, gift, or department stores, was most desirable for their line. Nor did they know the relative merits for Kensington Ware distribution of gift or silverware departments in department stores. With this handicap, the company began in 1934 its drive to secure distribution by assigning five of the better salesmen from the Aluminum Cooking Utensil Company to the sale of Kensington Ware. These salesmen were given the immediate goal of securing 400 key accounts. They were paid a salary plus expenses and a

1% commission, with a small additional bonus for exceeding a certain quota. One of them acted as sales manager and received therefor a small bonus. The salesmen called at various jewelry, gift, and department stores in the larger cities and, depending largely upon the size of the city, attempted to secure distribution through one or several of them. By 1937 the number of accounts had increased to approximately 2,000. Exhibit 1 gives a list of major accounts in selected cities selling Kensington giftware in 1937.

EXHIBIT 1

KENSINGTON, INC.—MAJOR ACCOUNTS SELLING KENSINGTON GIFTWARE IN SELECTED CITIES IN 1937

City	Account
Boston	A. Stowell & Company, Inc.
	N. G. Wood & Sons
	E. T. Slattery Company
	The Modern Home
	Thos. Long Company
Chicago	Marshall Field & Company
	Carson Pirie Scott & Company
	Chas. Stevens Company
Minneapolis	Alex. Anderson & Son
	The Dayton Company
New Orleans	Leo Miller, Inc.
	Hausmann, Inc.
New York	Wanamaker's
	Ovington's
	Lord & Taylor
San Francisco	S. & G. Gump Company
	The White House
	Dohrmann Commercial Company
St. Louis	Scruggs-Vandervoort-Barney
	Famous Barr Company
	Hess & Culbertson

During this period of expansion the executives were careful to maintain a selective distribution. This was difficult to do sometimes because products of the Aluminum Cooking Utensil Company already had a very wide distribution, and many department stores wanted to sell not only the kitchen utensils but the giftware. Often requests from these stores to handle Kensington Ware had to be refused, because the giftware line was already being sold by another store in the area and the company did not want to increase the number of outlets. In one case, a large department store, member of a department store chain, had to be refused permission to handle Kensington Ware because the giftware had been introduced in the city by another department store, which had been promised an exclusive franchise. For some time the member of the chain had threatened to cease carrying the cooking utensils unless it could also have the giftware. On the continued refusal of Kensington, Inc., to sell to it, this store purchased the ware through another member of the chain in another

city, executives of the Kensington company being wholly unaware of the transaction. The original department store distributor in the city was naturally incensed when a second department store began selling the Kensington Ware and, despite explanations of Kensington executives, attempted to retaliate by shifting the giftware from a favored position in its gift department to what was considered an inferior location in its silverware department.

When the distribution of Kensington Ware was first begun, executives were of the opinion that gift shops and gift departments in department stores would prove to be the most desirable outlets, but subsequent experience did not substantiate this. Gift shops, it appeared, were primarily interested in obtaining variety in their stock through new and fashionable items and generally did not want to carry gifts of the same type and design for a long period of time. Thus, the efforts of Kensington, Inc., to attain something akin to permanency in design tended to place its products in the same category as silverware and to detract somewhat from their appeal to gift shop buyers. Furthermore, too often gift shops were short-lived, and their going out of business resulted in a temporary loss of distribution and sales for the company.

Gift departments were not generally the most desirable locations in department stores, because in many cases they were not exposed to heavy store traffic. While this was no serious handicap if department store visitors had the purchase of a gift in mind, executives believed that Kensington Ware had a broader use than for gifts alone and that sales could be increased if it was strategically displayed. Silverware departments of department stores had in many cases proved to be satisfactory outlets, because they were frequently located on the first floor, usually the busiest section of the store. Display was also somewhat simplified in silverware departments because of the limited merchandise on view there.

The pricing situation in the giftware trade was different from that in the cooking utensil field. In the latter field a small reduction of 10 cents on such an article as a coffee percolator might greatly increase sales. Giftware prices, however, were fairly well standardized; and although price was obviously an important factor in buying, product differentiation in style, design, and other points was probably more important. Generally Kensington, Inc., tried to confine its retail prices to the common ones in the trade of $1, $2.50, $5, $7.50, $10, $12.50, and $15, but there were naturally some differences. In 1937 the company's line of approximately 90 items ranged in price from $1 to $25, although a few items sold for 50 cents. With the company's policy of selective distribution, price cutting was not a major problem, and in the company's experience there had been only half a dozen serious cases, which had been corrected.

The company did have a pricing problem, however, because of the nature of the production process. With rising manufacturing costs, variations in the product could not be made without scrapping expensive dies costing several thousands of dollars each. In contrast, manufacturers of glass, pottery, and wood products could introduce substantial changes in their products, in order to avoid raising prices, without incurring a major cost. When manufacturing costs increased, Kensington's policy was to raise its prices slowly and endeavor to develop new products which could be fitted into the old price line and then slowly to eliminate the older items.

The company advertised in national magazines during the spring and fall seasons of the year when the purchase of gifts was unusually large. Roughly, 35% of its business was done during the first six months of the year, and the remainder during the last six months. Advertisements were typically placed in the *Atlantic Monthly*, *The American Home*, *House and Garden*, *Harpers*, *Vogue*, and *House Beautiful*. Also, from time to time the company achieved free publicity in home furnishing magazines, where illustrations of tables set with Kensington Ware were accompanied by brief descriptions of the product. Advertising expenditures had amounted to about 28% of sales volume in 1934, but this amount was reduced to 10% by 1937.

Apart from magazine advertising, the company participated in the annual gift shows in Chicago and New York, which were held prior to the opening of the giftware seasons, one in the spring and one in the fall. Displays were set up, and, previous to the shows, editorial writers from various magazines interested in home furnishings were invited to examine them. A permanent display room for Kensington Ware alone was maintained in Radio City, New York. Such point-of-sale advertising as illustrated booklets and advertising brochures was supplied to dealers by the company.

After three years' sales of Kensington Ware had increased to nearly $1,000,000, but this was still a relatively small volume, about 5% of the cooking utensil business. Executives believed, however, that the saturation point of the market was rapidly being approached and that sales of Kensington Ware might not be increased more than another $500,000 or $600,000. They were anxious nevertheless to secure this increase and periodically conferred as to what sales methods to use. Two markets, in particular, in which they felt sales were not so high as they should be were Boston and New York.

What sales methods should Kensington, Inc., have used to increase sales?

59. LASTWELL SHINGLE AND ROOFING COMPANY—SALES PROMOTION PROGRAM

The Lastwell Shingle and Roofing Company of Cleveland, Ohio, manufactured a complete line of roll roofing, composition shingles, and sidings which its salesforce of 80 men sold to lumber dealers throughout the United States. The salesmen were paid a salary, a commission when they attained a quota set for them by the company, and their traveling expenses. Each salesman was furnished with a company car to enable him to cover his territory adequately and conveniently. The United States was divided into five sales districts, each under a district sales manager who reported to the general sales manager at Cleveland. The salesforce in each district was divided into groups of seven to ten men, over each of which was a group sales manager. In 1932 the officials were disturbed by the fact that their sales had been decreasing for several years and that, while they obtained their share of the total roofing business during January, during the remainder of the year they were far below what they considered their portion of the total business. They turned these problems over to the sales promotion department for consideration and asked that the department suggest a solution.

The sales promotion department considered two factors to be the principal causes for the difficulties noted by the executives: (1) the fact that the trend away from roll roofing had made the shingle applicators (reroofers) an important factor in the distribution of shingles; (2) the fact that the credit arrangements with the applicators were not entirely satisfactory.

There was no possibility of selling the company's line direct to the consumer, because the effort expended on nonprospective purchasers would make the cost excessive. National advertising appeared as a possible but wasteful way of encouraging consumer purchasing. Direct-mail advertising was also feasible, but the cooperation of dealers and applicators was needed in compiling the mailing lists. The company had regarded the dealers as the most important step in distribution and so had done considerable work with them to induce them to stock and sell its line. With the trend away from roll roofing toward the use of shingles for roof covering, the sales promotion executives felt that the dealer was becoming of less importance in the distribution of roofings and the reroofer or applicator was becoming more important, since applicators were no longer willing to take any brand of roofing offered by the dealer. Consequently, by confining selling efforts to lumber jobbers and dealers, the company was not obtaining so much of the reroofer's business as it should obtain. In the minds of the sales promotion executives, this diagnosis was

supported by the following facts: (1) the company obtained a satisfactory share of the total business in January, the month in which jobbers usually purchased their requirements for a considerable period, and less than a satisfactory share during the remaining months when dealers and reroofers did the majority of the buying; (2) in general, the sales volume in the industry during these later months was becoming a greater portion of the total yearly sales. They believed, therefore, that more and more the reroofer was making the decision as to the type of shingle to be used on the roofing job and was buying a larger amount of his requirements direct from the manufacturer, and that to get a fair share of this business the company would have to work with the applicators.

The sales promotion department devised a program which it believed would remedy the company's lack of contact with the applicators and placed it before the executives for approval. Recognizing that the average reroofer was handicapped in two ways—in his lack of selling ability and in his inability to extend long-term credit—the department officials believed that, if they could help the applicator accordingly, they not only would obtain his goodwill and business but would increase his total sales of shingles.

The program involved calling in the company's 80 salesmen and giving them a thorough understanding of the business of a reroofer. A salesman could then talk intelligently to the applicators who would have more confidence in the advice and help he offered. The training was intended to improve the salesmanship of the reroofers.

When the course was completed, the company intended to use the following campaign. Each group sales manager was to travel to each large town in the territories of the salesmen reporting to him. At each town he was to set up an exhibit and invite every reroofer in town to visit the display. The sales manager was to talk over the reroofer's problems, to offer selling suggestions, and in the meantime to demonstrate the advantages of the Lastwell line. The salesman was to offer to visit several of the reroofer's prospective customers with him and aid in completing the sales. The sales manager was to offer the company's financial plan (to be discussed) to worth-while reroofers. Finally, the sales manager was to offer to share one-half of the cost of a direct-mail campaign in behalf of the company's line. The sales manager was to attempt to convince the reroofers of the superiority of the Lastwell line and to persuade them that it was to their advantage to carry only one line. To maintain the favorable dealer relations, the company intended that all sales to reroofers would go through the company's dealers.

Reroofers were generally poor credit risks since they operated with a very small capital, and for that reason they had not been able to arrange

for any extension of credit through banks or through credit houses. Since a reroofing job cost home owners more money than they were usually prepared to spend at one time, it was felt by most roofing and shingle companies that this lack of ability to extend credit influenced adversely the sale of roofing materials. To remedy the situation, a majority of the companies in the industry had made arrangements to enable the reroofer to extend credit through finance companies. The credit was extended through what was known as recourse notes, which were signed by the customer, by the reroofer, and by the shingle company. These had not been particularly successful from the standpoint of the company since, as soon as a customer began to get behind in his payments, the finance company attempted to collect from the reroofer. Any such dealings at all with the finance company usually turned the reroofer against the shingle company. The reroofer, furthermore, was hardly ever in a position to pay these notes, and two or three coming due at one time could put him into bankruptcy, so that the recourse feature did not give the manufacturer a great amount of protection.

Officials of the sales promotion department recognized these factors and decided that the disadvantages of the reroofer's signature on the note far outweighed the small amount of safety obtained from the recourse feature. They decided to adopt a nonrecourse note, the right to use which was to be extended only to more reliable reroofers. The reroofer was to be made conscious that it was an honor to be allowed to use this type of note. Then if the customer could not pay, the company had to assume the costs of loss or delay. The interest charges, or risk charges, on this note were higher than they had been on the recourse note, and both prices were considerably higher than when cash was paid, so that the company intended to advise the applicator first to quote the deferred payment price, and then the cash price when it was necessary to meet competition. The department officials realized that they could not repossess shingle roofs, and that the lien was junior to some other types of claims. Although the tendency to delay payment would not be very well guarded against, executives believed the note finally would be paid, since the fact that the customer desired to improve his home indicated that he was sufficiently interested in it to wish to avoid the possibilities of losing it.

The sales promotion department thought that these two steps would be very effective in obtaining reroofer goodwill and business and thus would correct the decreasing sales volume which was troubling the executives. The executives in their consideration of the problem questioned whether the sales promotion department's diagnosis of the situation was correct. They wished to know what effect the reroofer's contact work would have on their present relations with dealer and jobber customers.

They were uncertain whether the dangers of the lenient credit plan were less or greater than the advantages it offered.

60. DUANE COMPANY (B)—USE OF TEST CAMPAIGNS AS A BASIS FOR DETERMINING MARKETING POLICIES

The executives of the Duane Company, a large manufacturer of flashlight cases and batteries, believed that more definite information was necessary for the proper direction of the sales program and proposed to secure this information through a series of test campaigns involving a small group of typical dealers. Flashlight cases and batteries were sold chiefly in drug stores and hardware stores, which were reached through the regular wholesalers supplying these channels. One hundred fifty missionary salesmen worked continuously among retailers and jobbers to maintain distribution, calling upon dealers every 60 to 90 days. Prices set by the manufacturer and printed on the display cases allowed margins averaging 35% to retailers. Wholesalers were allowed additional discounts of 25%. Although no definite study had been made of the relative advantages of space advertising and dealer counter and window display, the company generally spent $75,000 a year on dealer display material and over $200,000 a year on national advertising in leading magazines of general circulation.

Dealers were supplied with attractive window cards and display boxes, but the missionary salesmen found them reluctant to give prominent space to this material because of the belief that the volume of sales of the products did not justify it. The first series of test campaigns was designed to determine the importance of proper display in the sale of flashlights and batteries, and to secure data, if possible, which might be used to show dealers that the display of flashlights and batteries was worth while.

In cities ranging in population from 10,000 to 250,000, located within a 200-mile radius of central headquarters, 10 drug stores and 10 hardware stores were chosen as being typical of the company's dealers. These were called the test dealers of the eastern district. On August 27 in a recent year the inventory of flashlight batteries and cases of each test dealer was taken, and the dealer was requested to continue his existing methods of merchandising until October 15. On the latter date specially designed display materials consisting of window cards and counter display boxes were installed in each test store and were left until November 19. Sales of each dealer were carefully recorded during both periods. The results obtained from the comparison of the two periods are shown in Exhibit 1.

Although a substantial increase in sales was shown on the average by the test stores when dealer displays were installed, it was noticeable that

six dealers actually showed decreases in sales in the second period. This decrease was attributed to the presidential election which occurred that autumn and to the business depression, which was apparent especially in northern New York, where several of the cities were located.

EXHIBIT 1

DUANE COMPANY—AVERAGE SALES PER DAY IN DOLLARS IN 20 EASTERN TEST STORES—FIRST TEST PERIOD

	August 27 to October 15	October 15 to November 19	Percentage Increase of Sales in Display Period Over Sales in Non-display Period
Cases	$0.4064	$0.6017	21%
Cells	0.4323	0.4611	6%
Total	$0.9287	$1.0628	14%

During the period from November 19 to December 10, 12 test dealers continued to use the displays and the others went back to their old methods of merchandising. The 12 dealers who continued to use the displays showed a 38% increase in average daily sales over those of the previous period, while the other test dealers showed only a 13% increase. During the latter two periods 70% of all the flashlights sold by the test stores were sold from display boxes. These tests seemed to give strong evidence of the importance of display in merchandising flashlight batteries and cases.

As the Christmas season approached, the company was desirous of finding out how much of a Christmas item flashlights were and if sales could be stimulated sufficiently during that season by dealer displays to justify special effort. To obtain this information, a test campaign was held from December 10 to January 22 in which 10 of the test dealers were allowed to merchandise flashlight cases and batteries in their customary manner and 10 were supplied with special display material consisting of window cards and 3 counter boxes containing flashlights of proven popularity. As an added part of the test, the 10 dealers using display material were each supplied with 20 new gift boxes which the company was contemplating introducing. The gift boxes were attractively made up in orange and black colors, and contained three popular flashlights. The counter display for the gift boxes read as follows: "Duane Flashlight Gift Box $5. Contains three flashlights—one for the home, one for the car, one for the pocket."

The average sales per day of the 10 dealers who received no display material from the company were 46% higher than they had been in the

period immediately preceding. The 10 dealers who used the display material showed average daily sales 73% higher than in the preceding period. The conclusion drawn was that flashlights were an excellent Christmas item and that a reasonable amount of dealer display was justified. Out of the 200 gift boxes placed in 10 stores, only 3 were sold. Although the gift box seemed sound as a merchandising scheme and appeared to have possibilities before it was tried out, it obviously proved unsuccessful in the experiment. The consequent decision not to introduce it probably avoided much dealer ill will and the loss of a considerable amount of money.

In January the decision was made to undertake a national reload campaign to increase battery sales at a time when case sales were at a low ebb following the Christmas season. Thousands of dealers were supplied with large window cards on which were fastened the separate parts of a flashlight. The printing on the card read: "Is your flashlight in order? Free inspection. Bring in your flashlight. Let us put it to work for you." Small counter display boxes were supplied which contained an assortment of batteries. The 20 eastern district test dealers were again asked to cooperate in evaluating this campaign. The display material was put up in each of the 20 stores, and sales were recorded from January 22 through March 5. The results of the test campaign were compared with those obtained in the previous November test campaign, since the abnormal sales in December because of Christmas buying made comparisons with that period unwise.

EXHIBIT 2

DUANE COMPANY—AVERAGE SALES PER DEALER PER DAY IN DOLLARS IN 20 EASTERN TEST STORES—SECOND TEST PERIOD

	November 19 to December 10	January 22 to March 5
Cases	$0.5630	$0.3854
Cells	0.4957	0.3086
Total	$1.0587	$0.6940

The test indicated that the national reload campaign had not been a success, and accordingly the decision not to repeat such a campaign in the following year seemed warranted. Dealers reported few inquiries for flashlight service and, in general, expressed the opinion that the campaign did not stimulate business enough to justify the extra effort.

Later in the spring the company was contemplating the introduction of a line of colored flashlights. The production department desired to secure

some idea as to what proportion of the total sales of flashlights would be represented by colored lights. A special lot of 1,000 flashlights was made up in blue, green, red, and old rose. Some of the flashlights had bright nickel finish, and the rest had black nickel finish. An assortment of these in a special counter display box was placed in each of the 20 test stores and left during the months of April and May. The results of this test are shown in Exhibit 3.

EXHIBIT 3

DUANE COMPANY—SALES OF 20 EASTERN TEST STORES FOR 60 DAYS DURING APRIL AND MAY

1762—Red	22	
1762—Blue	24	
1762—Green	15	
5062—Red	10	
5062—Blue	16	
5062—Green	11	
5064—Rose	16	
5064—Green	13	
5064—Blue	18	
Total colored		145
9762—Black	73	
4062—Black	65	
1761—Black	53	
6162—Black	26	
Others—Black	61	
Total flashlights		423
Percentage colored of total		34%

Although the black nickel fittings proved very popular, they were withdrawn from the assortment when experience showed that the black wore off rather quickly and left an unsightly looking case. The figure of 34% and the figures relating to distribution among the various colors were used by the production department in regulating production.

On the basis of data obtained from nine months' experience with the test stores, an analysis was made to determine whether the dealers were carrying adequate stocks of the company's products. The initial inventory of cases and batteries of the eastern test stores averaged $32.37 per store. If the two largest stores were omitted, the average for the balance was only $24.84. During the nine months that the test stores had been under supervision their stocks had averaged $46 in value. This amount was thought to be ample inventory to care for the volume of business being done. Based on the rate of sales for this nine months' period, a turnover of four times a year would be obtained with this amount of inventory. It was apparent that an inventory of $46 of flashlight cases and batteries would not prevent a satisfactory turnover in the average store if a reasonable amount of sales promotion work were done. As most stores carried little more than half of this inventory of flashlights and

batteries, the conclusion drawn was that the average dealer's stocks were too low.

The executives of the company believed that the test stores had been satisfactory and intended to continue to use them. Flashlight demonstration booths were to be placed in several of the test stores. A sales promotion man was to spend a few days in each one at frequent intervals in order to get a first-hand consumer reaction to the line and to flashlights in general. The accounting records of the dealers were to be searched to ascertain the volume of flashlight and battery sales before the test periods, so that figures would be available for comparison with the sales while the stores were under supervision.

In summarizing the important information that had been gained from the use of test stores, executives drew the following conclusions:

1. Dealer stocks were too low and could be increased to advantage if kept well balanced.
2. The existing method of merchandising flashlights in display packages was sound and successful.
3. The display of flashlights in a picked location in a dealer's store and in an attractive manner increased sales.
4. Flashlights were good Christmas merchandise, and their sale as such could be greatly stimulated by proper advertising display.
5. The test stores were very valuable as a proving ground for displays and campaigns. They served as a reliable source of facts on which to base factory production requirements.

Were the conclusions justified by the facts? Is the idea of test stores sound?

QUESTIONS

1. A company which has been engaged for years in the manufacture of metal articles recently perfected a special device to facilitate lubrication, which was applicable both to automobiles and to industrial machinery. It seemed clear to the company that there were two distinct markets to be approached. The first was the automobile market, consisting of automobile manufacturers, who might furnish the product as standard equipment on the cars which they sold to dealers and consumers, and also of automobile dealers, garages, and retailers of automobile accessories, who might sell the lubricating parts for attachment to cars on which they were not already provided. The second general market was the industrial field. What types of sales programs should have been considered by the company in developing the markets for this product?

2. A confectionery company whose sales had expanded from $954,552 to $3,085,918 was experiencing a large decline in its business in high-grade package and bulk chocolates and in bon bons as a result of depression conditions. Competitors in the same general price classes in some cases had introduced lower price lines and in other cases had cut the prices of regular lines substantially. To what extent could the company meet the situation with expanded advertising and selling effort?

3. A manufacturer of business machines is planning the introduction of a new low-price adding machine to be announced simultaneously on billboards, in newspapers,

trade papers, and general magazines, and in branch offices. What problems of scheduling are involved?

4. A manufacturer has developed a new and more efficient piston ring. What type of sales program is required to sell the product to automobile manufacturers for standard equipment?

5. A large electrical goods manufacturer proposes conducting an intensive holiday sales and advertising drive for electric appliances. It is proposed that Christmas advertising appear in November in ten national magazines. Four color spreads, single and double pages, are to be used. The campaign is also to include extensive trade magazine advertising, special displays, and suggestions for local newspaper advertising. Is such a campaign likely to be effective? If so, under what conditions?

6. Is the promotion of light steel in structural shapes for residential and other small buildings properly the function of a trade association or of individual steel producers? What type of sales program would be effective?

7. Should an automobile tire manufacturer with national distribution, employing 47 salesmen in its 7 sales districts, adopt a proposal to concentrate its sales effort in 5 states in the vicinity of its factory, reducing the number of salesmen to 3, and the number of dealers from 1,200 to 200, and carrying out a program of sales promotion and cooperative newspaper advertising in these five states?

8. Are selling plans and selling programs of any value to a company engaged in the construction of concrete buildings, most of whose business comes as a result of successful competitive bidding? Where competitive bidding is the practice in the purchase of particular commodities, is personal selling or advertising of any value?

9. A coffee company which has attained satisfactory distribution of its blends of tea and coffee in 6 states surrounding its plant is considering the introduction of its product in a metropolitan city with a population of about 1,500,000, located approximately 250 miles from the headquarters of the company and outside the territory already covered.

Should the company undertake to secure gradual distribution, using one or two salesmen to get retail grocers to introduce it with only a small amount of advertising, or should the company undertake intensive distribution with a considerably larger temporary force of salesmen and a large campaign in the metropolitan press?

10. Upon what bases should a sales manager for a new industrial chemical company determine his selling program?

11. What selling methods are available to a specialty food manufacturer? To a steam shovel manufacturer? To a manufacturer of automobiles? To a producer of women's highly styled suits and coats?

12. Should the margin between manufacturing cost and customary selling price in the market for similar products influence the character of the selling program for a new product?

13. Is the classification of selling methods, depending upon whether the intention of those using the method is to sell directly to the recipient of the effort or to middlemen, significant?

14. To what extent are experimental methods applicable to the choice of selling methods in the development of a selling program?

15. Under what conditions is it desirable or necessary for a company to develop plans for quick intensive distribution and sale of its product? Under what conditions is gradual development of the market desirable?

16. What sources of information can be utilized by the sales manager in arriving at his choice of methods?

17. How may the sales manager determine the time elements of a sales program? Of a campaign to introduce a new product?

18. Is careful planning of sales programs in advance consistent with the need for quick change as new products and new market conditions emerge during the year?

19. Distinguish between budgetary control of sales and the sales program. What is the relationship?

20. Are extensive selling programs in the public interest?

B. PERSONAL SELLING IN THE SALES PROGRAM

The oldest form of selling effort is that form of personal selling in which the goods were sold on a bulk basis; that is, the actual goods offered for sale were delivered immediately from the stock displayed to the buyer. Historically, personal solicitation or personal selling has been the prime form of selling effort and continues to be the most important constituent of most selling programs of manufacturers and wholesalers, whatever type of product they sell. However, that personal selling is used in the proper proportion in its relation to advertising is seriously to be doubted. The average sales manager has no definite means of knowing the results of the particular combination of advertising and personal selling which he decides upon in planning his annual program, except from his own personal experience and the experience of other companies whose problems vary considerably from his own.

The sales manager is affected more or less by the practice of competitors. If an important manufacturer in a particular competitive trade decides to advertise extensively, his competitors may feel compelled to advertise likewise, even though the campaign of periodical advertising and personal selling which the first manufacturer adopted was by no means the wisest. The impossibility of measuring accurately the results of advertising and of personal salesmanship gives advertising men the opportunity to claim for their means of selling results which may be justified but often are not. Again, the custom of the trade may be that of using salesmen almost exclusively, and the tendency is, therefore, for the sales manager to hire a group of salesmen to do the selling work without serious consideration of the fact that each salesman in a force might find his work considerably more effective if his efforts were supplemented by other selling methods.

Personal solicitation or personal selling of the type most commonly used is illustrated by the work of "regular" wholesale salesmen, who may

or may not carry a few samples and who make their calls upon wholesalers, retailers, or large consumers at stated intervals, and by the work of the retail salesperson, who customarily waits for the customer to come to him. The wholesale salesman frequently carries samples with him; the retail salesperson usually sells the goods which he displays to the customer from stock at hand. Occasionally the retail salesperson sells from samples or from description without other aids. Frequently, however, the wholesale salesman sells on the basis of description.

Personal selling effort may be exerted not only by those in the position of salesmen but also by other members of a business enterprise, particularly by men in executive positions. In addition to the regular type of salesmen, as has been pointed out, special types of salesmen may be entrusted with special duties, such as that of creating goodwill, performing only a part of the selling process. The numerous arrangements of duties of salesmen result in a vast number of differences between firms in their utilization of personal solicitation. The specification both of the types of personal salesmanship and of the types of effort expected from each salesman must be examined before we are justified in making detailed comparisons of selling programs of different business enterprises.

61. BRYANT COMPANY—USE OF MISSIONARY SALESMEN

The Bryant Company of Cleveland, Ohio, manufactured a nationally known packaged baking powder for home use. The company maintained branch offices in Boston, New York, Baltimore, Richmond, Savannah, Birmingham, and St. Louis and sold through an agency on the Pacific Coast which had branches at Seattle, San Francisco, and Los Angeles. A salesforce of 150 missionary salesmen worked out of these branch offices under the control of the branch managers. Territories in which the number of salesmen was large were subdivided, each division being under the control of a division manager. The branch manager controlled the salesforce, the crews of canvassers, and the demonstrators operating in his territory and was responsible to the general sales manager in Cleveland for the results attained. The company's salesmen called on practically all retailers in their territories an average of four times a year, doing display work and merchandise work and soliciting orders. After visiting all the retailers in a district, the salesmen would call on the wholesalers whom the retailers had specified and turn the retailers' orders over to them for acceptance. The wholesaler was allowed his usual discount on this business which amounted to 36% of the company's total sales to wholesalers. Average control figures for all branches showed that the salaries and expenses of the salesforce (which were less than 20% of the total sales

expense) were more than 40% of the amount which was turned over to the wholesaler, and officials of the company were attempting to decide whether or not the benefits derived justified this expense.

This personal solicitation constituted an important part of the company's selling program. The first duty of the salesmen was to attempt to get complete distribution for the company's product by calling on every grocery store in their territories and trying to persuade the buyers to stock Bryant baking powder. In addition, they did display work, distributed advertising material to cooperative retailers, and attempted to convince all retailers of the superior merits of the company's product.

The salesmen were the only medium through which the company could determine accurately how the product was selling in each locality. To obtain this information, the salesmen would ask each retailer in a town to rank all baking powders in order of their volume of sales. These rankings were sent to the branch manager, and from them he could get an idea as to the consumer preference in each locality. Where the company's product ranked low in preference, the branch manager studied the trend of sales to determine how much sales volume had been lost. If the amount had been large and the market was important, the branch manager might plan a house-to-house canvass to attempt to regain consumer preference. Where the locality was small, the branch manager might use a store demonstrator. Where he did not think either of these methods was necessary, he might authorize the salesmen to offer certain cooking utensils, such as measuring cups or spoons, biscuit cutters, pancake turners and the like, or cook books, to be given by the retailer as a premium with each can of the company's product sold. It was evident that the executives attached great importance to the cooperation of the retailer. The nature of the product seemed to them such that the only satisfactory means of changing a consumer from one brand to another was by some sort of personal contact, through canvassers, store demonstrators, or retailers.

The company's control figures, however, showed that this method of reaching the retailer was expensive. For the first four months of the year it was found that the amount of the average retail order taken by these salesmen was $6.34 at the price the wholesaler paid for the merchandise. Special discounts given to the retailer for quantity purchases would decrease this figure to some extent. The control figures also showed that the expense and salesmen's salary necessary to obtain each order averaged $2.45, or 39% of the average sale. The total salary and expense of the missionary salesforce were approximately 12% of the company's total sales. When the executives considered these facts and the additional fact that, since 50% of the company's sales were made to chain stores, these salesmen at best could only account for the remaining 50% of the sales and that the

majority of their time was spent obtaining 18% of sales, they wondered if some other method of sales promotion would not be more effective.

Since the company found it necessary to perform a large part of the selling function for the wholesaler, the possibility of doing all selling direct and saving the discount allowed these outlets had been considered by the executives. The turnover on the company's product, however, was so slow and the individual sales volume was so small that the executives believed the cost would be much greater than the 15% allowed the wholesaler. In addition, as a result of the small orders, the shipping costs, the credit risks, and the collection costs would be much greater than at present. These conditions would be especially true in regions where the population was scattered and where grocery stores were far apart. Thus, the company could not decrease its selling costs by dispensing with the services of the wholesaler. The only other alternative was dispensing with the missionary salesmen or a part of them. The company had built up its sales volume by this and other sales promotional means and found in the face of decreasing consumption and of increasing competition, especially during years of depression, that these activities had to be maintained or increased to hold this sales volume. The question arose whether the executives of the company should make attempts to maintain this volume, or whether they should be content with the smaller volume which might result from a decrease in their sales promotion efforts.

Should the company have discontinued its missionary salesforce?

62. ORLEANS COMPANY—NURSES AS DEMONSTRATORS FOR INFANTS' WEAR

The Orleans Company, with an annual sales volume of well over $10,000,000, manufactured a complete line of infants' and children's underwear and sleeping garments. The company's products were sold by a salesforce of 40 men direct to department stores, dry goods stores, and clothing shops throughout the United States. To demonstrate the merits and to promote sales of a new line of infants' clothing, graduate nurses had been employed for one seven-week period in the fall of 1936 and another in the spring of 1937. The sales manager was undecided whether to recommend their reemployment during the 1937 fall season.

The new line of infants' garments, introduced by the company in the fall of 1936, were a distinct innovation over other styles on the market. The change lay in the construction of the garment and in the material, which was designed for greater comfort to the wearer, being soft and light yet warm. Since store clerks were unfamiliar with the new line, company-

employed nurses, using life-size dolls, showed customers how easily babies could be dressed in the new garments and how much more comfortable, health protecting, and long-wearing the new styles were. The company's seven division managers selected demonstrators with the aid of physicians and hospital superintendents. To be chosen for the work a nurse had to be highly recommended in her profession and possess tact, a pleasing personality, and some ability to sell.

In deciding upon the stores in which demonstrators should be placed, the sales manager considered three primary factors: a store's past sales record, its potential sales, and its location in the business area. The required past or potential sales figures were not predetermined amounts but varied to a large extent with the size of a store, its past relations with the company, and the willingness of its executives to cooperate. The location of the store in the business area gave some indication of the amount of traffic which might pass through it daily and whether or not demonstrations in it would be valuable. The length of time that a demonstrator remained in any particular store also depended upon the three primary considerations mentioned above; sometimes she remained one, two, or three days, although in larger stores she often stayed a week. In the two seasons in which the company had used demonstrators, the nurses appeared at a number of stores for a few days during each period. The demonstrator-nurses were employed by the week and only for the limited period. They received a set of instructions concerning calls on physicians and a sales manual, which incorporated a detailed description of the Orleans line, a sales talk, general helps on how to make the demonstrations effective, and an outline of the company's history, its general policy, and manufacturing processes. They were also given an intensive personal training on all phases of the work before starting out.

A demonstrator's duties were numerous. She was required to educate the store clerks and explain in great detail the practical features of the new line. The sales manager believed that clerks could be convinced of the garments' advantages more quickly if the nurses actually made a number of sales, showing that the garments could be sold and how a sale could be accomplished most easily. If a store had the facilities available and granted permission, the demonstrator was expected to make auditorium speeches before groups of mothers, discussing the care and health of small children, bringing into the discussion the use of Orleans clothing.

A very important part of a demonstrator's work was spending a part of each day calling on well-known pediatricians and obstetricians whose recommendations to mothers on infants' wear were considered by the Orleans Company to be an important factor in increasing sales. Each nurse was supplied with a kit containing samples of the Orleans line and

made two or three calls daily. Afternoon calls were thought to bring much better results than those in the morning, because doctors were more apt to be in their offices at that time. The sales manager believed that these visits were quite important since in many instances they brought suggested improvements for Orleans products and resulted in acquainting many more mothers with the Orleans line through the professional interest and recommendations of their doctors. In each instance the store's buyer of infants' wear had to grant permission before a demonstrator could be absent from the department to make calls. Each nurse-demonstrator was required to send in to the division manager a daily informal report commenting upon the progress made during the day.

After using nurse-demonstrators in the fall of 1936 and the spring of 1937, the sales manager was undecided whether they should be employed for the 1937 fall season. Although no detailed analysis had been made, he knew that in very few instances had the nurses made enough actual sales to cover their salary and selling expenses. The salary paid varied with conditions in different locations, but the average compensation was $35 weekly. Traveling and living expenses approximated $65 weekly according to the number of towns visited within the period. To this amount had to be added an indeterminable expense for the time devoted to this particular type of promotion by the division managers and home office employees. Assuming $100 as the weekly expense, however, the sales manager realized that the amount was not covered by increased sales within a week, even if increased sales made by clerks were included.

On the other hand, he knew that the cumulative effect upon sales was the standard by which the demonstrators' effectiveness should be measured. There was only reasonable evidence that efforts of demonstrators had increased sales. Several executives declared that while sales of the Orleans line had increased steadily during the year, the uptrend was normal, to be expected without expensive demonstrations, as was proved by the increased sales volume in stores where demonstrators had not been used. The expense of the nurse-demonstrators for two seasons was slightly above $10,000, which some executives of the company considered too costly. They claimed that the cost of the demonstrators was probably not returned to the company in full in increased sales volume.

Without any tangible proof of the demonstrators' worth to the company, the sales manager was faced with a difficult and perplexing problem. He was of the opinion that the nurses had offered the company numerous suggestions and had gathered important information from the field, the value of which could not be readily interpreted in dollars and cents.

He was undecided, however, how much weight he should give to these intangible factors in making his decision.

What factors should the sales manager have considered in making his decision? How much weight should he have given the various factors?

QUESTIONS

1. The sales manager of a company selling a low-price piece of steel equipment to retailers tabulated the calls of his salesmen, distinguishing between the initial calls and follow-up calls, and divided follow-up calls into those in which the follow-up took place within 10 days and those in which the follow-up was less prompt. The figures revealed that the total number of calls in the year averaged 1,220. Total number of calls per salesman resulting in sales was 120. Of total calls 380 were initial calls which resulted in 30 sales. Follow-up calls within the 10-day period numbered 430 and sales 79. Follow-up calls not within 10 days accounted for the remainder of the sales. What conclusions should the sales manager draw from these results? What action should be taken with respect to the average amount of personal selling to be applied to selling prospective buyers?

2. The Continental Plastics Company manufactured machined and molded parts from plastic materials. Certain of these products were sold to syndicate stores and to notions, stationery, and novelty jobbers. Other products were manufactured to specification for other manufacturers as parts or trimmings for larger articles. In the first four years of its existence manufacturers' agents in principal cities were used, selection and contact being effected by correspondence. Direct mail and a limited amount of trade-paper advertising in plastics magazines and in novelty and stationery trade papers completed the sales program. The volume of sales of about $180,000 a year was divided; five-sixths represented consumer products sold to chains and jobbers and one-sixth industrial products.

The industrial sales volume, the number of industrial inquiries, and the proportion of inquiries resulting in sales had varied widely from year to year. The president of the company contended that without one or more special industrial salesmen, the industrial business would never be stable or substantial. The volume of sales then obtained would not support a competent industrial salesman. The question which had to be decided by executives was whether the company should add an industrial representative hoping to increase sales sufficiently to carry the added burden, or whether it should increase direct-mail and trade-paper advertising in the hope that volume would increase sufficiently to support one or more personal representatives if such a choice later appeared desirable.

3. It is well known that many firms have been able to operate with sales programs containing no advertising. Is it possible for firms to operate without any personal selling effort? Under what conditions?

4. What elements go to make up the costs of the personal selling included in a sales program?

5. In view of the need for meeting competition, how is it possible to plan sales programs and sales campaigns without knowledge of competitors' plans?

6. In what way may provision be made in a sales program for emergencies, or for unforeseen developments?

7. A manufacturer of electric vacuum cleaners had secured initial distribution of a high-grade cleaner by selling to retailers and maintaining a force of house-to-house canvassers. Difficulty was encountered in securing and retaining a sufficient force of canvassers. It was proposed, therefore, that the canvassing organization be discontinued and that the company concentrate its selling efforts on extensive advertising in local newspapers to help local retailers sell the product. Under what conditions should the proposal be adopted?

8. A company manufacturing and distributing indexing and filing systems and cabinets and minor items of office equipment added a line of office furniture to the line sold in its St. Louis branch. The branch manager has asked whether or not he should employ a special salesman to sell office furniture exclusively. How may the advantages and disadvantages of the proposal be measured?

9. The sales manager of a wholesale grocery company suggested that orders from retail grocers in country districts outside St. Louis should be solicited by long-distance telephone. The sales manager's plan was to send the city telephone salesman either to the county seat or to the most conveniently situated town of the county in which the company's products were sold. This man was to be given a list of all customers in the county and, in addition, the names of prospective distributors who possessed satisfactory credit ratings. The salesman was to use a local telephone office as headquarters, was to call each name on the list, and was to try to secure orders from customers and prospects and create goodwill. He was also to limit his calls to three minutes each, if possible. Should the plan be adopted for all counties in Missouri and for about 30 counties in the southern half of Illinois?

10. Should a company, engaged in the manufacture and sale of lubricating oils, which has recently developed a high-grade airplane oil, hire a well-known airplane pilot as sales representative to call at various airports to introduce the new lubricating oil?

11. How will the development of chain stores and voluntary chain organizations in the grocery trade affect the use of missionary salesmen and store demonstrators by manufacturers of specialty food products? Is personal salesmanship likely to disappear with the growth of large-scale distributors and expert buyers?

12. How may a sales manager determine whether too much or too little personal salesmanship is included in his sales program? What alternatives are available to increase the amount of personal salesmanship in the program?

13. How may the types and qualities of personal salesmanship be altered so that they are more suitable to a specific selling task?

14. How should those in charge of personal salesmanship bring about correlation of their efforts with those of the advertising and other departments engaged in selling work?

15. What methods may be used to bring about a desirable degree of coordination between sales correspondence and the work of the salesmen in the field?

C. ADVERTISING IN THE SELLING PROGRAM

The ultimate purposes of advertising and personal selling are the same —to bring about economic exchanges. It is recognized by students of advertising that it may be impossible, or uneconomic if possible, for the

advertiser to attempt the accomplishment of the entire process of effecting the sale without the aid of other forms of selling effort. Occasionally it is possible for a seller to use advertising exclusively, but success is the exception rather than the rule.

The vast majority of advertisers are compelled by economy to combine personal with printed salesmanship, because advertising can carry certain portions of the selling process more economically and effectively than can salesmen, while other portions can be performed by it only with difficulty. Advertising can develop recognition of a product or recognition of a seller of products more economically and more widely than can salesmen. Advertising may go further; it may develop interest in the product as a prospective means of satisfying wants and create interest in the vendor as the source of supply. Nevertheless, advertising alone is generally unsuccessful in developing such recognition and interest to the point of completed transactions. In other words, advertising may furnish a definite starting point as a basis for the work of the salesman but cannot usually complete the task without his aid.

More specifically, the purposes of advertising may be stated as the development of consumer recognition for the product and the development of goodwill for the selling concern, sometimes through so-called institutional advertising. Through contributions to the selling process, advertising should increase sales, reduce marketing costs, and develop economy in distribution.

In the management of advertising, the problems to be solved relate to the choice of media, the timing of particular advertising effort, and the execution and control of such advertising plans. Production and shipping must be coordinated so that stocks of goods are available on a basis coextensive with the scope of advertising effort. Advertising effort must be coordinated with personal and other selling effort.

In the selection of advertising media the choice seems to be constantly increasing. The most important form in terms of expenditure is space advertising in radio, magazines, newspapers, and other periodical publications. A number of important classes of advertising media, which may be used alone or in combination with other classes, must also be considered for inclusion in the sales program. Among these are direct-mail advertising in manifold forms—letters, circulars, brochures, leaflets, etc.; outdoor advertising, sometimes called poster advertising; and radio broadcast advertising, a relatively new advertising medium which has grown steadily in importance for certain trades. In addition to these direct forms of advertising we have the numerous intermediate forms of selling effort which are classified as dealer helps and which range from cooperative advertising effort to courses in dealer training or control of dealer activities.

Furthermore, a list of media does not indicate the choice which must be made within each of the groups ranging from the periodical whose readers number millions to the country newspapers with a few hundred subscribers, and from circular letters to elaborate and frequent broadcast programs. In all of these, choice needs to be exercised to select those media which will best fit in with the purposes and plans of the enterprise. Advertising is not a substitute for personal salesmanship in the sense that it can be used instead of personal salesmanship. At times it aims to perform similar functions, but ordinarily it can serve best as a supplement to personal salesmanship and other means of selling.

The main economic justification for advertising in the long run is the possibility of reducing the cost of goods to the consumer by reduction either of marketing or of other costs. By increasing the volume, it may reduce the cost of production. Whatever program, whether advertising alone or personal selling alone or combinations of methods, can bring about distribution of goods most economically will survive. But advertising and other sales methods would ultimately take the place of personal salesmanship if it were believed that necessary functions could be performed more economically thereby.

The effective combination of advertising and personal selling used by one company may not be effective for another. The selling plan of an important cereal company includes very little personal solicitation, if any, and a very large amount of advertising. A mail-order house uses direct mail exclusively. On the other hand, retail stores use personal solicitation and advertising, though all the records which are available indicate that personal solicitation, as reflected in the cost of salesforce, is considerably more important than advertising. Many, perhaps a majority of, wholesalers utilize little selling effort other than personal salesmanship. Manufacturers, on the other hand, frequently use advertising, some of them depending upon it very largely as a means of creating consumer and dealer recognition.

Attempts to apply scientific measurement to advertising have been made and are being continued in the effort to answer the questions as to the effectiveness of advertising and its various features and characteristics. The discussions of measurement have largely hinged upon so-called testing. Logically, advertising tests seem to fall into two main groups. The first group consists of predictive tests, or those tests which are made in advance of appearance of advertising to help in prediction of results. The other group of tests is based upon measurement of results, either actual results in terms of coupons, inquiries, or sales results in limited or total areas; or results presumed to be indicative of sales results, such as (1) unaided recall, (2) aided recall tests for magazine, newspaper, or radio advertising,

(3) coincidental telephone surveys, or (4) mail questionnaires for radio. Predictive tests for magazine and newspaper advertising include consumer jury tests of proposed advertisements, timed attention-value tests, the application of psychological scoring factors, or opinions of men whose judgment is valued. Experimental campaigns in limited areas, use of coupons, inquiries, and results in limited territories are also used for predictive purposes. If results are interpreted as favorable, extension of the program follows; if not, modification or discontinuance is decided upon.

Not all of these tests apply to all principal classes of media, but many of them may be applied to two or more. Nevertheless, all of these tests touch only a small part of the total problem of advertising and selling programs. In view of our lack of information, the urgency of careful testing and experimentation cannot be controverted if more rapid progress is to be made in learning fuller and socially more desirable utilization of advertising.

63. LATTIMORE COMPANY—ATTEMPT TO DETERMINE EFFECTIVENESS OF FIVE-YEAR ADVERTISING PROGRAM

In July, 1938, the executives of the Lattimore Company found it necessary to gauge the effectiveness of a five-year advertising program in order to determine the advisability of continuing it in whole or in part following its completion in August. This campaign had been a part of the general marketing program outlined by the company's advertising agency. The executives' task was made particularly difficult because of the absence of pertinent records relating to the period preceding the program. Although sales volume had increased after 1932, the executives were uncertain as to how much of the increase, if any, might be attributed to advertising.

The Lattimore Company manufactured and distributed a complete line of commercial thermometers under the company's brand name, consisting of thermometers for outdoor and indoor use, standing thermometers, and thermometers for bath, oven, candy, and clinical use. Salaried salesmen sold both to hardware and drug jobbers and to the following types of retail stores: hardware, chain and independent drug, department, sporting goods, optical, jewelry, stationery, household furnishing, and camera stores. Salesmen received a bonus on all sales in excess of annual quotas.

In addition to the decreased business activity which began with the 1929 depression, the company experienced keen competition from German manufacturers who, operating at lower cost, were able to undersell the

Lattimore Company in American markets. In order to meet this competition on a basis other than price, the company decided to redesign its product line, so that its appearance would be superior to that of competitors' lines. With this in mind, a product specialist was employed in 1931, and the line was completely redesigned in modern styles.

Prior to 1932 the company had conducted little sales analysis work, and until that year the product line had been classified according to method of manufacture instead of use. For instance, all tin-back thermometers were classified under one grouping, irrespective of whether they were for indoor or outdoor purposes, or whether they were for use in cooking, bathing, etc. This difficulty was largely the cause of the company's failure to make any analyses of its potential market or of its pricing policies. Before 1932 about 50% of the company's output was sold direct to 7,500 retail accounts. The balance of sales were made through jobbers, of whom approximately 200 were in the hardware field and 500 were in the drug field. This plan of distribution had developed over a number of years, and executives were not certain that it was the most satisfactory procedure. Realizing the lack of a well-defined marketing program, late in the spring of 1932 the executives asked an advertising agency to make a study of the company's problems and to propose a course of action for the future.

The first major step taken by the agency consisted of a field investigation to obtain facts concerning the thermometer market. Except on the Pacific Coast, where members of an outside organization were employed to conduct interviews, 14 agency representatives personally interviewed 2,860 consumers, 1,440 retail outlets, and 112 jobbers. All of the investigators were college men who had had advertising and previous field reporting experience. Residential investigators on the Pacific Coast were all members of a reputable fact-finding organization which had done this type of work on former occasions for the company's advertising agency. In commenting on the selection and training of field reporters, an agency executive stated:

> We constantly kept in mind the value and necessity of reporters' recording the comments made by the persons interviewed. It is only in rare instances that the interview produces merely the statistical information. The person does not reply in the colorless words of "yes" or "no" or stop at saying what make of thermometer is owned or preferred. He talks. What he says becomes the "comment" that elucidates the reporter's check-marks against the column of queries.
>
> These comments are really the chief justification of the present interview method of conducting a survey. It is by their comments that men and women reveal their personality and in so doing they disgorge that indefinable thing for which the survey is searching. The commercial survey is usually projected as a preliminary step in a cam-

paign of selling or advertising. It seeks to learn whether men do this or that, whether they want or like one thing or another, and it also seeks to ascertain the motives for the doing, the reasons for the choices, etc. If the survey is in the end to serve its proper function, the second purpose surpasses the first in significance.

The mere statistics of what men or women do may, to some extent, be disregarded provided true motives are unearthed, because if the requisite motive be roused into action the campaign will succeed. Inasmuch, then, as the person interviewed through his remarks most tellingly reveals his opinions, the recording of these conversational bits is vital. The interviewer does not argue the case nor does he attempt persuasion, it being his chore to record replies and comments. He is not selling the goods but his purpose is to find out what is thought of the goods.

Interviews were conducted in 43 states. The following 14 cities believed to comprise a representative cross section of the country were covered intensively: Lincoln and Beatrice, Nebraska; Greensboro and Thomasville, North Carolina; Greenwood, South Carolina; Madison and Watertown, Wisconsin; Augusta, Georgia; Elwood and Muncie, Indiana; Adams and Pittsfield, Massachusetts; Vallejo and Sacramento, California. Twenty-three per cent of the total interviews were made in cities of 500,000 population or over, 34% in cities of 100,000 to 500,000, 24% in cities of 50,000 to 100,000, 11% in cities of 25,000 to 50,000, and 8% in cities under 25,000.

Consumer interviews were made in all sections of each city and also in the surrounding suburban territory. Of the total number of 2,860 consumers interviewed, 22% were men and 78% women. The reporters rated each home according to their judgment of the family's financial standing, and 49% were termed "good," 42% "fair," and 9% "poor."

Thirty-eight per cent of the 1,440 retail outlets called upon were drug stores; 16% hardware stores; 13% jewelry stores; 9% optical stores; 8% department stores; and 16% stationery, household furnishing, sporting goods, and cutlery stores. Each outlet was rated according to appearance, class of customer served, standing in the city, and intelligence of the personnel. Sixty-five per cent of these outlets were classified as good, 28% fair, and 7% poor. Eighty-five per cent of the dealers were located in the business district and 15% were located in the residential neighborhoods. In making interviews with retailers and jobbers, each interviewer was instructed to seek the proprietor whenever possible, or at least to contact only those who were in a position to give authoritative information. The agency stated that 68% of the interviews were conducted with the proprietor or manager, 16% with the buyer, 12% with the clerk, and 4% with persons in other capacities.

Fifty-eight drug jobbers and 54 hardware jobbers were interviewed; 75% of the interviews were with buyers, 14% with proprietors, 9% with managers, and 2% with other persons.

The findings of the investigation were summarized by the agency and presented to the company in the form shown below.[1]

Our field reporters have found that some kind of thermometer other than clinical was in nearly 8 out of 10 homes which they visited. In these homes, inside thermometers rank first in ownership, fever thermometers second, and outside or window thermometers third. Only a few stoves are equipped with thermometers, and less than 5 families in 100 have oven, bath, candy, or any other type of thermometer. More than half of these thermometer owners could not tell us the make owned.

Over 50% of the thermometer owners had not bought a thermometer for two years or more, and two-thirds could not remember the make or the brand last purchased. Furthermore, about one-half had no particular reason for purchasing the make they did. Less than 1 in 10 admits that price was a factor in buying, but this is disputed by retail dealers, of whom more than half claim that price is an outstanding factor. More than two-thirds of the hardware retailers make this claim. On the other hand, 43% of the owners could not remember the price paid for the last thermometer purchased.

Thermometer owners indicate by their purchases that hardware stores, drugstores, and department stores—in that order—are the most important retail outlets. Consumers as a whole name these same outlets as those to which they would go to buy thermometers.

Our survey makes it pretty clear that consumers know little about thermometers. Ninety-two per cent said that they had no idea as to what make is the most accurate, and 84% could not give the name of a single manufacturer—although Lattimore is the best known name. Even so, in answer to a direct question, 82% admitted never having heard of your company, and 84% never heard of Lattimore. This is confirmed by the retail dealers of whom 78% tell us customers never mention the make or brand wanted.

Some method of humidifying the home is used in about half of the homes with thermometers and in about one-third of those without thermometers.

Thermometers are stocked by 98% of the drugstores interviewed, by 82% of the hardware stores, by 56% of the department stores, and by 44% of the optical stores. They are also stocked by stationers, house furnishings stores, sporting goods stores, and jewelry stores, but to a lesser extent. Distribution appears to be more complete in the larger cities than in the smaller. Fifty-three per cent of the dealers who sell thermometers stock Lattimore—which is nearly twice the proportion stocking any other make. But more drugstores stock Company D than stock Lattimore.

The relative importance of these various kinds of outlets is to some extent indicated by their average annual sales. For 28 department stores this average is $250; for 32 optical stores $215; for 10 stationery stores $204; for 63 chain drugstores $170; for 324 independent drugstores $116; for 148 hardware stores $103; and for 9 jewelry stores $43. However, in considering importance of outlets we must consider the percentage of each kind of store which is now selling thermometers and also the number of stores of each kind in the country.

Our survey indicates that you are receiving approximately one-third of the thermometer business of the dealers we called on. However, you are not receiving any business from 3% of the jewelers, 53% of the independent drugstores, 47% of the chain drugstores, 38% of the department stores, or from 30% of the hardware stores.

We interviewed 112 jobbers and found that about 8 out of 10 carry thermometers. Although about two-thirds of these jobbers who stock thermometers carry Lattimore, we found no indications of enthusiasm for the line, and did find some price criticism.

[1] Detailed data were included to substantiate the findings.

Perhaps the answer lies in the fact that $25,000 was the largest jobber volume disclosed, while the average was just over $1,000.

Clinical thermometers appear to be the most active single item in the thermometer line, 56% of all customers interviewed now own a clinical and 51% of the last purchases were clinical. No wide variation by size of town or section of the country is disclosed. Patient ownership meets with the approval of the medical profession, for 6 out of 10 doctors accept the idea of their patients owning a clinical thermometer.

Judging from the results of our survey there seems to be no need for any except the one-minute type of clinical thermometer. Although only 61% of the doctors say that this single type would be satisfactory, we must not forget that 24% had no opinion, and only 16% definitely oppose the idea. Similarly, 71% of the surgical supply dealers favor the single type, 11% have no opinion, and only 19% oppose the idea. Consumers are not a factor in considering this subject for about one-third of them do not even know what type they own.

Company D leads in the clinical thermometer field. For their last purchase three times as many doctors bought this make as bought Lattimore. Also it is the best seller for more than twice as many retailers as Lattimore.

According to retail dealers, women do most of the buying of fever thermometers and winter seems to be the best season for their sale. There is little purchasing by brand name by anyone—laymen or professional. . . .

You are obtaining appreciable business from only about 14% of the drug jobbers.

* * * * *

Although about half of the retail dealers do not consider style important, this opinion does not mean a great deal since there has been very little style in thermometer lines. It indicates unmistakably that you must sell the idea of style to your dealers for your new line. On the other hand, three-fourths of the dealers say sales are stimulated by extremes of temperature, and extreme cold helps the retailer more than extreme heat. The lack of interest of retailers in the thermometer line is indicated by the fact that only 1 in 10 advertises thermometers, has cutprice sales, or has frequent window displays.

Nearly half of the retailers buy from jobbers—and prefer to do so. Even some who buy direct from manufacturers say they prefer to buy from jobbers. But Lattimore is considered the most satisfactory manufacturer to deal with—in fact 94% of the retailers are satisfied with their dealings with Lattimore. Most jobbers also are satisfied with their dealings with you.

It is important too, to note that 84% of the retailers are satisfied with their thermometer profits. Jobbers are equally well satisfied. Jobbers seemed to be getting a good rate of turnover as well.

Lattimore salesmen are never seen by 51% of the dealers interviewed, and 45% of these dealers see competing salesmen more frequently than they see Lattimore salesmen.

The second major part of the agency's study consisted of as careful a customer and order analysis of Lattimore operations from 1928 to 1931 as could be done with available records. It was found that 31.2% of the company's customers produced about 91.3% of the total sales volume. Inasmuch as no complete census distribution had been taken previous to that time, it was difficult to determine what the average relationship should be, but it was estimated that in a majority of companies about

75% of the sales were obtained from 25% of the customers. Since 1929 Census distribution figures were available for Connecticut alone, however, the agency decided to use data from this source. In the questionnaire previously conducted, the agency found that consumers ordinarily purchased items in the thermometer line from department stores, drug stores, and hardware stores, concerning which outlets distribution data were available from the Census. Because of the large size of the department stores listed, however, the agency decided to eliminate data pertaining to them. The Connecticut figures classified 286 hardware retailers and 773 drug retailers, according to the annual volume of business. The table in Exhibit 1 shows a comparison between the sales volume obtained by these stores and those through whom the Lattimore Company distributed. As may be indicated from the figures, 34.6% of the Connecticut hardware stores made 76.8% of the state's total hardware sales, while 30.1% of the drug stores obtained 60.1% of the state's total drug sales.

EXHIBIT 1

COMPARISON OF NUMBER OF CUSTOMERS AND SALES VOLUME FOR LATTIMORE COMPANY WITH NUMBER AND SALES VOLUME OF CONNECTICUT HARDWARE AND DRUG RETAIL OUTLETS—1929

Lattimore Company (United States Total)		Connecticut Retail Hardware Stores		Connecticut Retail Drug Stores	
Number of Customers	% of Sales	Number of Stores	% of Sales	Number of Stores	% of Sales
31.2% 68.8	91.3% 8.7	34.6% 65.4	76.8% 23.2	30.1% 69.9	60.1% 39.9

From a study of the survey results, the agency presented the following recommendations for marketing the Lattimore line.

1. *Distribution.* The advertising agency first recommended that the Lattimore Company secure added distribution. The company's salesmen were really doing specialty selling, and, in the agency's opinion, these men could not perform much more work than they were doing at the time. Furthermore, the agency did not believe it wise for the company to raise its marketing costs by increasing the size of its salesforce. Since the survey had indicated that nearly half of the retailers interviewed bought through jobbers and preferred to do so, the agency recommended that the company cease to consider its line as composed of specialty products and its salesforce as a specialty organization, and extend distribution through

jobbers as rapidly as possible. In suggesting this plan of action, the agency added the following comment:

While we suggest that you should sell through jobbers and not direct, we do not mean that you should do absolutely no direct selling. Perhaps 10% of the 5,000 department stores are really large, and these will almost insist on dealing with you directly. Your jobbers will have no objection to such an arrangement. The chain drugstores should also be sold by you, and again you will have no difficulty with your jobbers. Furthermore, the job of selling chains and department stores does not end with the signing of the order. When your salesman gets the order for the year's requirements from Chain A in Cleveland he must keep in constant contact with the managers of the 36 stores in this drug chain if your goods are to be on display and pushed as we and you desire. Department stores must be followed similarly. In addition, it will require considerable man-power to sell and keep all of your present and future jobber connections.

We realize that the plan we suggest involves a considerable change in your present policy. But we also believe that the evidence presented fully justifies your making it

2. *Prices and Discounts.* Although the survey gave some indication of price ranges and the most popular consumer prices, the agency did not make specific recommendations regarding price policy. The agency commented, as follows:

If your prices are too high, then, of course, they should be lowered. . . . Without making a thorough study of your costs and prices on each item of your line, we believe we are safe in saying that like most manufacturers some of your prices are too high and some are too low. The point we wish to make, however, is that even when all of your items are properly priced to obtain the profit you should have, that alone will not produce the desired profit. You must spend enough on selling and advertising to collect the profit which is due you.

3. *Advertising.* The agency believed that the apparent lack of consumer knowledge of the Lattimore brand name was a definite indication that the company had not employed its advertising effectively in the past. The agency realized, however, that advertising alone would not have proved successful unless it had been properly coordinated with selling activities and pointed out that because of the inadequacy of the company's selling policies, it was impossible for the salesforce to capitalize on the advertising program. Having recommended that the company alter its method of selling, the agency then made the following suggestions regarding future Lattimore advertising:

CONSUMER MEDIA

The report on our survey shows that you need to educate the public to the benefits that can be derived from the use of instruments. Thus, you should be careful to select the medium best suited to do educational work. Newspapers, radio and magazines are three possibilities.

Newspapers have a high concentration of local circulation. Editorially they deal with the local news of the day. The life of a newspaper is short since today's issue completely kills all values of the preceding day's paper. For this reason large space or frequent repetition of smaller space is essential to educational advertising. Either large space or frequent advertisements in newspapers (plus the intensive local circulation) makes the advertisement cost per market high. This cost may be practical for products that are quickly consumed and needed daily, or for products of large unit sale and wide profits. But instruments fit neither of those classes.

Radio is a very important advertising medium. It is not, however, as thoroughly tested and proven an educational medium as magazines nor has it been proven to be as effective a medium for initial registering of product and name identity. It has novelty and wide entertainment value which can undoubtedly be brought into your plans effectively when the broad preliminary ground work has been laid.

Magazines give us the greatest editorial stability. For this reason the life of magazines in the home is longer than that of another publication. This results in more leisurely reading by a larger audience per home than either radio or newspapers afford. Both type and illustration reproduce better in magazines than any other form of publication and last, but not least, magazine circulation parallels market opportunity closer than any other mass circulation. It is also the most economical circulation you can buy. We believe that magazines are the logical choice of media for you to use in your advertising. After the first year or two if the ground work of education has been laid you can supplement your work with other forms of advertising which may be indicated. In addition to magazines of mass circulation we would use some magazines of scientific or amateur sports class.

In the determination of the copy story and the proportion of space to general women's, class and professional magazines, we will be guided by the facts in the survey.

Trade Advertising

We recommend the use of trade papers in the drug, department and hardware store field. Space should be used regularly in these publications to inform jobbers and retailers regarding policy changes, new merchandise, special promotion events, new prices and to sell dealers brand preference for Lattimore instruments. In addition to trade-paper advertising, broadsides should be sent to a selected list of your three principal trades whenever new prices, new styles or news of any kind breaks that would stimulate interest. In preparing copy for trade advertising we would be guided by the findings in the dealer survey.

Publicity

Publicity can frequently be a favorable supporting idea in promoting the use of a product and the importance of the results of using it. . . . You have an opportunity to use publicity. Your products are essential in every home. . . .

While it is going a little too far to hope that the Lattimore name can always be tied in with your publicity, still stories of the use of your product will help to stimulate interest in the types of instruments you make. When your advertising is appearing at the same time as publicity, we can safely say the public will associate your name with it.

Supplementing the agency's recommendations was an advertising budget for 1932–1933, the first year of the proposed campaign. The total appropriation for general magazine expenditures was $221,354.10. Pro-

posed consumer advertisements ranged from one-half column to two columns in size and were to be placed from two to six times during the year in twelve leading publications. The budget estimate allowed $10,453.92 for trade advertising. An additional appropriation of $25,644 was suggested for counter displays, advertising inserts for packages, broadsides, booklets for retail distribution, and other promotional material.

In presenting its recommendations to the company, the agency stressed that the main objective was to secure the proper jobber and retail distribution, after which an attempt should be made to create favorable public opinion for the Lattimore name through advertising. The company was cautioned, however, against expecting substantial results within a short time. "This advertising should be undertaken as a part of your general business program and not as an experiment for one or two years," the agency stated. "If, at the end of three years or reasonably five years you can note material progress in your business you should attribute the result to a well-balanced selling and advertising effort courageously and persistently expended."

After carefully analyzing the agency's recommendations, the executives of the Lattimore Company decided to adopt the proposed program. Every effort was made to adhere closely to each phase of the agency's suggested plan during the years after 1932. The general and trade magazine program which had been recommended for 1932–1933 was continued along similar lines in each of the four ensuing years; distribution among jobbers was stressed; and prices were realigned to conform more nearly to competitive levels.

When it became necessary in the early summer of 1938 to review the effectiveness of the five-year program, it was extremely difficult for the executives to appraise the merits of any one phase. An indication of the value of the entire program could be determined somewhat from the company's sales records during the five years as compared with the years prior to 1932. Whether the sales volume would have been as favorable without the use of the agency plan was a question. The executives wished to determine in some manner how effective advertising had been during the five years so as to enable them to decide on the advisability of similar advertising expenditures in the future. One of the members of the sales department was asked to prepare basic material to aid the executives when they met with representatives of the advertising agency a month prior to the close of the five-year program on September 1, 1938. The sales assistant found that he had only the following facts with which to work:

1. Sales figures, 1920–1921 through 1937–1938. (See Exhibit 2 for yearly sales figures.)

2. Advertising expenditures, 1920–1921 through 1937–1938. (See Exhibit 2 for yearly advertising figures.)

3. No analysis had been made of the number of retail accounts on the company's books, although it was estimated that the company was selling to 8,000 retail accounts in 1938. No breakdown had been made to indicate what types of accounts were included in the 8,000.

4. No analysis had been made of the number of jobber accounts on the company's books in 1938, but it was estimated that 500 drug jobbers and 250 hardware jobbers were selling Lattimore merchandise. It was believed that about 50% of the company's sales were made through jobbers and the balance direct to retailers.

5. Retail prices had been altered somewhat since 1932, but no record of these changes had been kept.

6. Territorial changes had been insignificant.

7. Only one salesman had been added during the period 1932–1933 through 1937–1938.

Using these data as a basis for judgment, it was necessary for the Lattimore executives to reach a decision concerning the company's future advertising policy. The decision might take any one of four possible forms: (1) to discontinue consumer or trade advertising or both, (2) to continue the present policy along the same general lines, (3) to follow the present plan in principle but either increase or decrease the advertising appropriation, or (4) to utilize other forms of advertising effort.

EXHIBIT 2

LATTIMORE COMPANY—COMMERCIAL SHIPMENTS, GENERAL AND TRADE ADVERTISING EXPENDITURES, AUGUST, 1920, THROUGH FEBRUARY, 1938

Year	Total Shipments	General Advertising Expenditures	Trade Advertising Expenditures
1920–1921	$2,228,405.38	$132,305.62	$ 52,546.10
1921–1922	1,822,018.76	191,196.38	63,907.12
1922–1923	2,190,305.62	201,130.72	62,621.96
1923–1924	2,051,313.90	208,340.38	68,568.46
1924–1925	2,006,833.22	224,832.08	77,840.82
1925–1926	2,137,992.92	245,575.76	107,466.26
1926–1927	2,302,524.48	257,021.96	106,084.46
1927–1928	2,290,393.42	247,095.92	99,434.06
1928–1929	2,393,290.04	227,950.94	91,334.96
1929–1930	2,100,966.94	281,463.44	119,631.76
1930–1931	1,630,371.56	207,833.36	77,913.20
1931–1932	1,071,147.20	165,440.26	65,889.74
1932–1933	920,795.04	226,403.06	146,560.14
1933–1934	1,059,765.66	287,906.92	226,988.36
1934–1935	1,580,028.18	285,784.48	205,204.64
1935–1936	1,775,318.88	250,946.30	184,930.16
1936–1937	2,108,488.78	345,172.30	252,463.38
1937–1938	1,234,264.68	292,420.86	250,343.38

64. GARMAN TRACTOR COMPANY—PROPOSAL TO USE RADIO ADVERTISING

In August, 1938, the sales and advertising executives of the Garman Tractor Company were considering the advisability of using radio as an advertising medium. The company had conducted radio advertising for several years after the 1929 depression began but discontinued this policy in 1932 because its cost was considered excessive relative to its effectiveness. When the executives learned, however, that a large competitor was contemplating the use of radio during the winter of 1938 and the spring of 1939, they questioned whether the Garman Tractor Company should again return to this advertising medium.

The Garman Tractor Company was a large manufacturer of track-type tractors and road machinery, powered either by the spark ignition type of gasoline engine or by Diesel electric engines. The company's machinery was used primarily for agricultural purposes, but a considerable market had been developed for such uses as lumbering, mining, quarrying, freighting, removal of snow, and road construction and maintenance. Distribution in the United States and Canada was effected through a group of 100 selected distributors, approximately 450 agricultural dealers, and a small number of engine dealers. The company advertised regularly in such general publications as the *Saturday Evening Post*, as well as in a number of trade journals.

The radio advertising which the company had used prior to 1932 had been directed primarily to the agricultural market. Competitors had not yet begun to use radio at this time, and it was believed that this type of advertising would provide an added selling tool. The company did not use network broadcasting facilities but, instead, prepared programs which were broadcast independently from stations in the following cities: Chicago, Illinois; Nashville, Tennessee; Dallas, Texas; Clay Center, Nebraska; Portland, Oregon; Spokane, Washington; San Jose and Los Angeles, California. In most stations a male quartet picked from local talent provided the entertainment for the programs. Often the announcer or radio actors dramatized actual experiences of farmers in using Garman equipment for new or unusual purposes, or for purposes in which the superiority of the line was readily shown. The use of dramatizations of this type was not believed entirely satisfactory, however, because they tended to be of interest primarily to those persons already owning Garman equipment rather than to the general public.

During this same period, the company engaged in cooperative radio advertising with a number of its dealers. Under the operation of this plan, one-half of the time cost was borne by the company, but the dealer was

expected to pay all talent expenses, in addition to his share of the time cost. Radio scripts first had to be approved by the Garman advertising department before the company would agree to participate on a cooperative basis.

In 1932 the executives believed that radio advertising was not proving beneficial and decided to discontinue it. In addition to what was considered an excessive cost, it was felt that this type of advertising was not suitable for expensive agricultural equipment such as the company manufactured. Word descriptions of the product's uses were not considered effective because of the difficulty of conveying technical information clearly and adequately through this medium. Moreover, the executives believed that sales could be best accomplished if illustrations were used in space advertising or, better, if the prospective customer could see the actual machinery. Many customers had been known to purchase Garman equipment for such varied and specialized work that a straight sales message was considered of little value. On the other hand, time limits permitted mention of only the most common uses of the line.

When the executives learned that a large competitor in the agricultural implement business was contemplating radio advertising for the winter of 1938 and the spring of 1939, they decided to give this advertising medium renewed attention. While the company could only speculate regarding the action of this competitor, it was believed that he might use a partial network program costing between $1,375 and $6,775 per broadcast, depending upon the coverage desired. Estimates of the competitor's total radio advertising expenditure ranged from $50,000 to $500,000. The executives remained quite convinced that the type of product which the company was manufacturing was not suited for radio advertising, and while they believed that it might be necessary to use radio in order to compete, they nevertheless doubted the success of the policy. One executive suggested, however, that possibly the company had not chosen the right type of program in the past and that a new kind of entertainment might bring more satisfactory results. The financial strength of the company was such that it could afford to match the competitor's radio expenditures if a decision were made in favor of this policy.

Should the executives have decided to use radio advertising in the fall of 1938 and spring of 1939? If so, what type of program should have been chosen? What time limit? What hour of day? What criteria should be employed in determining whether a product is suitable for radio advertising?

65. AMERICAN SPICE TRADE ASSOCIATION—PROPOSAL TO EXPAND ACTIVITIES; COOPERATIVE ADVERTISING BY TRADE ASSOCIATION MEMBERS

The American Spice Trade Association was organized in 1907 by spice importers and brokers in an effort to establish among themselves a basis for trading that would be equitable to all concerned. Several years ago it was confronted with a serious problem. Apparently per capita consumption of spices declined steadily from 0.865 pound per year in 1923 to 0.629 pound per year in 1930. A statistical survey of the spice industry made by the association seemed amply to support the analysis made of food trends.

On the basis of the facts revealed in the survey, A Four-Year Cooperative Plan of Proposed Activities and Operation, together with the necessary machinery for carrying on the work and producing the revenue, was submitted to the members of the association for approval. (See Exhibit 1.) Since the association in its existing form and with its existing budget was entirely inadequate for carrying out the work, a series of fundamental changes was recommended.

A distinctive trade-mark which was symbolic and attractive was proposed, and members were urged to use the emblem in their advertising and on their products, letterheads, and places of business. All advertising of the association would feature it and build up its quality meaning. Definite penalties and suspension of membership were to follow its use on adulterated goods or slack-filled packages. The slogan "Spice for Flavor" was recommended for adoption and use by the members in connection with the emblem and in other places.

After two years of preparatory work, it was proposed that a national advertising campaign be launched to increase the use of spices. The plan contemplated the expenditure of approximately $100,000 annually for spice advertising, and the expectation was that primary growers would supply half of this amount. The consumer advertising campaign was expected to check the adverse propaganda regarding the harmful effects of spice in the diet, to check the decrease in public consumption, and to win back the tonnage lost in recent years. Some research was believed to be necessary to discover scientific facts around which to plan a new appeal for public consumption.

The entire plan of operation was based on a membership of not less than 100 spice concerns. The proposed dues schedule with the existing membership would secure funds in excess of $50,000 and with the projected membership of about $60,000. If the maximum dues payment limit of $2,000 then in existence were removed, some firms would pay as

EXHIBIT 1

AMERICAN SPICE TRADE ASSOCIATION—PROGRAM OF PROPOSED ACTIVITIES AND ESTIMATED TIME AT WHICH THEY CAN BE SUCCESSFULLY UNDERTAKEN

First Year	Second Year	Third Year	Fourth Year
Organization			
Emblem and Slogan			
Establishment of Working Committees			
Membership Building	Membership Building		
Conventions	Conventions	Conventions	Conventions
Divisional Meetings	Divisional Meetings	Divisional Meetings	Divisional Meetings
Arbitrations	Arbitrations	Arbitrations	Arbitrations
Publicity Department	Publicity Department	Publicity Department	Publicity Department
Statistical Department	Statistical Department	Statistical Department	Statistical Department
Trade Customs, Standard	Trade Customs, Standard	Trade Customs, Standard	Trade Customs, Standard
Foreign Cooperation in Advertising	Foreign Cooperation in Advertising	Foreign Cooperation in Advertising	Foreign Cooperation in Advertising
	Trade Practices and Trade Practice Conference	Trade Practices and Enforcement	Trade Practices and Enforcement
	Standardized Cost Accounting	Cost Accounting	Cost Accounting
	Exchange of Operating Data	Exchange of Operating Data	Exchange of Operating Data
	Equipment Exchange	Equipment Exchange	Equipment Exchange
	Legislation	Legislation	Legislation
	Cooperation with Other Organizations	Cooperation with Other Organizations	Cooperation with Other Organizations
		Cooperative Advertising, Publicity, Radio, Etc., to Increase Spice Consumption	Cooperative Advertising, Publicity, Radio, Etc., to Increase Spice Consumption
		Preparation of Spice Exhibits, Movies of Spice Growing, Propaganda	Preparation of Spice Exhibits, Movies of Spice Growing, Propaganda
		Improving Selling Methods	Improving Selling Methods
			Research for New Uses and Spice Appeal to Public
			Employment Exchange
			Special Services on Other Products

high as $6,000 annually, and several more would pay between $3,000 and $4,000. The annual budget for the first two years contemplated the expenditure of between $35,000 and $40,000, the surplus income to be set aside in an advertising fund to be used in conjunction with foreign funds for spice promotion at a later date.

When the plan was submitted to the members of the association, a considerable number were favorable toward it; one firm in particular, however, expressed reluctance toward cooperating in the new program. The Gardner Tea Company, with headquarters at St. Louis, Missouri, operated about 3,000 wagon routes in the rural areas in four states in the Middle West. The company sold a line of staple groceries, medicines for livestock, coffees, teas, and spices directly to the consumer. Total sales

of spices averaged about $500,000 a year at retail and involved purchases of about $200,000 of raw spices. Spice sales constituted about 3% of the total sales of the company. Under the proposed plan the Gardner Tea Company would be assessed about $1,000 a year by the association. The executives of the Gardner Tea Company doubted that their company would receive benefits commensurate with the costs under the new plan, in view of the fact that the company had been operating its spice division profitably for many years and was not experiencing any severe competition or declining demand.

66. OPAL COMPANY—USE OF ADVERTISING BY A MANUFACTURER OF PRINTING PRESSES

The Opal Company, a manufacturer of printing presses, was located in a midwestern state. The company produced presses for general printing purposes and a more specialized line of presses which printed in two or more colors. These products were sold to all classes of printers by means of a direct salesforce. The company also did a considerable amount of advertising and annually attempted to review the effectiveness of the different copy and media used.

The advertising program followed by the company embraced both direct promotion work with printers who purchased the presses and indirect promotional effort with agencies that used printing of various sorts. Thus the company attempted to encourage advertising firms to use more direct-mail advertising and hoped to enlarge indirectly the market for printing presses. Promotional copy of this sort was placed in *Printers' Ink* and other trade papers which were widely read by advertising men and stressed the advantages accruing from the use of direct-mail advertising. It was believed that it was undesirable to attempt the stimulation of general magazine advertising, for even a large increase in such advertising would not greatly increase the demand for presses, since such advertising was usually run off in great quantities in centralized plants. Direct-mail advertising, on the other hand, was usually printed in smaller quantities at a variety of geographical points and thus necessitated the use of a greater number of presses. Besides stressing the desirability of direct-mail advertising, the company suggested methods for effective use.

In advertising to printers, who were the direct users of the presses, the company was undecided as to the media and the copy approach which would produce the most effective results. At that time both direct mail and printers' trade papers were being used. An executive of the company stated that attempts had been made to key the trade-paper advertising

describing the regular lines of presses, but that the results had been far from satisfactory. It was thought that an advertisement rarely resulted in any immediate sales yet often was an important factor in later sales. In addition to this difficulty, there were certain executives who felt that any type of general advertising was of little value, since the demand for presses was derived from the demand for printing and because the technical features and the performance characteristics could be more effectively presented by the salesmen. The number of printing press manufacturers was few, and printers were well acquainted with the standard designs of machines.

In spite of this feeling, the results of direct-mail advertising in the introduction of new models had been successful, and the head of the company was unwilling to discontinue general advertising until there was definite proof of its ineffectuality. In one instance a direct-mail campaign introducing a new press resulted in a 10% return in inquiries. This was considered an excellent showing, since the average return on direct-mail advertising was between 1% and 3%. Furthermore, it was believed that the effectiveness of general advertising might be increased through a change in the copy used.

Although most of the more progressive printers were using accurate cost accounting systems, it was felt that many of them did not appreciate the savings which would result by the replacement of old machines with new. Obsolescence was an important factor in printing presses, and it was believed that this replacement market was capable of enlargement. Two proposals were made for stimulating this demand through advertising. The first comprised the presentation of actual performance figures on standard types of work for the different models of presses. A printer might compare these figures with his own results and would realize the desirability of installing new presses. Under the second scheme an analysis would be made of the savings to be obtained by the replacement expressed in terms of return upon the investment in the new machine. These proposals were criticized on the grounds (1) that performance figures were jealously guarded by printers and (2) that any advertising pointing out the return on investment would be likely to benefit the entire printing press industry as much as the Opal Company.

Another suggestion was made that the copy feature the remarkably fine engineering corps in the employ of the company and cite specific instances where this body of men had been able to solve difficult problems in a short time. It was not planned that this advertising would feature any particular machine but would rather be institutional in character.

What action should have been taken?

QUESTIONS

1. A textile manufacturer has perfected a process for making a very durable type of plush and mohair for upholstery purposes. The product will have to sell at a premium price as compared to products now on the market. Two questions confront the company: First, should the company attempt to engage in consumer advertising in order to build up a demand for the product in connection with its proposed effort to sell to the furniture market? Second, since the product appears to be adapted to the needs for upholstery in transportation facilities such as busses and passenger cars, how should the company go about reaching that market?

2. Should a company manufacturing a floor covering allocate the cost of advertising upon the basis of trading areas in its attempt to appraise results of its advertising and selling program?

3. A new product is to be introduced. It is a combination shovel, scoop, and wheelbarrow, with certain special features which facilitate loading and unloading. It appears to be superior to other products on the market and under certain conditions would bring about labor savings of substantial size. The company which has been formed to introduce the product has a very limited capital. That capital will be almost completely used up by the time the company gets its first lot of products assembled from parts purchased in minimum quantities from various manufacturers. With the single product and very limited resources, it is proposed that the company use only limited direct-mail and trade-paper advertisements in two or three publications. Is the company likely to achieve successful distribution?

4. Under what conditions should outdoor advertising be used? Is outdoor advertising likely to be permanent as a selling method?

5. Can goodwill be said to have been created by any form of advertising if it does not result in sales within a period of a year?

6. What advertising media should be used by a firm controlling a rust proofing process for metals? Various manufacturing firms are licensed to use the process either for custom work or for rust proofing their own products.

7. Upon what bases can an advertiser determine the effectiveness of his radio advertising? Magazine advertising?

8. Should a company manufacturing stove, silver, and metal polishes, which contemplates advertising to secure the benefit of increased general demand for such products in the spring of the year, start its advertising in advance of the peak season, for instance, in February? At the beginning of the growth of demand in March? Or at some other time? Should the company's advertising be concentrated in off seasons so as to even out the fluctuations?

9. What should be the relationship of advertising policy to different periods of the business cycle?

10. How may Standard Brands Incorporated test the efficacy of its advertising in the *Ladies' Home Journal*? How should it determine whether or not to take large space in farm journals?

11. Should a company manufacturing woolen yarn used in the production of women's fine outer garments, such as sweaters and suits, advertise in women's magazines to create a definite preference for its yarn?

12. For what types of products is it possible to develop consumer "insistence" by means of advertising?

13. Is it true that large space advertising is successful only for products which intrinsically are worth more than competitive products?

14. How may specific advertisements be tested prior to insertion and publication? Are such tests conclusive?

15. Should a company manufacturing industrial equipment continue its advertising through periods of depression? Under what conditions may a company manufacturing industrial equipment find it advisable to use general publications?

16. What is the distinction between publicity and advertising? To what extent may publicity become an essential part of a selling program?

17. Discuss the proposal that within each industry, for instance, the tire industry, trade associations set a limit to the size of space which any firm may use in a specific publication as a means of cutting down the costs of distribution?

18. Should the commission method of compensating advertising agencies be abolished? Are advertising agencies economically justifiable?

19. What should be the functions of the advertising agency, the advertising department, and the chief marketing executive of a company with reference to determining the amount and types of advertising to be included in a selling program?

20. For what types of products does radio broadcast advertising seem to be especially adapted?

21. Should a paint company controlling a number of subsidiaries, each of which has its own brands, endeavor to meet the general decline in demand for quality paints by broadcasting over a national network a program featuring a nationally familiar orchestra at a total cost estimated to be in excess of $7,500 per week?

22. How may a firm measure the results of broadcast advertising? Are fan letters indicative of the selling value of broadcast advertising?

23. Outline the various forms of direct-mail advertising, giving the advantages and disadvantages of each.

24. How may one reduce the waste of expenditure in connection with direct-mail advertising? What testing methods are available? How effective are they?

25. Under what conditions should a soap company employing 200 salesmen publish and distribute a customers' house organ? Should a manufacturer of industrial chemicals employing 30 salesmen publish a house organ for its salesmen and customers?

26. Should a machinery firm which has been advertising in national publications of general circulation discontinue such advertising and substitute direct-mail advertising?

27. It has been said that one of the main problems in the use of direct-mail methods concerns the mailing list. How may a good mailing list be maintained?

28. How may direct-mail and radio advertising be correlated with the work of salesmen in the field?

D. COOPERATIVE ADVERTISING WITH DEALERS; CORRESPONDENCE; DEALER HELPS; SAMPLES; RECIPROCITY

Cooperative Advertising with Retailers. For many manufacturers the effectiveness of advertising is dependent upon the nature and effectiveness of contacts of middlemen with buyers. Failure of retailers to display or push a product at the point of sale to ultimate consumers may nullify the good effects of advertising and selling campaigns in creating buyer recognition or preference. In other sales programs local advertising closely associated with local dealers may prove a resultful adjunct to personal selling and other methods. Consequently, cooperative advertising with dealers, in which the manufacturer finances usually a part but sometimes all of the cost of space, appears to have grown more important in practice.

Some difficulties in the use of cooperative advertising have been encountered as a result of the effort of some recipients of advertising allowances to use them as price concessions. In other cases, price concessions have been made under the guise of advertising allowances. The resulting unfair discrimination has more recently been prohibited in the Robinson-Patman Act. Cooperative advertising gives rise to numerous problems besides those which have to do with possible discriminations contrary to law. Amount, frequency, copy, media, control are a few among the problems upon which decision must be made.

Correspondence, including in the term only letters written to individuals in which some consideration is given to the wants of a particular individual, as contrasted with form letters to groups of individuals, is occasionally used as an independent means of selling, but its chief value lies in its use as a supplementary means either to advertising or to personal selling. An enumeration of some of the uses to which correspondence may be put in connection with selling indicates this.

1. The seller may use a letter which he prepares for each prospective buyer, taking into account all available information as to that buyer's wants. The letter can thus be made direct in its presentation, can take into account differences in buyers' wants and, next to personal selling, furnishes the nearest approach to personal contact. But the cost of preparing such letters is high, and the difficulty of writing good letters which satisfactorily convey the sales proposition offered is not to be underestimated; both in this and other uses of the letter, the proportion of those which present effectively the necessary information are in the minority.

2. The letter may be used as a means of continuing selling efforts in relation to a prospective buyer, or as a means of stimulating or maintaining interest in the house and proposition between the salesman's calls.

3. The letter is constantly being used by many companies in replying to inquiries developed by advertising or other means. The relegation of letter writing to incapable correspondence clerks has been the result of failure to realize the importance of this form of customer contact. The proportion of direct inquiries developed by advertising constitutes a valuable asset which should be carefully conserved through judiciously thought-out answers and utilization of the sales possibilities.

4. The letters with which the salesman is ordinarily most concerned are those to customers in connection with inquiries, credits, delivery, or other matters which may require additional information. If these are well written and in accordance with the principles of good salesmanship, they are a help to the salesman in his work; if they do not embody these principles, the converse is true. The goodwill as well as the basis for repeat business, which a salesman may have spent years in building up, is sometimes destroyed in a few minutes by a careless credit or correspondence clerk.

Dealer Helps. The manufacturer, on the one hand, is not and usually cannot be responsible for the completion of the distribution process to the consumer. Ignorance, incapacity, and conflict of interest of middlemen, on the other hand, intervene to check the flow of a manufacturer's commodities through wholesale and dealer channels. The manufacturer may, therefore, find it profitable not only to sell to the dealer but to help him to sell, to advertise, and to operate his business more successfully. Business advice and supervision, training of dealers' salesmen, display material, cooperative advertising arrangements, missionary sales work may all be used and may constitute important elements in the sales programs of certain manufacturers. Dealer selling helps are, of course, usually to be classified as indirect or "pull" methods.

Samples are used extensively in selling of various types. In the sale of raw materials, samples are used, particularly where the material is such that it cannot be graded in a way to convey to the buyer a complete description. Samples likewise have been used by numerous sellers both of consumers' and of producers' goods, because a sample of a product is frequently more effective in conveying impressions than thousands of words. Samples of low-price goods are frequently distributed to retail consumers as a sales promotion measure. They may be distributed in various ways, sometimes by sample crews, sometimes to retailers who

are expected to distribute them among consumers. Sometimes samples of more expensive goods are sent to retailers for display to consumers. It is more usual, nevertheless, for retailers to receive samples from wholesalers and manufacturers, upon the basis of which purchases are to be considered.

Sampling is not adapted to all types of products. For certain products it may be impossible to furnish samples; in other cases the installation of the product itself may be the nearest substitute to a sample.

Sample displays and demonstrations are also furnished in connection with various fairs, exhibitions, and shows, of which there are many types. They range from an important dry goods fair, involving hundreds of thousands of dollars' worth of goods and maintained for retailers, wholesalers, and manufacturers, to a local food show in which only a few manufacturers and dealers participate. The automobile shows of the country are recognized features for the display of sample automobiles prior to the buying season. In addition to the temporary fairs and exhibitions, there are a few permanent exhibitions of samples which are of interest to certain manufacturers.

Reciprocity. Depression conditions give prominence to reciprocity, although the practice is common at other times. A buyer who is an important seller may urge his purchases as a reason for preference. *A*, a manufacturer of motor trucks might, in trying to sell trucks to *B*, a steel manufacturer, urge that, because *A* bought steel from *B*, *A* should be favored in any purchase of motor trucks by *B*. Opinions of executives on the practice range from those which term the method "business blackmail" to those which regard reciprocity as "natural," expedient and, if controlled, sound business.

67. BECKETT COMPANY—COOPERATIVE ADVERTISING WITH DEALERS

The Beckett Company, located in Chicago, Illinois, manufactured a complete line of feeds for livestock and poultry. Salesmen sold the line to grain dealers, hardware stores, and general merchandise stores located primarily in the farm areas of the United States. In addition to handling Beckett feeds, the latter classes of dealers often sold coal, lumber, groceries, seeds, and a wide line of farm necessities. For a number of years the company had engaged in newspaper and direct-mail cooperative advertising with its feed dealers. Although the company determined the advertising expenditure to be allowed in each territory, much of the responsibility for distributing the appropriation among dealers and product lines lay in the hands of the company's salesmen. Early in 1938 it was believed that a closer correlation between advertising and selling effort should be

secured, and the company's sales and advertising executives were asked to offer suggestions for improving the cooperative advertising policy.

Previous to 1938 the distribution of the cooperative advertising appropriation had been made on the basis of the actual volume sold in each territory during the preceding year, regardless of whether volume had been obtained in poultry, dairy, hog, or dog feeds, which were the major groups in the feed line. Thus, if one territory sold 21% of the total volume during the preceding year, it was automatically allotted 21% of the available funds for cooperative advertising. It was felt that this method severely penalized low-volume territories that were poorly developed. Some of these territories would receive such a small advertising allotment that it was questionable whether the proportionate share for the individual dealer was large enough to benefit either the dealer or the company. The company therefore set aside a certain minimum amount for advertising for each territory, based on the number of dealers; the remaining portion of the appropriation was then distributed on the basis of sales volume.

After the appropriation for a territory had been determined, the amount was converted into units for the use of the salesmen in the area in distributing the appropriation among dealers. A unit was considered the cost of sending[1] one direct-mail piece to each customer on the list of an average dealer or, of approximately equal value, the cost of one two-column, seven-inch newspaper advertisement. Smaller newspaper insertions were considered fractions of a unit. As soon as a salesman was told the number of units which could be used in his territory, he was permitted to use his own discretion in distributing the units both among the dealers and between the two main types of media available, namely, newspaper and direct mail. Cooperative newspaper advertising was conducted on a fifty-fifty basis, and dealers were required to submit rough proofs of a proposed campaign before the company would agree to pay half the total space charge. Matrices or cuts were supplied by the company free of charge. Upon completion of a campaign, the dealer was asked to pay the newspaper in full and send to the company the receipted bill together with the clippings of the advertisements used. A draft for half the space cost was then immediately sent to the dealer. It was necessary for the company's advertising department to approve all newspaper campaigns before they were used, but salesmen were given the authority to approve the newspapers which might be employed in their respective territories provided the cost was not in excess of 50 cents per inch. This limit was used because rates higher than this amount were found in newspapers which usually had greater circulation among urban than among rural families.

[1] Exclusive of postage.

Direct-mail advertising was provided for dealers' use at a charge of one cent per name per mailing, which covered the cost of postage. The additional charge for printing the letter, imprinting the dealer's name and address, imprinting the customer's address, stamping, and mailing was borne by the company. At the beginning of the year each salesman was sent a report indicating the number of names which each dealer maintained on his mailing list (see Exhibit 1). The salesman used this count in determining how much postage should be sent for one direct-mail piece.

EXHIBIT 1

BECKETT COMPANY—HERE ARE THE NUMBER OF NAMES ON YOUR DEALERS' MAILING LIST

Territory of_____

These counts were taken on all lists according to latest information we have in the office. Use these counts to figure postage.

Dealer	Poultry	Dairy	Hog	Dog	General Farm

Although cooperative radio advertising was used from time to time, the company did not offer a definite radio plan because of the variations in cost between areas. Salesmen were asked to submit dealers' propositions for radio advertising, and each case was considered individually.

Early in 1938 one of the Beckett executives submitted a report in which he discussed what he believed to be a number of faults existing in the company's cooperative advertising program. Excerpts from his report are quoted below:

The percentage of the volume sold in the past is not the true picture of the actual potentialities in various territories and is a comparatively static and inefficient basis of

distribution. Thus the advertising material is not being presented in a way that is conducive to obtaining the profitable maximum tonnage in each territory for each feed group.

Following is a comparison of the portion each division is receiving in the 1938 campaign, based on 1937 volume, with the amount each division[1] would be entitled to based on the estimated volume for 1938.

Division Number	Actual Volume 1937	Estimated Volume 1938
	% of Actual Total for 1937	% of Estimated Total for 1938
1	21.15	18.97
2	10.82	10.87
3	6.63	7.21
4	21.19	19.91
5	2.90	3.41
6	6.71	6.99
7	13.75	12.05
8	7.51	10.59
9	9.34	10.00

The volume history over the last 13 or 14 years shows considerable variation from one year to the next in the percentage of the total shipped by each division.

The advertising appropriation should be distributed so income from sales of various feed groups would be equivalent to the expense for advertising in the territory.[2] In order to accomplish this, the distribution should be based on the potential advertising "income" of the particular territory. This method of distribution would be flexible to meet the changing potential of the territory from year to year. . . . In all probability, if advertising is distributed according to where the revenue is acquired, it should produce a most effective result in the form of increased tonnage.

* * * * *

The suggested method for distributing advertising units in the future is based on two fundamental considerations: (1) An estimate of the tonnage possibilities by divisions for the various feed groups. (2) A determination of the amount of advertising income in each ton of the various feed groups applied to the estimated tonnage figure. There are certain definite advantages to the recommended method of distribution.

The present method of distribution discounts the fact that there is a certain income for advertising in each ton of feed that varies considerably in each feed group. An example of this variation in different feed groups may be illustrated by assuming the amount set up in the price of a ton of horse feed advertising is 35 cents. The amount set up in the price for advertising poultry feed might be $3.00 a ton.

[1] The company maintained nine sales divisions, as indicated, which were subdivided into numerous districts.

[2] From the margin between manufacturing and selling costs a certain proportion was arbitrarily allotted for advertising, based on past experience and size of margin. This appropriation varied from thirty-five cents to eight dollars a ton, depending upon the nature of the product, the type of customer, the difficulty of selling, competition, and many other factors.

According to the present method, no consideration is given to the kind of tonnage and its advertising income. As an example of the fallacy just mentioned, the total tonnages of two product lines may be approximately the same. Due to a difference in the kind of tonnage in the two lines, however, the amount of advertising income allotted each may vary greatly.

For example, one division selling 8,800 tons of horse feed would receive $3,080 to pay for the advertising. Another division selling 8,600 tons of poultry feeds would have $25,800 to pay for their advertising—about the same tonnage but over eight times as much advertising allowance. Obviously, if the advertising money were spent on the basis of tons alone, the first division would receive three or four times as much money as they should have to spend while the second division would not have enough to spend considering the possibilities. Therefore, it may be seen that the kind of tonnage, because of the variation in the advertising accrual derived from different feeds, must be taken into consideration when determining the proportionate share of the advertising units each feed line should correctly receive.

Examination of columns 2 and 5 of the table below offers a comparison of the percentage allotted each feed line, based on the present system and on the suggested method.

COMPARISON ESTIMATED TOTAL VOLUME AND ADVERTISING INCOME BASED ON 1938 ESTIMATE WITH ACTUAL VOLUME FOR 1937 BY DIVISIONS

Number Division	Percentage of Actual Volume for 1937	Percentage of Advertising Income Based on Actual for 1937	Percentage of Estimated Total for 1938	Percentage of Advertising Income Based on Estimated Volume for 1938
1	21.15	21.39	18.97	19.10
2	10.82	9.34	10.87	10.48
3	6.63	7.12	7.21	7.86
4	21.19	21.99	19.91	19.24
5	2.90	3.92	3.41	5.92
6	6.71	5.50	6.99	6.11
7	13.75	13.77	12.05	13.58
8	7.51	7.26	10.59	8.06
9	9.34	9.91	10.00	9.65

Division #5, according to the present distribution, received 2.90 per cent of the total number of units available. Figured on the suggested basis, this division is entitled to 5.92 per cent of the total units.

The degree of variation and the significance of the predominance of a certain kind of tonnage in certain territories must be taken into consideration. The advertising income per ton applied to the estimated tonnage within a territory provides for this variation in the kind of tonnage which constitutes the volume of each territory.

In order to present a definite example of the above statement, the territory as a unit of breakdown will be used to illustrate the advantage of using the advertising income earned, based on estimated tonnages. Two territories in Division #5 were selected for this illustration.

Territory Number	Total Tonnage of Territory for 1937	Territory Per Cent of Division Total	Total Advertising Income Earned Per Territory	Territory Per Cent of Division Total
10	18,411	8.19	$2,019.15	7.68
11	19,602	8.73	$1,496.66	5.69

According to the figures above, it may be seen that the total tonnages for each of these territories in 1937 are close enough to be comparable. According to the present method of regulating the territory percentage of the total units apportioned to the division, territory number 10 received 8.19 per cent of the division allotment and territory number 11 received 8.73 per cent. The number of units to be received per territory, determined by the suggested method, allows territory number 10 7.68 per cent of the division total and territory number 11 would receive 5.69 per cent.

For the purpose of comparison, the actual number of units each of the two selected territories receives, according to the suggested method and the present method, is shown below:

Territory Number	Number of Advertising Units Allotted Per Present Method	Number of Advertising Units Allotted Per Suggested Method
10	26	59
11	37	36

Minimum units according to dealer count not included in above figures.

The increase in units allowed according to the suggested method may seem inconsistent with the territory percentage of the division total. It must be remembered, however, that the number of units allowed the division is also much greater according to the suggested method; thus the number of units allowed the territories will also be greater.

The facts presented offer evidence of the fundamental advantages of the suggested form of distribution. Thus the two basic recommendations are again stated:

1. Estimated volume to be used instead of past volume.
2. The advertising income based on estimated volume be used to determine the proportionate share each division and each territory will receive.

Complaints on Advertising Unit Allotment

Complaints from various territories concerning the number of units allotted for this year's campaign have been received. There have been certain general principles behind most of the complaints which will be presented in this part of the report.

One of the major classes of complaint was the salesmen's request for additional units stating that the amount allotted their territory would not be sufficient to sell all their dealers. In all cases, with exception of one or two, no additional units were allowed.

The trouble experienced was traced in some cases to variation in the number of dealers in a territory. This dealer count is a flexible factor with which any system

devised will have to contend. This project would not financially justify a more detailed treatment of dealer count. There will always be continuous additions and deletions to the dealer count. However, an accurate agreement of dealer count and dealer classification[1] records is necessary to accomplish effective distribution of units. It has been noted in the last campaign that there are certain territories in which there are as many as 30 to 35 "supplementary" dealers, many of them not shipping more than two or three bags in six months. It is evident in these cases that they should not receive the usual minimum units.

Another point stressed by the salesmen was the fact that the variation in the number of names on the different dealers' lists is very great. Thus the dealer with a large number of names on his list will get more mailing pieces for the same number of units than dealers with few names on the list. It is not worth the expense involved to make a study of that point. A remedy could be accomplished but it would be too expensive and make the system more complicated, whereas simplicity and effectiveness are the objectives of the recommended system. The dealer mailing lists at present average about 250 names per list.

The purpose of regulating the number of units given to a territory is not to keep the salesman from selling too many units but rather to spend the advertising money in the areas where the profitable results will be obtained. The salesman must plan the correct placement of the units which are available for his territory—based on the potentialities of the various market areas. Some salesmen are not doing this. They are selling as many units as possible to each dealer regardless of the market potentialities of that area. If units are not utilized to acquire the best possible coverage of the profitable markets, the basic principles upon which the suggested method is predicated are being defeated. The salesman will find the allotted units insufficient to cover some of his best markets if he does not plan ahead. It then becomes necessary for him to apply for more units. The salesman's problem is the correct usage of the units available in his territory to get the best coverage of the markets in that area. The suggested as well as the present method of distribution places a great deal of responsibility on the salesman and practically makes him the advertising manager of his territory. This is fundamentally sound, for the salesman should have a more accurate knowledge of the peculiarities and exceptions existing in his particular territory than any possible records will indicate. It is therefore up to the salesman to use the advertising units which have been apportioned him where they will do the most good.

The suggested plan of distribution is not perfect in the sense that all operations in connection with it can be set to a definite routine. There are certain irregularities such as dealer count, territory changes, etc., that must be dealt with as separate problems. However, certain definite fundamental principles have been recommended. If they are applied according to the suggested routine, a fairly comprehensive method of distribution should result.

Several executives proposed that the following changes be made in the company's cooperative advertising policy:

1. That the company allot cooperative advertising units from the home office rather than allow the salesmen to perform this duty. It was believed that this method would provide a closer control and make for a more effective expenditure of advertising funds.

2. That the company's advertising department be given the authority to select the media to be used in local areas, taking this privilege from the salesmen.

[1] Dealers were classified as "A," "B," or "C" according to sales volume and potential sales.

3. That separate advertising programs be prepared to fit each market and each class of dealer, and that special advertising be prepared for use by large dealers.

4. That the company send out a maximum of 250 announcement letters free of charge for each new dealer or pay the entire cost of an announcement-type newspaper advertisement, or both.

5. That, if a salesman is unable to sell a dealer his units, this amount should be added to a general reserve for the territory or division and not merely shifted to some other dealer who can be sold.

6. That some method be devised for testing results of cooperative advertising.

7. That a definite limit be placed on the amount of cooperative advertising money which might be spent in poor markets.

Should these changes be adopted?

68. TISDALE CEMENT COMPANY—PROPOSAL TO SUBSTITUTE DEALER EDUCATIONAL WORK FOR CONSUMER ADVERTISING

The Tisdale Cement Company made its headquarters in a large eastern city and sold cement from its several plants throughout the eastern territory. The company began in 1927 to observe a policy of distributing its product almost exclusively through building material dealers, in an attempt to maintain favorable relations with them. The salesforce covered the entire district regularly, attempting to obtain additional dealers, aiding the dealers, doing missionary work with contractors and architects, and arranging contracts between the dealer and the company.

Although distribution in the cement industry was accomplished largely through building material dealers, sales to railroads, street railways, manufacturers who used cement as a fabricating material, and the state and Federal governments were generally direct sales; occasionally, also, some companies distributed to builders or consumers. It was practically necessary for cement companies to use dealers, or at least to sell in carload lots, since the less-than-carload rate was 2½ times the carload rate.

Since all cements were made to comply with government specifications, competition in the industry was on a price and service basis. Cement manufacturers competed among themselves and with manufacturers of materials which could be substituted for cement. From 1919 until 1927, largely because of overcapacity in the cement industry, competition increased in severity; there was no observed price structure, and no company maintained a fixed price policy. The cost of shipping cement was high in comparison with the value of the product, and the distance from the plant made considerable difference in the price offered to the dealer; distant cement companies, however, equalized the difference in freight rates by lowering their prices.

The Tisdale Cement Company, as a result of its location along the eastern coast, was forced to compete with European manufacturers of cement who were able to sell cement profitably along the eastern coast at a very low price.

Cement competed with other types of materials for practically every one of its possible uses. Recognizing this fact, 90 cement manufacturers had organized the Portland Cement Association, "a national organization to improve and extend the uses of cement," maintaining it by paying to it a small fee on each barrel of cement sold. The association, through advertisements, booklets, and field engineers who traveled in assigned territories, told of the advantages of cement and the most economical and satisfactory ways of using it; kept in touch with the latest developments in all the fields in which cement was used; cooperated with a research staff to test and improve cement; and also attempted to publish items about cement and its uses in newspapers throughout the country. In addition to the activities of the association, practically every cement company advertised its product to city and country customers throughout the territory it served. Of the five large cement companies only two advertised nationally in 1927, and the Tisdale Cement Company was one of these.

The Tisdale Cement Company had been spending approximately 0.53% of sales in advertising its product nationally. This advertising was intended to obtain consumer preference for Tisdale cement, to bring the product to the attention of architects and contractors, and, principally, to make it easier for the company to obtain dealers. Late in 1927 the executives of the company and of the company's advertising agency were considering a proposal to substitute dealer education for a large part of the consumer advertising.

Because the company's activities were confined to the eastern part of the United States, national advertising involved considerable waste. Furthermore, it also represented a duplication of effort since the company paid a large sum each year to the Portland Cement Association to do primary advertising for the industry. Moreover, any national advertising benefited competing companies almost as much as it did the Tisdale Cement Company.

Another reason for considering a change in publicity policy was that the majority of consumer cement purchases, except in farming districts, were not made by the consumer direct from the building material dealer. For instance, a home builder might inform his architect that he wanted Tisdale cement used in the construction of his house; but, if the architect was in the habit of using some other brand of cement and had found it to be satisfactory, he would probably tell the consumer so. Knowing that

cement was a standard product, the consumer might accept the brand recommended by the architect. Even if the architect had no definite ideas on the subject, or if the home builder stood firm in his request for Tisdale cement, there was still no certainty that it would be purchased, for the architect would have to pass on the consumer's preference to the contractor, who would be likely to favor another brand of cement; and, unless the customer insisted on Tisdale cement, the contractor would probably use the brand he had found to be satisfactory. Frequently, because of an agreement between the contractor and the building material dealer with whom he traded, the dealer stocked a preferred brand of cement in larger quantities than other brands. Thus, even if the consumer insisted that the contractor use Tisdale cement, the building material dealer might not have a sufficient stock on hand, and the consumer, to avoid holding up construction until some Tisdale cement could be obtained, would probably accept the brand favored by the building material dealer. It seemed to the company that in the majority of cases, no matter how effective the consumer advertising had been, the final choice of the brand of cement depended on the preference of the contractor or of the building material dealer.

With these considerations in mind, the executives decided late in 1927 to discontinue all national advertising, to continue consumer advertising in farm journals throughout their territory, and to work actively with building material dealers in an attempt to persuade them to stock and sell Tisdale cement. Consumer advertising to the farmer they considered of value, since farmers bought in small lots direct from the building material dealers and thus were more likely to make their preferences effective. The company's salesforce regularly visited the dealers in its territory, but the executives felt that, since this type of work was done by all cement companies, something more than this sales effort would be necessary to obtain more dealers and to retain their goodwill and preference. The method finally decided upon was to study the problems of the building material dealers and to issue bulletins written by men with considerable experience in the field (on the basis of studies made of dealers who had successfully solved these problems) which discussed and suggested solutions for the most important problems. The following subjects were studied and bulletins concerning them issued:

1. Delivery costs.
2. Credits and collections.
3. Selling.
4. The building material dealer's income tax.
5. Selling through collection letters.
6. Insurance and the building supply dealer.

7. A practical delivery cost system.
8. Safeguarding profits through records.

Bulletins were sent to all the company's dealers and to those dealers through whom the company wished to sell; salesmen carried them on their calls and discussed them with the dealers.

There were dangers in such a sales promotional scheme. With the emphasis in the purchase of cement distinctly on price, it was doubtful if the goodwill derived from these bulletins would offset a lower price offered by a competing cement company. The executives considered it probable, however, that where the price was the same, the dealer goodwill might result in the purchase of Tisdale cement. Even if a dealer preferred to sell Tisdale cement for a short while, there was no assurance that his preference would not change as soon as a competing company offered him a lower price. The company adopted the proposed sales promotional plan, however, and from 1927 until late in 1929 its advertising agency prepared the bulletins, which appealed to the salesmen as an additional selling point and seemed to be appreciated by the dealers.

Exhibit 1 shows the sales of Tisdale cement during the period compared with total cement sales.

EXHIBIT 1

TISDAL CEMENT COMPANY—SALES OF TISDAL CEMENT COMPARED TO TOTAL CEMENT SALES 1926–1929

Year	Tisdale Cement Sales	Total Cement Sales
1926	$10,150,000	$281,347,000
1927	9,212,000	280,595,000
1928	7,841,000	276,626,000
1929	6,445,000	271,099,000

In 1929 a price war developed, and the majority of the cement companies began selling direct to contractors. If the Tisdale Cement Company had followed this trend, it would have lost all the advantages obtained by its two-year dealer education campaign since it would have been forced to sell to outlets with which it had done no promotional work, and it would have incurred the ill will of the building material dealers through selling direct to their customers. Had the company refused to sell direct to contractors, the executives feared that this business would not have come to them through the building material dealers but would have gone to some competing company which sold to contractors.

Should dealer helps have been continued? Should the company have reverted to national advertising? Should the company have sold to contractors? How should it have maintained contacts with dealers who sold to farmers?

69. ZEUS RANGE COMPANY—HALSEY TEXTILE MACHINERY CORPORATION—THE PLACE OF EXPOSITIONS IN THE SELLING PLAN

(*a*) The Zeus Range Company had its main plant and general offices located in Providence, Rhode Island. Its lines consisted of gas, coal, and combination ranges for home use. Sales were made in two different forms of outlet. The company solicited direct large public utilities and a few furniture stores where public utilities were not available. Recently most large gas companies had installed storerooms for the display of stoves, and the company solicited these direct. The company also employed jobbers in various parts of the country who sold to smaller hardware stores, plumbing and heating shops, and appliance stores. Sales were generally confined to North Atlantic States, and 18 salesmen were employed to cover this territory. The company hired an advertising agency, and most of its copy was placed with local newspapers, consumers being directed to the public utility or furniture store serving that particular locality. Annual sales for the company were approximately $3,500,000.

Early in 1931 the company was approached by the Munro organization in Philadelphia in regard to taking space in a Home Beautiful Exposition in Philadelphia. The Munro organization had specialized in such expositions for a number of years and was thoroughly familiar with their operation. A large exposition hall with 125,000 square feet of floor space was hired for a week in March. The space was divided into sections averaging about 100 square feet per section; each space was about 10 feet on a side. These sections were rented for $150 each to companies desiring to display goods at the exposition. This rental included railing, furniture, such as chairs and a table or desk, floor covering, and sign. Exhibits were planned to cover every conceivable phase of home buying, building, equipping, and maintaining. From previous experience Mr. Munro expected an attendance in excess of 20,000 per day, running well over 100,000 a week. Special entertainment and music were attractions, in addition to the displays.

The sales manager of the Zeus Range Company considered that because of the size and variety of the ranges, his company would require at least three adjoining spaces, which would cost $450. In addition to this cost, there would be the expense of cartage and of setting up the

booth, as well as the salary for a lady demonstrator. He estimated that the total cost would be in the neighborhood of $700. Since the company could not make sales direct to the public, the sales manager was undecided whether or not to use this form of sales promotion. If a home owner or housewife desired to purchase one of the ranges, the company salesman could only take her name and refer her to the nearest dealer. Once a person left the hall without making a purchase, there was danger that another make of stove might eventually be purchased. Besides, the company operated two offices with small showrooms in the city and had several displays in showrooms of gas companies around the Philadelphia area, where those interested in buying ranges could be accommodated.

On the other hand, a large proportion who attended these expositions were home owners or were people interested in home building and furnishing, thus making the attendance selective. There was a possibility that many would become interested in the new stoves because of the attractiveness of the new models, even though they had not intended to purchase a stove when they entered the exposition hall.

Should the Zeus Range Company hire space in the Home Beautiful Exposition in Philadelphia?

(*b*) The Halsey Textile Machinery Corporation was one of the large manufacturers of machinery for the spinning of threads and twine from all sorts of raw fibers. The main plant and sales office was located at Boston, Massachusetts, but there were eight branch sales offices in various parts of the United States, besides agencies in many countries throughout the world. Sales were made directly to textile mills and to manufacturers of yarn and twine. The salesmen worked directly out of the sales offices and were as a rule engineers who understood the machines and their performance thoroughly. Instead of the usual method of making sales calls, these representatives spent considerable time at their customers' mills in working out problems, in checking the performance of machines, and in making recommendations.

Early in 1931 the sales manager was solicited by the Munro organization of Philadelphia relative to taking space in the International Textile Exposition, which was an exhibit of textile machinery, products, mill supplies, and equipment for the textile industry of the world. Practically every branch of the textile industry was represented at this exposition. Its attendance was composed of mill owners, factory heads, superintendents, buyers, and employees. The exposition was held biennially in conjunction with the National Power Show. Each space in this

exhibit averaged about 100 square feet, being about 10 feet on a side, and was rented for $150 to each exhibitor. The rental included furniture, floor covering, railing, and a sign. The sales manager of the Halsey Textile Machinery Corporation thought that because of the size of his machinery and its variety, at least $2,000 worth of space would be needed. To this expenditure it would be necessary to add probably another $1,500 for other expenses, such as cartage, setting up, and operating the exhibit.

The exposition appealed to all those engaged in the textile business, and invitations were sent out to all those who might be interested. Appeals were not made to any great extent to the general public, but nevertheless a large number of consumers attended. Mills from all parts of the country sent their representatives to the exposition, and as a rule the National Association of Cotton Manufacturers held its annual meeting at this time. Frequently also the American Association of Cotton Manufacturers followed this example and convened likewise at this time. The size of the attendance at this exposition was not so important as its selectivity. A display in this exposition would place the products of the exhibiting company before the eyes of those who might be interested in purchasing the products.

Should the Halsey Textile Machinery Corporation rent space in the International Textile Exposition?

70. WINCHESTER OIL COMPANY—RECIPROCITY

The Winchester Oil Company, with main offices in Chicago, Illinois, dealt only in the highest grade lubricating oils. Sales amounted to approximately 1,200,000 barrels annually. The price range was much higher than that of competing oils; the product was sold on a strictly quality basis, its reputation having been built up over a long period.

One of the largest eastern buyers of Winchester oil was the Arcadia Railway Company, which had used Winchester oil exclusively for 10 years. On several occasions price competition had been overcome in quotations to the Arcadia Railway Company by the superior quality of Winchester oil. After years of mutually satisfactory dealings, the eastern branch manager of the Winchester Oil Company advised his sales manager that he believed henceforward the company would have to follow a policy of reciprocity with respect to the Arcadia Railway Company, inasmuch as an oil company doing a substantial business with the railroad had demanded that it use its lubricants. The sales manager of the Winchester Oil Company paid a visit to the purchasing agent of the railroad and learned that, although the management of the railroad believed reciprocity

to be economically unsound, it was obliged to engage in it in order to keep traffic from falling off. The sales manager for the Winchester Oil Company pointed out that his company also shipped cars over the Arcadia Railway and that, moreover, the railroad's mechanical engineers had always recommended Winchester oils because of their superior quality. However, in his report to the general manager, the sales manager expressed fear that the Winchester Oil Company would lose the contract for the ensuing year, since efficiency demanded that a single lubricant be used and the Winchester's competitor shipped twice as many cars over the Arcadia Railway as did the Winchester Oil Company.

Upon receipt of the sales manager's report, the general manager issued an order to the shipping department that all goods going east should, as far as possible, be routed over another road than the Arcadia. When the sales manager next called upon the railroad's purchasing agent, he was told that the traffic department had reported a falling off of one-third in the number of cars of oil shipped by the Winchester company during the previous month. The Winchester sales manager said to him that the falling off was due to reciprocity. The railroad's purchasing agent then gave him conclusive proof that the new routing policy of the Winchester Oil Company was more expensive.

How far may reciprocity be carried before it becomes economically unsound? What methods should this sales manager have used in meeting the reciprocity argument? What effect will such reciprocity have on the long-range standpoint of a company? Can this be classed as unfair competition? Should a company do as the Winchester Oil Company did and establish reciprocity as a policy?

QUESTIONS

1. A manufacturer of yardage ginghams, shirtings, cotton blankets, drapery fabrics, proposed that a fabrication department be established in the mill. The purpose of the new section would be to turn out finished articles from some of the mill's yardage fabrics along lines suggested by the company but not yet accepted by the trade. The plan was to sell a limited number of such articles direct to retailers or consumers as a means of inducing fabricators to purchase fabrics with which similar articles might be made. The company would advertise these products directly to the consumer with national advertising and direct mail. One product, a bridge table cover, was to be featured in about 20 magazines, such as class, women's, and bridge publications. The direct mail was limited to certain areas which could be served most conveniently from the plant. The central office would send out direct mail made with swatches of material used in the advertised product. Is this plan likely to stimulate yardage sales as anticipated?

2. A producer of a nationally advertised baking powder has been approached by a kitchen cabinet manufacturer with a request that he cooperate in a special selling plan.

The Hartford Cabinet Company, in an effort to sell its kitchen cabinets, was stocking them with staple grocery products, which were given away with each cabinet at no extra charge to the retailer or consumer. These products were donated by the manufacturers as free samples in order to advertise the particular product directly to the housewife. Should the baking powder producer cooperate with the cabinet manufacturer by donating samples of its baking powder to be given free to consumers who buy kitchen cabinets?

3. How can the General Motors Corporation, Westinghouse Electric & Manufacturing Company, or other exhibitors measure the returns from their outlays in maintaining exhibits at the 1939 Fairs in New York and San Francisco?

4. Should a manufacturer of one of the popular lines of cosmetics charge drug stores for window displays?

5. Should a manufacturer who is trying to introduce a new food product purchase from a chain store executive the right to have his goods displayed in the windows and upon the counters of a prominent chain for a specified period?

6. Should a manufacturer of surgical dressings and similar articles sold at popular prices accept the offer of a voluntary association of drug stores in the Middle West to feature the company's product by devoting a window to display in each store of the chain in return for a 10% commission, to be paid in free goods upon orders placed during the month in which the goods were to be displayed?

7. Is it necessary for a manufacturer of medium-price furniture to rent display space to exhibit his products each season in Grand Rapids and in the Furniture Mart in Chicago?

8. A shoe manufacturer has found it helpful to his dealers to ask for annual statements of operations. These statements are criticized and returned with suggestions for improvements in management to the managers of the various stores. Would a company manufacturing lawn mowers find this a profitable and effective means of dealer help for the hardware stores through which its product is sold? Would your answer be the same for a manufacturer of a complete line of paints and varnishes?

9. How may manufacturers determine types of dealer assistance which would be of greatest value?

10. Should a manufacturer of heating and ventilating equipment set up a program for the training of heating contractors and their employees so that they may sell products more effectively?

11. What problems would be encountered by an automobile manufacturer who is endeavoring to improve the level of salesmanship exercised by retailers' salesmen?

12. Is reciprocity ever justifiable?

13. Should a manufacturer of novelties plan to have his products exhibited at some annual gift show? What considerations would determine his decision? How do the factors influencing the decision in this instance differ from those which might influence a manufacturer of motor boats who has been solicited to exhibit in the annual motor boat show in New York?

14. How may a manufacturer determine the effectiveness of window displays furnished to dealers?

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VII

SALES ORGANIZATION

The sales department, like any organization, consists of human beings in definite relations to each other, such relations being established for the purpose of coordinating the efforts of each one to bring about a desirable result. The sales department, therefore, consists of persons working together to accomplish certain ends connected with the marketing of the products manufactured by the company or of the commodities which have been purchased for resale. According to the broadest conception, the functions of the sales department should include all of those necessary to market the product after the manufacturing or buying departments have relinquished their control. The sales department includes among its functions particularly the selling functions, comprising both the preliminary creation of consumer recognition, acceptance, or demand and the actual selling operations which are intended to eventuate in sales transactions. The selling for which the sales department is responsible may be subdivided according to the territory over which operations extend into domestic and export, and within each of these broad divisions into, for instance, eastern, western, and southern divisions.

The second group of functions of the sales department is connected specifically with the physical supply of goods, including such functions as packing, shipping, and storage. While the selling function, at least in part, is always included in the sales department, there is a variety of practice among enterprises as to the inclusion of packing, shipping, and storage. In the group of miscellaneous functions may be mentioned the credit function, sometimes within the purview of the sales department, frequently having to do more with the financial or control departments of the business. More commonly control and planning groups for sales, such as sales research, sales control, and sales statistics departments, have been incorporated into the sales organization.

Any sales organization must be adapted to the enterprise, because the job which is to be performed differs in some degree in each enterprise. Before the sales department can be developed, certain decisions must necessarily be made by the executives which will have effect upon the form of the department and the size of the personnel. Roughly, the

structure of any sales department will depend chiefly upon the following factors:

1. Personalities of executives.
2. Nature and size of the enterprise.
3. The number and buying habits of purchasers.
4. The method of selling adopted.
5. Selling policies.
6. The financial conditions of the enterprise, which in turn may determine policies and methods.

The sales organization should be built and adjusted to the work it is to perform and to the method of performing it; it should be explainable in terms of work to be done, in terms of policies which have been adopted after thoughtful consideration, and in terms of selling methods which have been carefully selected to bring about the most effective and economical distribution; and it must be sufficiently flexible so that it can take care of changes in the amount of work which it has to do that cannot be anticipated with accuracy. But these are not sufficient for an effective organization. One must add still another, and often a determining, factor, that is, the personal factor, the personality of executives and of those in authority. Many organizations which apparently violate all of the principles of good organization operate successfully because of the influence of capable executives and dominant personalities, and many organizations are unsuccessful because the personnel or leadership is incapable. One must always make the mental reservation, in speaking of an organization, that the personal equation is of great importance. But the conclusion is inevitable that as a means of accomplishing certain objects, given certain abilities and certain personalities, the more logical the organization, the greater the ease with which the purposes should be accomplished.

In recent years scientific interest in the nonlogical influences upon organization has grown rapidly. It is recognized that the nature and complexity of human relationships have not taken sufficient account of the existence of informal leadership in an organization or of emotional reactions which may have their basis outside of the enterprise as well as within it. The pleasant simplicity of the organization chart is being destroyed; but that chart and its simple rules relative to authority, responsibility, and control were too often found inadequate when confronted with actual organization behavior.

A. SALES ORGANIZATIONS; HEADQUARTERS SALES ORGANIZATION; DEPARTMENTIZATION

Sales organizations vary from simple ones, in which a few salesmen report to a general executive, to those in which the sales organization is a complex of suborganizations based upon divisions according to territory, product, and marketing function. The first type is illustrated by an organization in which a salesman reports directly to the sales manager or to his assistant in the home office. The most complex is illustrated by one large manufacturing company in which the attempt is made through the organization to provide adequate market research, planning, and execution for products which reach several hundred different markets and which range from huge power installations to electric irons and lamp bulbs.

As the job of a sales organization grows larger, it becomes necessary to divide responsibility. This division may apply only to the headquarters office. One finds that advertising functions are likely to be split off and made the responsibility of some individual or group. Sales planning or warehousing of stocks may be assigned to separate individuals. Again, the nature and the type of division will depend in part upon the relationship between the tasks and the availability of persons to perform those tasks.

Departmentization within the home office organization may be based upon a division according to function such as advertising, personal selling, etc.; upon types of customers, such as wholesale manager, retail manager, chain store representative; upon territory; or upon the basis of product. The uses and limitations of specialization apply to departmentization of the sales organization.

The need of leadership in any group of individuals aiming to accomplish a single purpose is generally acknowledged. In business organizations the leadership of the directing heads of the enterprise furnishes the general policies and purposes within which the sales department must function. Nevertheless, these limits are broad, and the chief sales executive finds opportunity to exercise his ability in bringing about the profitable distribution of the product. The chief sales executive is the man who is, and should be, responsible for the continuous and successful marketing of the product of the business. It is evident that, without continuous and successful marketing, production or other departments of the business enterprise cannot function smoothly.

Since in practice there is no uniform conception of the scope of sales work, there can be no uniform conception of the function of the chief sales executive. In the broader sense, the chief sales executive is a

marketing manager, the person who is responsible for formulating and carrying out the plans for marketing the product; he is both a planning and an operating official. He must possess the general qualifications of a good executive; he must have judgment and initiative; he must be aggressive. Since the sales manager must lead men, since the success of the work depends largely upon his ability to establish an *esprit de corps*, since morale must take the place, in large measure, of personal supervision, the elements of personality, tact, and ability in dealing with men are even more necessary than they are in production management.

The officials of a large sales department immediately subordinate to the chief sales executive may be classified as (1) general, where the junior executives act as assistants to the sales manager under assignments, the division of work being made upon any basis which seems to be suitable at the specific time; (2) functional, where the immediate subordinates are given charge of particular phases of sales work, such as research, sales promotion, personnel records, credits, house organs, advertising; (3) territorial, where the junior sales executives are given charge of sales work in portions of the territory over which the marketing operations of the company extend; and (4) product, where the junior executives are given charge of sales work for particular products or lines sold by the concern. The executives who carry on their work at the home office, therefore, have widely varying duties and titles. Such titles as assistant general sales manager, assistant sales manager, territorial manager, product sales manager, sales research manager, all reflect the manifold differences in sales departments.

71. THURSTON TUBE COMPANY—SELECTION OF SALES MANAGER

The Thurston Tube Company started to manufacture radio tubes in the early years of the radio boom. With the rapidly expanding market for radio tubes, the company grew by leaps and bounds. The sale of its product constituted no difficult problem, and only a loosely knit and inefficient sales organization had been developed. By 1930, with the advent of stronger competition in the radio tube industry, the company realized that it had lost considerable ground and that it was necessary to work aggressively for business.

The company operated an excellent plant with production capacity of 3,000,000 tubes a year, but it was making only 1,000,000 tubes and finding it almost impossible to sell that amount. It was spending $300,000 per year on advertising, 80% of which went for broadcasting over a national chain and 20% for trade magazines. This advertising had created a national consumer recognition, but the company had no national

distribution. The major part of the production went to a few wholesalers in several large distributing centers.

The Thurston Tube Company had an executive with the title of sales manager who had grown up with the business during the period of rapid expansion. He was an excellent "hand shaker" but had neither experience nor knowledge as to how to organize and operate an effective sales organization. The directors of the company, therefore, decided to hire a new sales manager. Accordingly, they applied to the local Chamber of Commerce and to several high-grade employment agencies who called themselves "personnel and vocational counsellors." One of the directors placed in charge of selecting the sales manager had had wide experience in the conduct of marketing organizations. He gave specific instructions to the employment agencies that the man wanted had to have a successful record as a sales manager in the specialty field, that he had to have been either in full charge of sales in a small company or at least assistant to the sales manager in a large company. It was expected that the position would offer approximately $10,000 a year, with bonus based upon specified increase in sales volume.

Fifteen men were interviewed. Most of them were eliminated after the first interview as utterly unfit for the job at hand because of lack of suitable past experience. A few of the men were asked to come for a second interview and were instructed to write letters of application based on the information they had gained from the first interview. They were also asked to furnish a complete record of their past experience. Following are five applications in condensed form, together with the impressions of the interviewer in the case of each man. Names and company connections have been disguised.

N. C. M. Age 42—married—healthy—good appearance.

1911–1917: Wright Cereal Company of Chicago as assistant treasurer; auditor in charge of branches and later as one of the executive sales staff.

1917–1919: At war in France; won commission as captain, U. S. A.; executive officer at general headquarters of A. E. F.

1919–present: Executive and sales managerial positions for (1) soap division of a large packing company, (2) tea blender with national organization, (3) a general merchandising corporation, (4) a razor company.

"I have at my call a splendid group of high-caliber salespersons ranging from first-class salesmen to the highest district and division managers located in important headquarters across the country."

Interviewer's Impression. A very meager and limited experience in selling and sales management. In answer to the question as to what means a candidate would use to

recruit a salesforce in branch territories, I was assured N. C. M. had so many friends all over the country that he would have no difficulty in getting salesmen. He seemed to show lack of initiative as well as lack of self-reliance. Believe he would depend too much upon his "gang" to deliver the goods; if his gang failed, he would fail.

S. C. Age 50—graduate Massachusetts Institute of Technology.

1906–1909: Mechanical engineer; manager of plant in Ohio for the manufacture of automatic machines.

1909–1913: Marchand Biscuit Company, to develop market in Central States.

1913–1920: Winston Biscuit Company, as field manager, then sales manager of Chicago plant; developing new products; introducing new lines and finding greater markets for their output. Complete supervision over sales organization of 150 men.

1920–1924: X Confectionery Company, as sales and advertising manager.

1924–1926: Sheldon Confectionery Company. Duties, complete sales supervision, advertising, layout and traveling to agents and distributors in the East, West and South. Earning capacity $10,000 straight salary.

1926–1929: In various positions of sales engineering work and constructive merchandising.

Interviewer's Impression. Could not get a coherent story of past activities or reasons for resignations. Left me with feeling he was covering up some dark spots in his career. During interview discovered he had an interest in a manufacturing company, which interest he would probably retain. Felt lack of confidence. He seemed insincere and did not lay his cards on the table. Dodged important questions.

C. T. C. Age 42—married, 2 children—Catholic—weight 225 pounds, height 5 feet 10 inches—high school education.

1904–1907: Textile machinery company, shop training.

1907–1910: Salesman for company manufacturing scales.

1910–1923: Salesman and sales manager for manufacturer's agent selling railroad supplies, steel of special types and scales.

1923–1927: Special representative for Holbrook Manufacturing Company, selling cotton waste.

1927–present: Newton Belt Company, fabric belting, general manager with salary of $10,000.

Interviewer's Impression. Decided lack of sales experience. Has had some experience in industrial marketing but did not study or expand into general marketing. Appears to be somewhat in a rut. A good factory representative but not a marketing executive.

F. G. H. Age 42—married, 2 children—weight 176 pounds—height 5 feet 11 inches—Protestant—education, elementary schools, college, postgraduate course, private tutors.

1906–1918: Roofing products company, sales manager.

1918–present: RoofingMills, Incorporated. Starting as salesman worked up to vice president in charge of sales.

Interviewer's Impression. Although his present salary was $15,000, he was willing to take a reduction, realizing he could not start at the same salary in a new field. He

has had extensive experience in developing men for important positions and in developing men for sales work, in many cases taking territories which had not been producing and building them up to greater increased sales. Looked like an excellent man, although his experience was limited to the building materials field. He seemed to have a good understanding of general marketing conditions in the consumer goods field, but he failed to convince me that he was anxious for the position and that he would make good. The more he appealed to me, the more I tried to show him the discouraging aspects of the proposed job. He soon grew lukewarm. Evidently I succeeded too well in discouraging him.

J. K. L. Age 36—education, high school, college, A.B.—Protestant—required salary $9,000.

1917–1919: United States Navy, accounting officer. Disbursed funds over a million dollars in two years. Two promotions in two years to final rank of lieutenant, senior grade.

1920–1923: Lawton Roofing Company, Chicago, manufacturers of roofing materials, salesman in Ohio territory.

1923–present: Sales promotion and advertising manager, lubricating apparatus company, Cleveland, Ohio.

Interviewer's Impression. Very little experience in the field in last position. Made a poor impression, unattractive personality, "cocky" and "light-weight." Could not conceive that a group of salesmen would take him very seriously.

What action should the director have taken in choosing a sales manager for the Thurston Tube Company?

72. MADISON FOOD CORPORATION—SEPARATE SALES CORPORATION

The Madison Food Corporation, capitalized at over $10,000,000, manufactured a narrow line of widely advertised specialty food products, which, distributed through wholesalers, were sold in a large number of retail grocery stores in the United States. A force of 100 missionary salesmen was maintained to call upon retailers and occasionally upon jobbers. Twenty jobber salesmen, who in certain sections acted as district managers, were concerned with the wholesale trade. Warehouse stocks were carried in a few of the larger cities of the country and on the Pacific Coast.

In 1922, on the advice of legal counsel, the organization of the Madison Food Corporation was changed so that all the marketing operations were carried on by a new wholly owned corporation, the Madison Food Sales Company, with a capitalization of $25,000. Trade-marks, patents, plant, and most other assets continued to be owned by the Madison Food Corporation.

Legal counsel declared that the savings in taxation would justify the additional time and trouble of incorporating and maintaining a

separate sales corporation. The variation in treatment between foreign and domestic corporations, the levy of license fees for doing business in various states upon the total capitalization of the selling company, and certain allegations as to the managerial advantage of having marketing and production completely separated were sufficient to cause the board of directors to adopt the plan.

A number of years later a new management came into the company, and a careful analysis was made of the situation. Again legal advice was solicited, and it was shown that, as compared with the older single company organization, there were savings in taxes of over $2,000 a year. Tax savings had been reduced considerably, however, because of the adverse decisions of certain state tax authorities who declared that the selling corporation was to all intents and purposes a part of the producing corporation, and that the small capitalization was merely subterfuge. Consequently, levies were made on the entire capital stock of both manufacturing and sales corporations.

The executives of the new group were not satisfied with the statement of legal counsel as to savings. They proceeded to authorize an intensive study of the actual costs involved in maintaining separate corporations. They were confronted with problems as to what these costs comprised and as to methods of measuring them.

What facts should have been secured as a basis for decision? What decision should have been made? What are the advantages and disadvantages of incorporating sales departments? Do the same advantages and disadvantages apply to branch sales organizations? What constitutes "doing business" in a state other than the state of incorporation?

73. ALLENDALE MOTOR MARTS, INC. (A)—USE OF CONSULTANTS' REPORT IN MAKING ORGANIZATION CHANGES

Attracted by the remarkable gains being made in various fields of business activity during the late 1920's, R. C. McCormick, a successful lawyer, decided to discontinue the practice of his profession and enter upon a business career. Although untrained and inexperienced in any phase of management procedure, Mr. McCormick at the age of 46 opened, under the name of Allendale Motor Marts, Inc., three "super" parking and filling stations equipped to offer every kind of automobile servicing. The business was quite successful until the depression of 1930 caused a decline in sales volume. In spite of this decline, however, operations were extended until, in 1934, 25 automobile parking and service stations were controlled by the company.

In the spring of 1934 a separate organization, the Allendale Oil Company, Inc., was established to deliver petroleum products to the service stations and to serve a growing business delivering fuel oil direct to consumers. This company owned and operated a bulk storage plant which held several million gallons of oil. The plant, which was kept open constantly for emergency calls, was centrally located, since the relatively small margin under which the company operated made it necessary that transportation costs be kept at a minimum. The company's trucks were equipped with meters, pumps, and the latest devices for supplying any size home or office building and meeting the normal requirements of the service stations. The system in use provided regular route delivery for every customer once or twice a week. In addition to the fuel servicing division of the business, the Allendale Oil Company also acted as agent for several manufacturers of oil burners and water softener appliances. A salesforce of seven men was maintained to sell both at wholesale and at retail in the New England territory.

After operating the various divisions for a few years, Mr. McCormick felt that the business was "floundering." "We needed advice and plenty of it," he stated. "Our organization was all muddled up and we had to get it straightened out. No one in our employ had had too much business experience and although the companies were making money, nevertheless we were aware of the situation that existed. Our business was in the stage of growing pains and we were deeply concerned about the future."

In the summer of 1935 a group of management engineers was engaged to make a survey of the company's organization and policies, and to offer recommendations for improvement. After several months of observation and consultation, the engineers submitted a report of which the portion pertaining to organization is given below.

Report of Survey of Activities

Introduction

The growth of a business is characterized by the type of activity which takes place at different periods. In general, there is a promotional stage, in which new ventures are undertaken; there is a period of consolidation, in which previous gains are capitalized and an operating organization is established, and there is a period of conservation, during which the business is operated on a stable and profitable basis. In a growing business the stage of conservation may be followed by further promotion or expansion, by subsequent consolidation, and by conservation on a larger scale. Thus more or less well defined cycles of promotion, consolidation and conservation are repeated as long as the business enjoys a healthy growth.

The operations of the Allendale Oil Company, Inc., and the Allendale Motor Marts, Inc., may be generally described as having reached a transitional stage between promotion and consolidation. The wholesaling of gasoline and oil is still in a promotional

stage. The operation of parking lots is being improved and standardized, and the results of development are being capitalized. It is, of course, not possible to draw a definite line of demarcation at the point where promotion stops and consolidation starts, but both company growth and the growth of each new project will be characterized first by development and then by consolidation. Many of the current problems of the business are due to the readjustment required to change from the promotional and developmental stages to consolidation and operation on a more stable basis.

None of the activities of the business has reached the stage of conservation. Skill in management, economy of operation, planning, budgeting and scheduling are essential to accomplishment of the task of conservation. Formulation of the recommendations presented in this report has been guided by recognition of the fact that the business must now consciously prepare for the conservation stage if healthy progress is to continue. This must be provided for in the plan of organization, in personnel relationships and in methods of operation.

Discussion of Recommendations

Organization

Recommendation No. 1. The operating organization plan presented in Exhibit A be adopted.

Rapid development of the business and the addition of new lines of activity have prevented the crystallization of a scheme of organization. A statement of the objectives of the organization and its various units is essential to an understanding of the organization plan here proposed for adoption.

The business is primarily a sales unit. However, two distinct types of sales activity are carried on: (1) sales for which the customer comes to the company, and (2) those for which the company must seek the customer.

The parking service and automobile station service are of the former type; the company establishes a service unit at a point where it believes that service is required and, through advertising, quality of service and price levels attempts to attract customers. In a sense this may be characterized as static selling. Per contra, the sale of fuel oil, oil burners, solvents, gasoline and oil at wholesale, etc., may be classified as dynamic selling. The customer is sought by the company and persuaded to use the company's products.

Division of the sales activities of the business into the types which have been designated remains valid when tested by application to operating characteristics. Whereas operation of the service and parking stations entails a considerable fixed financial commitment before the sale is made, in the case of fuel oil and oil burner sales, the bulk of the material is not purchased until contracts have been made and orders booked. With respect to personnel, also, distinct differences in types may be recognized. The parking and service stations require a personnel which will make an appeal to self-selected customers. The fuel oil sales personnel should be possessed of those qualifications which will make them successful as home and business salesmen dealing with customers selected by the company.

In view of the foregoing considerations, two divisions of sales activity have been indicated in the proposed organization plan, the Service Department and the Sales Department.

The activities involved in handling company products constitute another function of the business. Comprised in this work are the procurement of goods, storage, delivery and various services such as are usually performed by a supply unit. The work involves meeting the requirements of the sales units, rendering service to customers, making

economical purchases and keeping operating costs within reasonable bounds. This group of activities is designated on the organization chart as the Supply Department.

The clerical and accounting activities are centralized in the office. This unit performs all clerical work, including accounting, provides office service and centralizes the financial, statistical and control information.

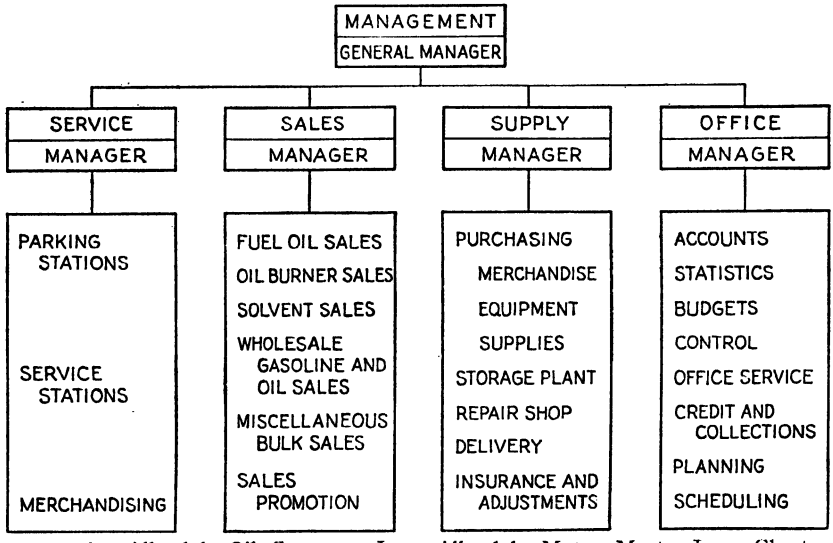


EXHIBIT A.—Allendale Oil Company Inc.—Allendale Motor Marts, Inc. Chart of operating organization and activities.

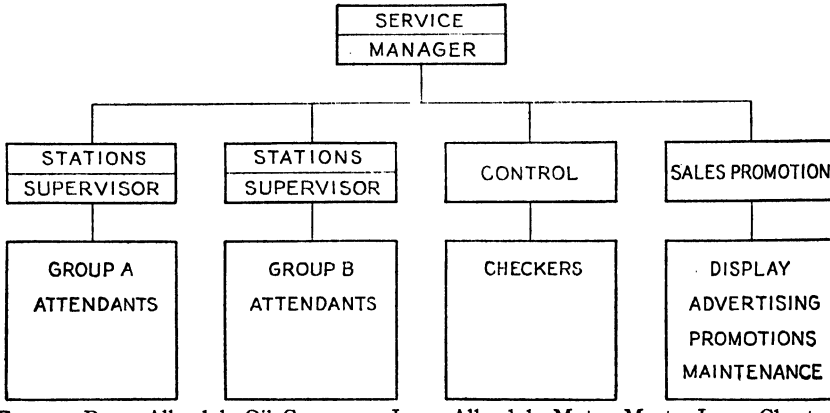


EXHIBIT B-1.—Allendale Oil Company, Inc.—Allendale Motor Marts, Inc. Chart of Service Department organization and activities.

The four divisions of the business, namely, Service, Sales, Supply and Office, constitute the four operating departments of the organization.

The General Manager operates the business by initiating, directing, and controlling the activities of the four departments. It is his task to direct the accomplishment of

each department for the greatest benefit to the business as a whole. He has to measure each department by both departmental and company standards. Finally, he has to coordinate the various activities to attain a common objective.

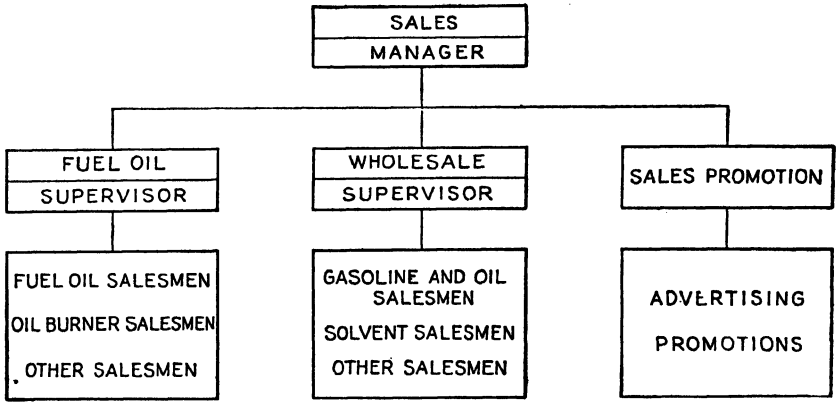


EXHIBIT B-2.—Allendale Oil Company, Inc.—Allendale Motor Marts, Inc. Chart of Sales Department organization and activities.

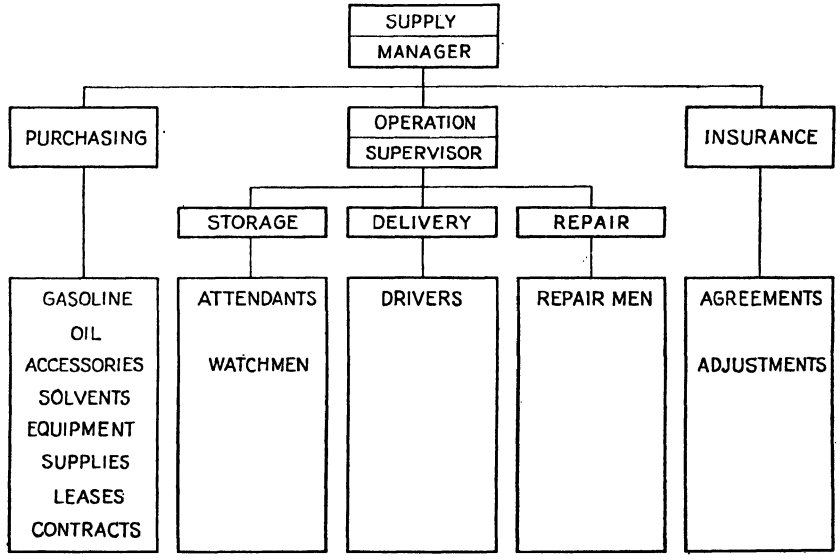


EXHIBIT B-3.—Allendale Oil Company, Inc.—Allendale Motor Marts, Inc. Chart of Supply Department organization and activities.

The proposed plan of organization is submitted as valid for existing conditions, as well as for any normal increase in size or complexity of the business.

Recommendation No. 2. The departmental organization plans presented in Exhibits B-1 to B-4, inclusive, be adopted.

Departmental organization is an important part of the complete plan. All essential activities must find a place in the plan and all related work must be properly grouped in the departments. The relationships among departments and the reporting relationships within each department must be established and clearly defined, so as to be understood by all members of the organization.

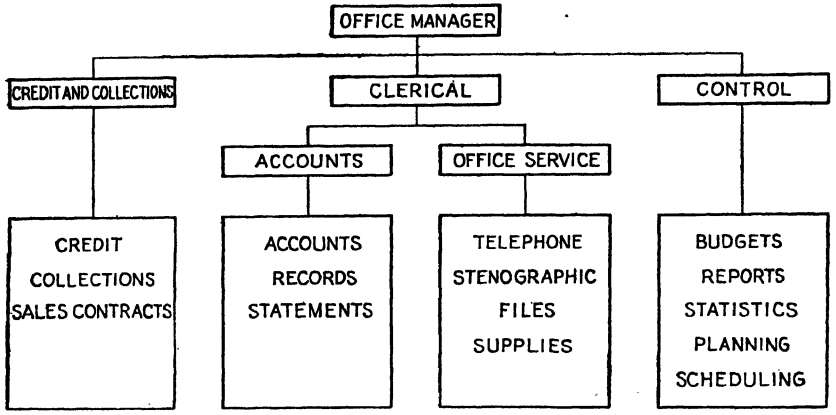


EXHIBIT B-4.—Allendale Oil Company, Inc.—Allendale Motor Marts, Inc. Chart of the Office Department organization and activities.

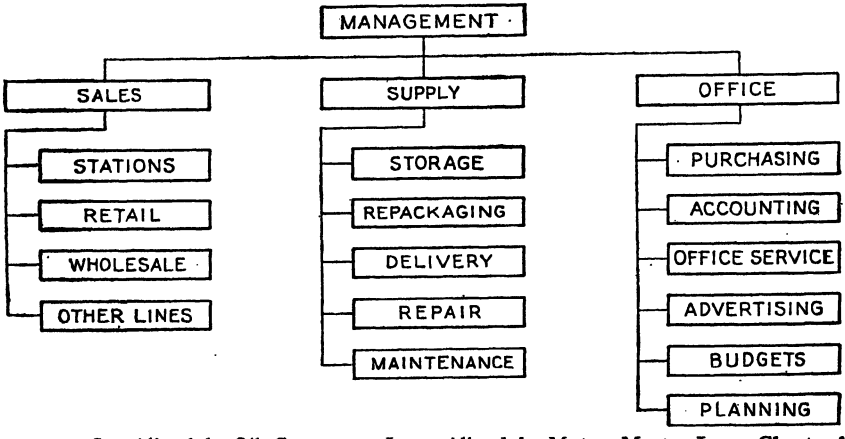


EXHIBIT C.—Allendale Oil Company, Inc.—Allendale Motor Marts, Inc. Chart of operating organization future development.

In the group of charts shown as Exhibits B-1 to B-4, the departmental organization plans and the activities of the departmental subdivisions are set forth. In many cases the same person or persons will be responsible for the performance of more than one kind of work. However, as the business grows and new employees are added, it will be desirable to assign them as far as possible to the performance of separate and distinct duties.

EXHIBIT D

ORGANIZATION MANUAL

I. Executive Organization.

A. *General Manager.*

The General Manager is the chief executive officer of the company. He is responsible for the management and operation of its affairs in accordance with established policies, and it is his duty to initiate such changes in policies as operating experience indicates to be essential to the proper conduct of the business. He is responsible for development, progress and expansion of the business and for the achievement of satisfactory operating results. He is assisted in the performance of his duties by four senior executives.

B. *Manager of the Service Department.*

The manager of the Service Department is responsible to the General Manager for the effective and economical operation of the units assigned to the Service Department. In accordance with established operating standards, plans and objectives, and subject to these limitations, he has direct control of the personnel activities and operations of his department. It is his duty to develop recommendations relating to departmental operation, to formulate plans and objectives and to cooperate with the other executives of the organization. He is responsible for the development of department personnel necessary to insure the maintenance of a high standard of performance in his department.

C. *Sales Manager.*

The Sales Manager is responsible to the General Manager for the effective and economical operation of the units assigned to the Sales Department. In accordance with established operating standards, plans and objectives, and subject to these limitations, he has direct control of the personnel activities and operations of his department. It is his duty to develop recommendations with respect to departmental operation, to formulate plans and objectives and to cooperate with the other executives of the organization. He is responsible for the development of department personnel necessary to insure the maintenance of a high standard of performance in his department.

D. *Manager of the Supply Department.*

The Manager of the Supply Department is responsible to the General Manager for the effective and economical operation of the units assigned to the Supply Department. In accordance with established operating standards, plans and objectives, and subject to these limitations, he has direct control of the personnel activities and operations of his department. It is his duty to develop recommendations with respect to departmental operation, to formulate plans and objectives and to cooperate with other executives of the organization. He is responsible for the development of department personnel necessary to insure the maintenance of a high standard of performance in his department.

E. *Office Manager.*

The Office Manager is responsible to the General Manager for the effective and economical operation of units assigned to the office. In accordance with established operating standards, plans and objectives, and subject to these limitations, he has direct control of the personnel activities and operations of his department. It is his duty to develop recommendations with respect to departmental operation, to formulate plans and objectives and to cooperate with the other executives of the organization. He is responsible for the development of department personnel necessary to insure the maintenance of a high standard of performance in his department.

EXHIBIT D—(*Continued*)

ORGANIZATION MANUAL

II. Service Department.

A. *Manager of the Service Department.*

Under the general supervision of the General Manager and in accordance with the policies of the company, the Manager of the Service Department is the highest individual authority in the company on all matters relating to the operation of the Service Department, which includes responsibility for the maintenance of station property and equipment, personnel, standards of service, merchandising, sales promotion and advertising.

B. *Personnel of the Service Department.*

Under the direction and control of the Manager of the Service Department are the requisite supervisors, attendants, checkers and other personnel required to carry out the activities of the Service Department.

III. Sales Department.

A. *Sales Manager.*

Under general supervision of the General Manager and in accordance with the policies of the company, the Sales Manager is the highest individual authority in the company in matters relating to the operation of the Sales Department, which includes responsibility for personnel, selling, sales promotion, advertising and publicity.

B. *Sales Department Personnel.*

Under the direction and control of the Sales Manager are sales supervisors who are responsible for the sale of one or more company products through the requisite number of salesmen and such other personnel as may be required to carry out operations of the department.

IV. Supply Department.

A. *Manager of the Supply Department.*

Under general supervision of the General Manager and in accordance with the policies of the company, the Manager of the Supply Department is the highest individual authority in the company on all matters relating to the operation of the Supply Department, which includes responsibility for the purchase of products for resale, equipment, supplies, leases and insurance, and the operation and maintenance of the storage plant, repair shop and delivery equipment.

B. *Supply Department Personnel.*

Under the direction and control of the Manager of the Supply Department are the supervisor of storage, delivery and repair, attendants, watchmen, drivers and such other personnel as may be required for the operation of the department.

V. Office.

A. *Office Manager.*

Under general supervision of the General Manager and in accordance with the policies of the company, the Office Manager is the highest individual authority of the company in all matters relating to the operation of the office, which includes responsibility for the maintenance of accounts and statistics, preparation of budgets and control information, office service, credits and collections and other clerical work in connection with planning and scheduling.

B. *Office Personnel.*

Under the direction and control of the Office Manager are the requisite personnel for the performance of accounting, clerical and stenographic work, and such other personnel as may be required for the operation of the office.

From an operating viewpoint, each department is similar to an individual business. The department manager has a definite task to accomplish. His success in acquitting himself of that task may be measured by dollar profits or percentage of profits, or by actual or relative costs of operation. The department manager is successful according to his ability to use the elements within his control in producing satisfactory results.

Recommendation No. 3. Organization expansion follow the proposed plan of future development, shown in Exhibit C.

Formulation of the proposed organization plan was based on certain present characteristics of the business. It is likely that the growth of the business will follow similar lines. As long as this holds true, the principles underlying the plan should be preserved, regardless of increase in volume of business.

The plan of future development illustrates the possibilities of organization expansion. The pattern is similar to that shown in Exhibit A, but each unit is conceived to have increased in both size and complexity. The purpose of including such a plan in this report is to provide the means for keeping the organization structure in line with the requirements of changing size.

Recommendation No. 4. The organization manual submitted as Exhibit D be adopted.

The organization manual is used to supplement the organization chart by describing the duties and relationships of each position. The manual serves also as a useful source of reference when it becomes necessary to fill positions. The statements regarding each position are brief and general, describing the principal duties without restricting the usefulness of the incumbent of the position.

Recommendation No. 5. Personnel assignments be made in accordance with requirements of organization.

The company is faced with the problem of utilizing available manpower to meet present requirements and the needs of future development. Adoption of the organization plan and manual will assist the management by defining spheres of action and lines of relationship. The maximum value of the plan can be secured only when the various positions are filled by individuals who possess the specific qualifications necessary to successful performance of the work involved. When persons not so equipped are assigned to positions, the quantity and quality of individual accomplishment necessarily suffer, the difficulties of coordination of work are multiplied and cooperative effort is impeded.

Comment on the organization structure recommended by the consultants. Do you agree with the statement that the proposed plan of organization is valid for existing conditions, as well as for any normal increase in size or complexity of the business? Has authority been properly delegated within and between the various departments? Should the sales activities of the two businesses be separated, as recommended by the consultants, or might the activities be combined with a resultant lower cost? Since both businesses are known by a similar name and sell similar products, should the sales promotional programs be interrelated? By using the organization charts, trace the progress of such a combined promotional program from the original inception to the time of its completion.

74. MOUNTAIN STATES SUPPLY COMPANY—DEPARTMENTIZATION OF SALESFORCE

The Mountain States Supply Company, located at Denver, Colorado, was incorporated as a wholesaler of butchers' supplies and refrigerating machinery. It was the western distributor for two large manufacturers of refrigerating machines, a manufacturer of a well-known line of household refrigerators, a manufacturer of maple meat blocks, a manufacturer of electric meat choppers, and a manufacturer of cork board, which was used as an insulating material in refrigeration. In addition to the above products, the company handled a complete line of butchers' and packers' supplies, consisting of lard pails, scales, slicers, cutlery, spices, prepared meat curing and seasoning compounds, butchers' clothing, and all kinds of slaughterhouse equipment. A factory was maintained in the same city for the manufacture of sectional cooling rooms and refrigerator display counters. Most of the products sold by the company were nationally advertised and well known among the trade. Two private brands were used, however, which were advertised in the Rocky Mountain section and for which there had been built up a potential demand. The "Daisy" brand was applied to a certain prepared binder flour used in making sausage and also to certain prepared seasonings used in flavoring sausage, hamburger, and bologna. The "Denver Special" was used to designate a line of knives, cleavers, and saws which were made up and branded for the Mountain States Supply Company by a large eastern cutlery firm.

Because of the different classes of buyers to whom the several products appealed, and also because of the decrease in the sales of butchers' supplies which had been evident for several years, the company was contemplating strengthening the sales organization either by departmentization of the salesforce or by increasing the number of salesmen and subdividing the territory into smaller districts.

The company sold its products to small as well as to large meat markets, chain stores, restaurants, hotels, institutions, packing plants, and ice and cold storage plants. The salesmen frequently called on contractors and architects for hotels, apartment houses, and institutions since these people many times purchased the original equipment for such buildings. Butchers' supplies had usually comprised about two-thirds of the company's total volume of sales, which fluctuated around $600,000, but in the past years the sales of butchers' supplies had fallen off considerably, while the refrigerating machinery sales had increased from slightly more than one-third of the total to over 50%.

The territories of the two full-time salesmen included the following counties, all in Colorado:

DENVER DISTRICT:
Mr. A. C. Moore:
Denver County — Jefferson County (west of the city of Denver)
Mr. L. I. Case:
A. Northern Colorado:
Boulder County — Weld County
Larimer County
B. Southern Colorado
Arapahoe County — Jefferson (South of Denver City)
Douglas County — Pueblo County
El Paso — Teller County
Fremont

The three part-time salesmen working on straight commissions covered the remaining territories in this area.

Mr. R. T. Wellman (Moffat territory):
Rio Blanco County
Routt — Clear Creek
Jackson — Gilpin
Grand
Mr. A. O. Johnson (San Juan Valley):
Ouray County
San Miguel — Montesuma
Dolores — La Plata
San Juan — Archuleta
Hinsdale
San Juan County, New Mexico
F. C. Cameron (Eastern Colorado):
Elbert County
Lincoln — Cheyenne
Kit Carson — Kiowa

The two full-time salesmen called upon their customers once every two weeks, Mr. Case spending one week in northern Colorado and the next in his southern territory. The three part-time men reached a customer only once in two months.

The other three territories, Western, Southern, and Northern were each covered by one full-time salesman who worked out of the central office at Denver.

WESTERN TERRITORY:
Mr. S. R. Emmett:
Counties in Wyoming:
Albany — Sweetwater
Carbon — Uinta
Counties in Utah:
Box Elder — Summit — Utah
Cache — Salt Lake — Wasatch

Rich	Tooele	Carbon
Weber	Juab	Emery
Morgan	Pete	Grand
Davis	Sevier	Uinta

Counties in Colorado:

Mesa	Lake	Gunnison
Delta	Summit	Chaffee
Garfield	Park	Montrose
Eagle		

Counties in Idaho

All counties including and south of Idaho County

SOUTHERN TERRITORY:

Mr. C. H. Costello:

Counties in Colorado

Huerfano	Otero	Rio Grande
Las Animas	Bent	Costilla
Saguache	Baca	Conejos
Custer	Prowers	Mineral

Counties in New Mexico

All counties in New Mexico with the exception of San Juan County

NORTHERN TERRITORY:

Mr. F. B. Bonney:

Counties in Colorado:

Adams	Logan	Phillips
Morgan	Sedgewick	Yuma
Washington		

Counties in Wyoming:

Laramie	Fremont	Johnson
Platt	Park	Crook
Converse	Big Horn	Weston
Natrona	Sheridan	

Counties in Nebraska:

Kimball	Morrill	Box Butte
Cheyenne	Scottsbluff	Dawes
Bonner	Sioux	

Counties in South Dakota:

Butte	Pennington	Fall River
Lawrence	Custer	

Counties in Montana

Approximately all territory south of a line running east and west through Great Falls, Montana

All of the salesmen were under the supervision of the sales manager and an assistant in the main office. The sales manager was fairly well acquainted with each of the several districts, as he had at one time traveled the entire territory. All salesmen traveled out of the home office and consequently were able to discuss the prospects in their respective territories with the sales manager and outline their trips before going out on the road. The frequency of covering their respective territories was left

almost entirely to the discretion of the salesmen, as the sales manager was confident that each man knew best the local conditions in his territory.

The sales of refrigerating machinery were decidedly seasonal, since from 75% to 85% of the total annual sales were made during the first six months of the year. The yearly volume of sales followed business conditions, which in turn were dependent on agriculture, stock raising, mining, and allied industries. With the exception of slight variations due to changing business conditions, the demand for butchers' supplies and market fixtures seemed to be fairly constant throughout the year. However, the sales of the Mountain States Supply Company in these lines were greatest during the late summer and fall. It was quite natural that salesmen neglected the butchers' supply business during the spring season, when refrigerating machinery was in demand. A single order for a refrigerating machine might amount to from $1,000 to $10,000 or higher, while the average order for butchers' supplies amounted to $5 or less.

In considering departmentization of the salesforce, it had been proposed that one group of salesmen handle butchers' supplies and market equipment throughout the several districts and another group of two or three salesmen specialize on refrigerating machinery. If such a plan were adopted, there would be many difficulties to be overcome. In the first place, there would be a considerable increase in selling expense, and it was a question whether the increase in sales of butchers' supplies would be sufficient to overcome the expense of covering the large sales districts at more frequent intervals. Then, too, there was the difficulty of having two salesmen cover the same territory selling different products. Quite frequently the two different classes of products appealed to distinctly different classes of customers. It was equally true, however, that many meat markets and restaurants were interested in refrigeration as well as in other equipment and supplies. A third consideration might be the jealousy and dissatisfaction which might grow up between the two groups of salesmen. A salesman selling butchers' supplies might practically sell a refrigerating machine to one of his customers merely through frequent contact or because of the confidence of the customer in anything the salesman handled. If a specialty man was then called upon to secure the customer's contract and was successful, both salesmen would be entitled to part of the credit for the sale. It would be necessary to work out some method of handling the credit for such a sale to avoid internal dissension.

On the other hand, provided such a plan was adopted, there would be the possibility of increasing the sales of both butchers' supplies and refrigerating machinery. It was also true that more frequent calls on the

customers throughout the territory would produce a closer contact between the house and outlying territories.

Another alternative under consideration was that of subdividing the territory into smaller sales districts, increasing the number of full-time salesmen, and continuing to have each man sell the Mountain States Supply Company's complete line. This plan would also enable salesmen to visit their customers more frequently. Resident salesmen located at strategic points throughout the territory would cover the more remote districts. Such a plan would require about four additional salesmen, and these new men would have to spend about four months in and out of the home office in training, traveling part of the time with the older and more experienced salesmen. In this way they would become acquainted with the entire line and learn the methods of figuring the many different kinds of refrigeration requirements which might be encountered. These combination salesmen would not only have to be the order-taking kind, who might be able to solicit supplies, but they would also need to have a certain mechanical knowledge in order to obtain the confidence of their prospects and convince them of the advantages of certain equipment which they proposed to furnish.

The adoption of this plan was certain to increase the selling expense quite substantially for a year or so, but certain members of the organization were confident that the eventual increase in sales would more than be sufficient to overcome this added expense. It was probable that the outlying territory could be subdivided so that each salesman would have fairly equal opportunities.

There were some others in the organization who did not believe that any such plan would ever work out. They thought that it would not be possible to hire combination salesmen of the necessary caliber at a nominal salary. They also believed that if high salaries were offered, the salesmen would get in a rut sooner or later and not continue to push the butchers' supplies. It had usually been found that a high-salaried man would direct all of his efforts toward high unit sales and neglect the small business in his district.

Should the Mountain States Supply Company departmentize its salesforce according to the type of product sold? Should it increase the salesforce, subdivide the territory, and allow each salesman to handle the complete line?

QUESTIONS

1. The Flower Company, a wholesale grocery firm, sold most of its canned goods, bottled goods, coffee, and tea, and some of its cereals under its private brand. It did no advertising until 1923, when it made certain expenditures for newspaper and streetcar

advertising, which it later decided had not reached consumers effectively. It was proposed that the company establish a sales promotion department under the control of one of its salesmen who had had experience in the retail grocery trade. The department was to carry on selling work in the form of direct-mail advertising and the preparation of seasonable literature, recipes for serving the products, etc., in cooperation with selected retail grocers. Members of the sales promotion department were personally to solicit orders from prospective customers, the orders to be filled by the retail grocer who had supplied the name of the purchaser. It was believed that the sales department could secure new customers as well as determine the public's attitude toward Flower products. It was estimated that, in addition to the salary of the sales promotion manager, four young men at a salary of about $25 per week would be required to carry on the work. Should the department have been added?

2. The Daly Company manufactured laundry and toilet soaps and special preparations, specializing upon comparatively few products: one a soap flake for washing fine fabrics, another a quality laundry soap, the third a dye soap. These, with two or three other products, all of which were widely advertised, made up the line.

The entire output had been sold through manufacturers' agents in New York, who had charge of the advertising and who had been successful in creating a nation-wide market for at least one of the products. They bought products, maintained their own sales organization, selling through jobbers to the retail trade; but orders they secured were turned over to the factory, and shipments were made direct to buyers.

In July, the general manager of the Daly Company was apprised of the vote of the board of directors that the contract with the manufacturers' agents, which would expire by limitation October 1, was not to be renewed; further, that the Daly Company was to establish its own selling organization, to begin operations three months later. The salesforce would have to be large enough to call upon jobbers and to make missionary calls upon retailers. The general manager was asked to make recommendations for the position of sales manager.

After his appointment, the sales manager was requested to submit a brief plan of the work required before organizing the new sales department. He found that no information, other than a list of customers and credit ratings, could be secured from the selling agents. These lists revealed the fact that Daly products were sold over the entire United States, one of them through practically 70% of all grocery outlets.

What steps had to be taken by the general manager in locating a suitable candidate for the position of sales manager? Outline the necessary steps for the creation of a new sales department within the time limit.

3. Should governmental authority encourage the setting up of cooperative selling organizations among the manufacturers of related lines serving the same market? For instance, a group of manufacturers making house furnishings might operate through a single sales department or agency which would have charge of selling policies and programs. Costs would be shared in agreed proportions.

4. Three companies which sold branded products in the grocery field were contemplating a merger. Each had had a satisfactory history of growth and earnings. Their financial conditions were strong, and their managements were capable. The sales organizations of the three companies were as follows:

Red Star Foods, Incorporated. Line consisted of two salad dressings, four relishes and two sandwich spreads, all sold under Red Star label; 1929 sales were $4,500,000 of which 40% was mayonnaise; plant and sales office located at Rochester, New York; bulk of distribution by wagons was to retailers in largest eastern cities; some sales were made

through jobbers in other areas; 100 salesmen-drivers were employed, who made 25 calls a day, one call a week on each customer; sales to chains were handled by executives; 5 field supervisors were used; advertising was confined to newspapers and simple dealer helps.

Seaton Brothers Company. Line consisted of two toilet soaps, two laundry soaps, two flaked soaps, a washing powder and a cooking oil; all products were sold under different brands; 1929 sales were $35,000,000; plant and sales headquarters located at Chicago; distribution was 85% to retailers and 15% to jobbers; there were 700 regular salesmen, 25 jobber and chain store salesmen, 30 industrial user salesmen; 75 men were on sampling and window display work; salesmen called on retailers once a month, averaging 14 calls a day; there were 4 divisions, 15 districts, and 45 field supervisors; advertising in newspapers and national periodicals was confined largely to toilet soap, flaked soap, and the cooking oil; warehouses were owned in the largest cities, space was rented in others.

Northwest Milling Corporation. Line consisted of three breakfast cereals and seven flours; all sold under different brands but tied together by use of Northwest name; 1929 sales were $42,000,000; mills were located in Minneapolis and Kansas City, main sales office was in former city; sold to jobbers, chains, and industrial users; 250 salesmen called on jobbers and did specialty work among retailers, 30 salesmen specialized on industrial users; retailers were called upon two to four times a year, jobbers ten times; salesmen averaged 12 calls a day; territory was divided into sales divisions; national advertising was confined to two cereals, one pastry and one pancake flour; warehouse space was rented at strategic points.

What organization measures should have been taken had the merger plan been adopted? Would it have been possible to dispense with two of the three sales organizations?

5. The Hempstead Company manufactures loose-leaf devices and filing equipment. The salesforce operates under the direct supervision of district managers with sales offices in 60 cities. Four factories are operated; one in Springfield, Massachusetts; one in Grand Rapids, Michigan, the location of the first factory and present location of executive offices; one in St. Louis, Missouri; and one in San Francisco, California. These serve their surrounding territories, division being made on state lines. The company is considering the decentralization of its sales organization along similar territorial lines, each division to be placed in the charge of a division manager. It is hoped that this decentralization will bring about more intensive cultivation of territory, which will, in turn, require an enlarged salesforce. It is proposed, also, to add a research and development department, the province of which will be to seek out new and hitherto unconsidered lines of business, determine their needs and the ways wherein the company's equipment can be made to serve them with the highest degree of efficiency. What action would you take with reference to the new division of territories and the addition of territorial managers? Would it be advisable to establish executive offices in Chicago or New York or at some other point?

6. A company manufacturing cosmetics does an annual volume of business amounting to $500,000 in items retailing at from 5 cents to 25 cents each. Fifty-five per cent of its products are sold through the Woolworth stores, other chains taking the remainder. What type of sales organization is required?

7. A steel company has recently announced its reorganization into five main sales divisions headed by a vice president in charge of sales. Under him are the divisional managers, whose titles are manager of sales of the alloy division, manager of sales of the bar division, manager of sales of the pig iron and by-products division, manager of sales

of sheet and tin plate division, manager of strip sales. Would it not have been more logical to assign duties and titles on an industrial basis, having sales managers in charge of automobile, railroad, and industrial divisions?

8. Should a manufacturer of medium-price women's suits and cloaks establish a sales office on Fifth Avenue, New York? Which of the basic forms of organization should be chosen for the sales department?

9. In what respects do the qualifications of sales managers differ from those of other sales executives?

10. Which type of executive experience best fits a man for being chief marketing executive of a company, experience as an advertising manager or experience in managing sales personnel?

11. What determines the establishment of special departments within an enterprise for such functions as research, sales promotion, or advertising?

12. List the sources of sales executive personnel in the order of their desirability.

13. Under what conditions is a manufacturing enterprise justified in locating its sales headquarters elsewhere than at the plant?

14. Is it essential that a sales manager be a better salesman than any of his subordinates? Should a sales manager be able to go out into the field and outsell any member of his salesforce?

15. How may a sales executive determine the number and type of subordinates required in the headquarters staff?

16. Under what conditions does the volume of sales determine the size of the sales organization?

17. How can separation of planning and performance be applied to the building of sales organizations?

18. Given a product and a method of distribution, how can a sales organization be shaped to fit the financial resources of a company?

19. Given the character and volume of products to be sold and limited financial resources, how are methods of distribution to be chosen which will permit of an efficient sales organization?

20. What fundamental differences exist between organization problems of large concerns and those of small ones?

21. Should a policy of departmentization of salesforce be carried out uniformly throughout a sales organization? What are the limits of departmentization?

B. RELATION OF THE SALES DEPARTMENT TO OTHER DEPARTMENTS

As a part of the business enterprise, the sales department must work in harmony with advertising, export, research, credit, production, and other departments. In practice there is a great diversity among business concerns with respect to the relation of these departments to the domestic sales department.

Advertising. The early development of an intensive study of advertising methods led frequently to the establishment of advertising departments coordinate with the selling departments devoted to other types of sales activity. One of three locations for the advertising department is usually chosen, namely, (1) a position coordinate with the sales department, (2) as part of a separate, more inclusive, department; (3) as a section of the sales department. There is no valid reason, except that of personality, why advertising should not be considered as part of the general marketing organization. The sales or marketing manager should not devote his time exclusively to the use of any particular sales method; he should correlate advertising, personal salesmanship, correspondence, and other methods. If the chief sales executive is capable, it would seem that there would be a distinct advantage in having advertising carried on as a subdivision of the general sales department.

Export. The export department is logically a selling department. The means that it adopts to attain sales are, in general, of the same types as those used in the domestic market. However, it is evident that much of the information with which the domestic sales manager is equipped to deal with domestic problems does not come as a matter of every-day experience to the export sales manager. The difference in details in domestic and foreign business practice has led many concerns to segregate the export department. If the export department is to be a part of the general sales department, the chief sales executive must be a man of broad mind and large capacity.

The concern which is entering a foreign field and finds it necessary to engage in functional specializations is usually compelled to adopt more or less definitely one of two general plans of organization: (1) that termed a "built-in" export department, where there is clearly the assumption that greater homogeneity is obtained by specialization according to functions than by specialization according to the area in which functions are to be performed. In such an organization the export operations are regarded as essentially sales operations of a nature similar to other domestic operations, and the functional executives, such as advertising manager, credit manager, shipping clerk, should be responsible to the limits of their capacity for both export and domestic sales operations. (2) The separate export department, which may be located in the business concern as a section of the general sales department but which frequently is independent and coordinate in authority with the general sales department. It is obvious that such a department provides the means for greater specialization, which may or may not be an advantage.

One question which continually faces the house in establishing a separate export department is the relation of the export department to the

domestic sales department. With a sufficiently broad-minded general sales executive, combined export and domestic sales departments should be so managed as to bring about better results as a whole than is the case where the two departments are separate. Wherever there is segregation, there is the necessity for careful coordination of activity. The fact that foreign trade may be looked upon as a stabilizing factor, as a compensation in dull domestic times for decrease in domestic business, brings with it also the danger that in a boom market in the domestic field the export trade will be deprived of proper supplies by action of the domestic sales department. Long-run policy necessitates consideration of customers' goodwill in the foreign field, as in the domestic field. The related problems of the export and production departments are always important because of the necessity for securing prompt delivery. While the export department often feels that it should be able to control the type of product manufactured for export, there is clearly the necessity for compromising between the sales attitude and the manufacturing point of view.

Sales Research. In the development of the functional specialization in the sales department, the separation of planning and performance has led occasionally to the segregation of research activities. The task of planning routine types of work is often placed in a subdepartment of the sales department, which is given the title of sales research or sales statistics department. In its broadest aspect, the sales research department includes all research and planning activities which deal with marketing; in its narrowest sense it includes merely the section of the sales department which is devoted to the handling of inquiries, follow-ups, etc.

Credit. The relative importance of the credit and sales departments is a subject of controversy. One of two organization policies characterizes most firms. First, the credit department may be placed entirely outside the control of the sales department. Such action is justified on the ground that, in those matters affecting the finances of the concern, the credit department should be operated by officials who will not be biased by any effort to expand the volume of sales. Under the second method, the credit department is placed within the sales department, so that the credit and selling sections coordinate activities through the superior sales official. This disposition of credit control is based upon the assumption that the functions of the sales department include not only the taking of orders but also the delivery of goods and the securing of payments for shipment.

Production. The sales department of which the salesman is a member has the responsibility for effecting distribution of the goods purchased and manufactured in such a way as to bring net profit to the business, but the sales department is not the only one upon which the making of profit

depends. It is true that, unless goods are sold, no profit can be realized, but it is just as true that, unless goods are bought or manufactured, they cannot be sold.

Friction often arises between the sales and production departments. In many organizations the production department does not understand the needs and problems of the sales department, nor does the sales department understand the fundamentals of good production management. It is the function of the production department to produce the goods which the public needs and wants and which can be profitably sold by the sales department, but the task of determining what the public needs and wants is sometimes a very difficult one. It is often necessary for the sales department to go to much study and expense to determine whether a proposed product is in sufficient demand to warrant its production. The sales department must not forget that production efficiency and low production costs are frequently much more important than slightly decreasing sales resistance by catering to purchasers' whims in the matter of special orders.

To some extent the necessities for coordination of sales and production may affect sales organization. The organization measures which have been adopted by particular concerns vary. In large organizations, special officials with various titles may be appointed whose duty is primarily that of contact with various departments and coordination of efforts. They are frequently staff officials. Another method of attaining such coordination is a committee arrangement, whereby, through conferences and meetings, members of the production, sales, and financial departments of a business meet to discuss problems which affect two or more phases of activity.

Traffic and Shipping. Traffic and shipping departments have not been assigned by common practice a definite position within the modern business organization. Most concerns have adopted one of three general plans: (1) the traffic and shipping departments are sometimes placed under the control of the production department, because it is said that physical operation of shipping is more analogous to manufacturing operations than to other phases of the business, and the shipping and traffic departments must act not only in connection with outward shipments but also in connection with inward shipments; (2) the traffic and shipping departments may be placed within the sales department, a position which is defended on the ground that selling operations include not only actual order-taking but also the delivery of finished goods; (3) these departments may be segregated in a distinct department, coordinate with sales and production.

Purchasing. Within a manufacturing organization the purchasing department is ordinarily independent of or connected with the production

department, because the bulk of purchases and most purchasing activities are concerned with material, supplies, and equipment for manufacture, rather than for selling. In wholesale merchandising, however, the purchasing department occupies a position similar to that of the production department in a manufacturing enterprise. The purchasing officials in wholesale concerns have been ordinarily the selling as well as the buying heads of their respective departments; consequently, the management of sales by buyers has become the accepted practice, although there is evidence that departure from accepted practice is growing more common.

Financial. Since both manufacturing and sales require capital, particularly working capital for pay roll, the question of the relationship between financial and sales departments becomes important. The financial functions of a business enterprise are usually controlled by an officer who is a member of the corporation or an appointee of the board of directors, who, as an expert, assists in, and acts as a check upon, operations of both production and sales departments. It is evident that the policies and methods of the sales department with respect to credits and price will be circumscribed by the financial conditions of the enterprise and the officials in charge of finances. The coordination of financial and sales departments may be effected through the personal relationship of officials. Many concerns find it advisable to effect coordination of financial and sales departments by committee organization; staff officers are sometimes assigned duties of coordination; under a budget system, the financial coordination of efforts rests with the budget-approved official or committee.

75. RINDGE STOVE COMPANY—DISCONTINUANCE OF ADVERTISING DEPARTMENT

The Rindge Stove Company, incorporated in 1886 for the manufacture of gas ranges, secured national distribution through manufacturers and distributors of illuminating gas, who sold the ranges in order to increase the consumption of their product. Sales in recent years approximated $2,000,000. Arrangements had also been made for outlets, principally furniture and general merchandise stores, in territories where there was no competition with the gas manufacturers through whom distribution originally was effected.

The Rindge Stove Company was planning to engage in an aggressive advertising campaign. Twenty-five thousand dollars had been appropriated, and the services of an advertising agency had been retained. In view of this fact, it was suggested that the company's advertising department be discontinued.

The company had not advertised in former years, but it had maintained an advertising department composed of three men and seven girls, with a total pay roll of $17,000 a year. One function of this department was to answer inquiries from retailers or consumers concerning the company's product. This required one-fourth of its time. The principal function, however, was to create distributor goodwill by preparing advertising copy to be furnished to the retailers free of charge; each retailer was to defray the expense of inserting it in local newspapers.

It was suggested that since the advertising agency was to be retained, the entire burden of the advertising should be delegated to it. The company, moreover, had confidence in the agency, and it was unnecessary to have more than one check for the purpose of controlling its activities. The preparation of advertising copy for use by retailers, however, could not be done so satisfactorily by the agency as by the advertising department. The relationship, moreover, which was maintained with the distributors and consumers through the answering of inquiries could not be continued by the advertising agency, since it did not possess sufficient knowledge of the company's equipment to enable it to take over this function. It would be necessary, therefore, if the department was discontinued, to retain two clerks at a cost of approximately $3,000 to perform this service.

It was estimated that the cost to the company of placing a definite quantity of advertising was the same whether or not the services of the agency were retained since the agency derived its profits from commissions paid by publishers in consideration of the volume of advertising which it secured. Although the agency was made up of men trained in the field of advertising, valuable ideas had been contributed by the company's advertising department. A combination of the knowledge and experience of the two seemed desirable.

Should the company have maintained its advertising department? If so, what should be the functions of the advertising manager?

76. WHEELER MANUFACTURING COMPANY—ORGANIZATION OF EXPORT DEPARTMENT

For some time the Wheeler Manufacturing Company had been considering the advisability of organizing a separate export department instead of continuing to handle its foreign trade business through its domestic sales department. The whole matter was precipitated when Mr. Baker, the export manager, walked into the president's office and said:

Last week our credit department lost $31,000 worth of business by refusing to accept orders from two of our oldest and most reliable customers in Cuba. Today I received cablegrams from both these houses asking us to close their accounts at once. You know as well as I do that this is not the first time this sort of thing has happened. At a time when we need orders the most, other departments are driving business away. Until we organize a separate department, it will be impossible for us to build up a permanent foreign business, and I might just as well be out playing golf as wasting my time around the office.

The president immediately called the credit manager on the telephone and was told that these two customers had paid only a small part of the amounts due on their last shipments, and to allow any more orders from them to be approved would be "throwing good money after bad." The export manager said that the customers had given their word that they would pay up at a later date and that the orders should have gone through without any difficulty. He asked that the question of establishing a separate export department be considered by the executive committee at once. A meeting was consequently called by the president for the following day, and Mr. Baker was asked to attend.

At this meeting of the executive committee the sales manager, general manager, and export manager were present. As soon as the preliminaries were over, the president asked the export manager to state his views as to the advisability of establishing a separate export department. Mr. Baker said:

Gentlemen, our company is one of the best known manufacturers of hinges, window catches, door latches, window pulleys and other builders' hardware in this part of the country. Originally, our company was small and filled only local demands. Its sales and production departments were organized accordingly. Now we have expanded, established two branch factories, and secured national distribution of our product. In the old days when the home market was glutted and we could not dispose of our stock here in the United States, we got in touch with an export commission house in New York City and arranged to sell our surplus in other countries at any price it would bring. Then our foreign trade consisted of dumping the company's surplus products in foreign markets; our export business was small and quite naturally it was handled through the sales department. Credits, routing, packing, and shipping of foreign orders were handled by the same departments that handled the domestic credits, traffic, shipping, and packing. Now, however, our company has an annual sales volume of over $3,000,000, and our exports constitute one-third of this business. Our sales department still maintains its old attitude of regarding the foreign field as a dumping ground. Our company has not established permanent connections with our customers in foreign countries, and it has made but little attempt to study and develop that field.

Today we need more business in order to operate our plants efficiently. Our production manager bears me out in this statement. The domestic market is becoming more and more nearly saturated, but to develop a foreign business we must use different methods from those that we use in this country. We are attempting to break away from export commission houses and to establish our own salesforce in the field. The men whom we send out are trained and equipped no differently from the men we send

out in the United States, although they must face entirely different conditions. A number of our customers have been unnecessarily offended by the blunt attitude taken by our credit department, which has treated our foreign customers in exactly the same manner it has treated our American clientele. The president has told you of the orders and customers that we lost last week. Shipments are often packed without sufficient care or careful checking, and we have lost other customers through failing to have our goods arrive on time. The only way that we can build up a foreign business and hold our customers after we have spent time and money in securing them is to organize a separate export department to specialize in this trade.

After the members of the executive committee had asked a few questions and had satisfied themselves that an export department could be established without bringing in any outside men except those needed to increase the salesforce in the foreign field, they asked the sales manager, Mr. Walker, to state his views. Mr. Walker said:

The largest part of our business has always been in America, and it is our domestic business that has been most profitable. I don't need to bring up examples of foreign shipments on which the company has been forced to suffer a loss. We have in the past shipped goods to Brazil, and our customers have refused to accept them after they arrived because they could buy at a lower price from German and English competitors. It is true that they said our shipments were short and that some of our goods were defective, but these shipments were exactly the same as those we had sent before on which no objections had been raised. Americans are quicker to take up improved products and better ways of doing things, but in almost every case foreigners must be educated to appreciate improvements. They like the old patterns that we put out 10 years ago. Furthermore, our foreign customers are fussy. They think they must have something a little different from our standard stock. In order to satisfy them, we have had to turn out special orders at such a cost that we have been able to realize only a nominal profit on many of our shipments abroad.

If we are to organize a separate department to handle the granting of credit, routing, packing, and shipping of our export orders, it means duplication of effort and increased cost. For the past three years we have been doing everything possible to cut down our overhead. Certainly we cannot reduce expenses if we are going to organize a department which is to handle identically the same work that is taken care of by our present departments. Our present system has worked very well. We have shown an increase in sales volume for the past 11 years, through periods of prosperity and of depression. This company was founded to build up an American business, and only when we have had a surplus have we disposed of it abroad. I believe that we ought to continue our present policy of developing that portion of the business on which there is the greater rate of profit and not waste our time trying to sell to foreigners who nine times out of ten do not know what they want.

Would it have been advisable for the Wheeler Manufacturing Company to establish a separate export department? Would the decision have been altered if export credits were to be continued in the control of the domestic credit department?

77. MORGAN COMPANY—COORDINATION OF SALES AND PRODUCTION DEPARTMENTS

Not infrequently, manufacturing enterprises have been involved in serious difficulties because of lack of coordination of sales and production. This coordination must rest upon a satisfactory adjustment of sales and manufacturing effort, so that the product sold is satisfactory in both quality and quantity. There must be clear recognition on the part of the sales department of the advantages of mass production. On the other hand, the attempt of the production department to dictate to the sales department overlooks the obvious advantage the sales department possesses in enlarging market demand.

The Morgan Company, with plants in Newark and Buffalo, manufactured drop-forgings. Manufacturing was in the charge of a vice president under whom were the works managers. The distribution of the products was handled through the central organization in Newark by the vice president in charge of sales. Owing to the fact that both officials possessed strong personalities, there had been considerable friction between the production and sales departments. In the fall of 1920, when profits dropped and inventories seemed to pile up suddenly, a careful examination was made of the character of inventory. Analysis showed that for various items, of which six or nine months' supply would have been ample, there were supplies, as measured by the average sales of the preceding five years, sufficient for many years. Exhibit 1 illustrates a stock of a few sizes of drop-forged wrenches. These wrenches were kept in stock in the "rough" (that is, after they had been forged and trimmed). They were also kept in stock and sold in "unfinished" condition, after undergoing milling and heat treatment. Further, they were stocked and sold in semifinished and finished conditions, which were merely two grades of polishing.

EXHIBIT 1

MORGAN COMPANY—INVENTORY OF SEVEN SIZES OF DROP-FORGED WRENCHES

Item Number	Supply of Unfinished	Supply of Semifinished	Supply of Finished
145	None	18 months	6 months
146	19 years	1 month	3 months
147	5 years	10 months	6 months
148	2 years	5 months	18 months
149	3½ years	1 year	2½ years
150	32¼ years	1⅔ years	2 years
151	80 years	7 years	6 months

The ordering of these wrenches was in the hands of a middle-aged man who had been in the employ of the company for 10 years or more. He had a good memory and was thoroughly familiar with all the details in regard to sales and manufacturing. Though he kept records in various books, which were so complicated that they were always a month or two behind, the placing of orders was based on his memory and judgment. Upon one occasion the stock of a certain wrench had been exhausted, and the matter had been brought to the attention of the manager by the sales department. The manager had reprimanded the order clerk, and when the order clerk went back to his desk, he had made up his mind that they would never catch him again on that wrench. Therefore, he placed orders for large quantities without realizing that the usage of this item was decreasing. This may also have been the cause of some of the overstocking of certain other items. In other cases this man's judgment might have been correct when he placed an order, but a new wrench which better satisfied the needs of the buying public might have been introduced later by his own firm or a competitor, thus rendering the older product obsolete.

Still another cause of overstocking was that the foreman of the hammers was allowed to do very much as he pleased. If an order was placed for 5,000 wrenches and he found on completion of the 5,000 that he had enough bar stock on hand to make 2,000 more, he would go ahead and forge them in order to clean up the odd lots of bar stock. Of course, he knew nothing about the demand for these wrenches.

A little study showed clearly that the economies realized by the foremen through economical runs were much more than offset by the expense of storage, interest, insurance, and depreciation which had to be carried on these items at a time when there were many other demands for this capital. While the unusually strong financial position of this company would probably have enabled it to stand the strain, the board of directors determined that some arrangement had to be made whereby reasonable coordination of sales and production would be secured.

The directors realized that the organization should adopt certain measures to reorganize the stock system, but they felt that the necessity for coordination should be emphasized also by a change in organization directed toward filling the gap between production and sales departments. Two suggestions were offered:

1. The appointment of a coordinating official, who might be a merchandising manager having charge of specific stocks or lines, getting contact with the sales department through meetings with sales officials and through actual contact with customers on the road; in other words, a man who should have charge of stocks and approve all orders involving increase in stock or change in specifications from standards adopted. The presi-

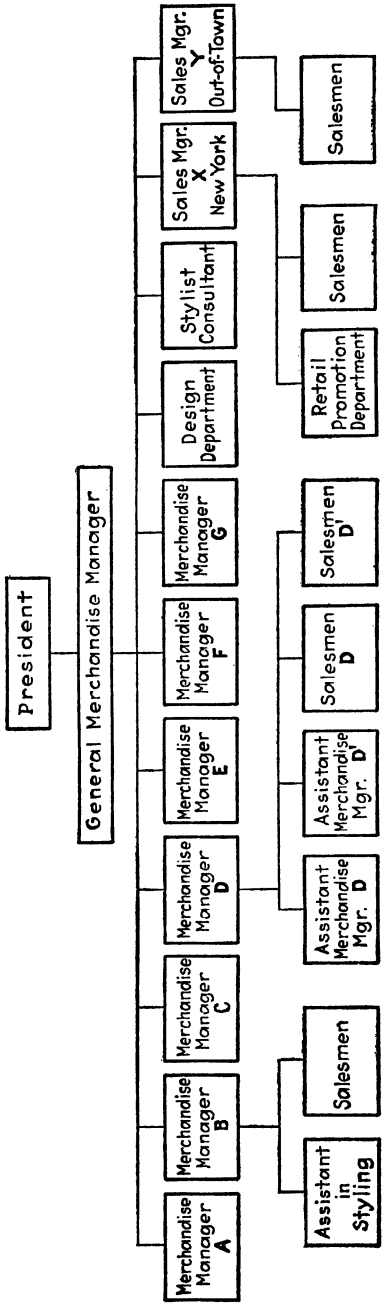


EXHIBIT 1.—Tugg Hill Company. Marketing organization.

dent suggested, however, that this coordinating official be made a staff assistant to the president, reporting directly to him, and transmitting orders as orders of the president to the officials concerned.

2. That increase of stock limits and changes in specifications or addition of new products be made subject to committee decision, the committee to consist of the production manager and superintendent, the president, and the sales manager.

Which plan was preferable? What other measures were required to bring about a healthy condition?

78. TUGG HILL COMPANY—ORGANIZATION FOR MERCHANDISING

The Tugg Hill Company produced seven classes of textile products—plain cottons, printed cottons, percales, plain rayons, printed rayons, specialty fabrics, and shirtings, both plain and fancy weaves. The organization of the company as shown in Exhibit 1 was somewhat more complex than that of certain other companies which produced as wide a variety of products. No one principle of departmentization was followed throughout. The general merchandise manager headed the product organization. Reporting to him were seven merchandise managers, two sales managers, a staff design department, and a style consultant who served several of the merchandise managers. For five departments (A, C, E, F and G) mer-

chandising and selling were separate functions. Selling in New York territory for these departments was the responsibility of one sales manager and outside of New York, of another.

The division of merchandising and selling in this instance arose partly from a conflict in interest between the buying habits of customers on the one side and the nature of merchandising specialization within the company on the other. For example, a retailer buying wash goods, wanted to examine both plain shades and prints. In the organization of the Tugg Hill Company one merchandise manager was responsible for plain shades and the other for prints. However, through the sales managers, the two lines were combined, and the buyers could secure the merchandise in the usual manner. In addition, this plan relieved department managers of detailed supervision of salesmen and, from an administrative point of view, caused salesmen to receive instructions from one man instead of from five or six.

The salesmen reporting to the sales managers were either assigned definite territories in which they sold their lines or were given a group of accounts to which they offered one or several lines. Working jointly, the sales managers and the merchandise managers set sales quotas twice a year for each department and for each customer. Regular examination of customer cards which showed current sales by departments was the method used to check the effectiveness of the salesmen who were paid commissions.

In spite of their lack of control over regular salesmen, merchandise managers were accountable to the general management for sales in their departments. If a merchandise manager was dissatisfied with the sales volume obtained by the sales department, he referred the matter to the general merchandise manager, who adjusted the problem as circumstances dictated. The merchandise managers, however, aided salesmen in selling by preparing bulletins, answering correspondence, and going into territories to aid them in securing or handling accounts.

The merchandise managers of the five departments (A, C, E, F and G) had further responsibilities for styling products, purchasing grey cloth, maintaining relations with finishers, setting prices, and controlling inventories. Each merchandise manager was free to order grey cloth within an "open-to-purchase" limit set in the executive budget. Subject to general policies, merchandise managers set prices and authorized mark-downs when they were necessary. Perpetual inventory records of finished stock, stocks in process and in the grey were among the chief records of a merchandise manager. The organization aim of the Tugg Hill Company was clearly to provide independence for merchandise department managers. For purposes of executive control, managers were responsible for sales

volume and net profits on their lines. However, the control of salesmen by the merchandise managers was not considered essential to the plan.

The cases of the remaining two departments (B and D), in which salesmen were directed by the merchandise managers, were declared to be really not inconsistent with this principle of separation of selling and merchandising. The shirting department (D) followed two merchandising policies: one policy involved the production and sale of a large volume of plain shirtings on a price basis; the other, the production and sale on a smaller scale of high-quality fancy shirtings which were not sold on a price basis. The management of the Tugg Hill Company believed that these two policies represented conflicting points of view, so deep-rooted as to necessitate separation in an organization setup. In other words, a salesman who was trained to seek large orders on a price basis was incompetent to present effectively the appeals of the other types of merchandise. Part of the product of the shirting department (D) was therefore sold only to a manufacturing market quite different from that for any other product of the company. In view of the unit of purchase and the annual volume of sales for this product, a separate salesforce seemed advisable. Rather than provide assistants to the sales managers to direct these salesmen, the management assigned the task to the shirting department merchandise manager, a feasible arrangement in view of the fact that he had extra help in merchandising his product. He divided his salesmen into two groups and in addition had two assistant merchandise managers.

The specialty fabric department (B) also appeared to present special problems because the product was of a high-fashion type, requiring a substantial amount of promotional work by salesmen in contact with retailers and high-style cutters. Consequently, the company needed a type of salesman and sales supervision not available in other departments. Moreover, the style problems of this line were not related to others and were therefore separated.

Was the separation of merchandising and selling functions in this organization sound? How should the organization have been simplified?

QUESTIONS

1. Outline the various organization and operating measures which may be used for coordinating the effort of (*a*) sales and advertising departments, (*b*) export sales and domestic sales departments.

2. The sales department of the Fairchild Automobile Company is under the control of the vice president in charge of sales, who is aided by a sales committee. The director of service reports directly to the vice president. Under him are four territorial assistants who are on the road practically all the time, checking up performance of new models and making reports, which are turned over to the engineering department. The

service work necessary, however, when a distributor is having trouble with a new model or is unable to repair a car satisfactorily is performed by six service travelers, operating out of the central office. They are routed to aid all the distributors requesting help but do not ordinarily call upon dealers. This work is left to the distributor himself. At the same time the service director has charge of a traveling mechanical school. Questions have been raised concerning the location of the service department. Should it remain where it is, be transferred to the engineering department, or be placed elsewhere?

3. "It is easily understood, therefore, that the export manager is really a general manager of the foreign division of the business. In order that the export manager secure the best results, he should not be unduly controlled or subjected to the rules and regulations of the domestic executives. He should be given full authority to conduct the export business independently and should stand or fall upon his own record." Do you agree?

4. Should the credit department be a part of the sales department, or should the control of credits be given to the financial department of an enterprise? What organization and operating measures may help to coordinate credit and sales management?

5. To what extent may organization measures provide for the coordination of sales and production departments? If budgetary control is adopted, are organization measures necessary?

6. To what extent should a firm depend upon outside advertising and marketing research agencies for sales research and sales planning?

7. Who should pass upon advertising appropriations? Upon plans for advertising campaigns?

8. To what extent should the financial department operate as a check upon the sales department?

C. FIELD ORGANIZATION OF THE SALES DEPARTMENT

The manufacturer who extends his selling operations into a market beyond his own immediate vicinity soon learns that the control of marketing is much more difficult than the control of manufacturing. Instead of overseeing workers under one roof, he must direct the operations of a group of men of various ranks and degrees of ability scattered over a section, a country, or perhaps the entire world. In the past, members of the sales organization traveling in the field have ordinarily been subject only to long-distance supervision. Printed matter, letters, telephone and telegraph, with only occasional visits of officials, were depended upon to keep the salesforce operating smoothly and efficiently. Today a well-defined tendency toward closer personal supervision is developing. Progressive executives are closely studying the problem of increasing profits by increasing the amount and quality of supervision of field forces, and not a few of them have already begun to reap the benefits of the more economical combination of supervision and direct sales effort.

Whether the field organization consists merely of a limited salesforce with no supervisory officials or of an elaborate system of inferior and superior branches, division and district offices, with hundreds of salesmen, the efficient performance of the selling function is, in most cases, the prime purpose of the field organization. Nevertheless, there are other functions the performance of which has frequently been partially responsible for the development of the field organization. One of these is the desire to develop closer contact with buyers, a policy which occasionally leads to the use of a field organization to replace one or more types of distributors. Many firms have found that an organization of stock branches is advisable for the purpose of meeting the requirements of customers for economical and prompt delivery. Another powerful motive for the extension of field organization is the requirement of expert service in installation, maintenance, or repair for more or less complex products.

The official who supervises the salesmen in the field may be a "foreman" of salesmen, whose prime or sole function is that of overseeing a limited group of salesmen, or he may be a district manager, who may have other responsibilities in addition to supervision of the salesforce operating in his district. Supervisory officials of the first type represent a clear-cut application of the idea of foremanship, universally accepted in factory practice, to the management of the salesforce in the field. While in practice it has been found advisable to give an appearance of greater dignity to the position of sales foreman by calling him district sales director, squad leader, district manager, or the like, there is no uniformity in designation, nor is there uniformity of duties.

The use of sales foremen is justified only if it increases profits through increased sales or lower costs of selling. The use of sales foremen is ordinarily expected to increase sales for several reasons: (1) Because of the improved supervision furnished, there is greater probability that duties of salesmen will be performed more satisfactorily and that waste and expense will be lessened. (2) The work of the sales foreman should bring about better selection and better training of salesmen; as a consequence, salesmen should perform more satisfactory service and be better paid, which should result in a smaller turnover in the salesforce. (3) Sales foremen in large organizations provide a means of obtaining the much-needed contact between headquarters and field force, a contact which, on the one hand, enables the ideas and wishes of headquarters to be transmitted into the field more effectively and, on the other hand, provides for the collection of information concerning conditions in the field and opinions which are of the utmost importance to the correct planning and direction of sales operations by the headquarters staff. Furthermore, the position of sales foreman offers an opportunity for the

promotion of salesmen to subordinate executive positions and, therefore, provides opportunity for determining the qualifications of a salesman for executive work with less risk than if promotion were made directly to more important positions.

The introduction of sales foremanship, through the appointment of either field supervisors or managers of sales offices, may not give the expected results. Not infrequently, when such foremen are chosen from the ranks of the salesmen, they are incompetent or unfitted for the position because they have few qualities of leadership, although they have outstanding selling ability.

The functions of a sales foreman may include the education of field forces through a type of training now popularly known as training on the job; he is ordinarily expected to exercise supervision and control over the salesmen's work, not merely inspecting and checking but suggesting methods of meeting and of overcoming special difficulties; he is also likely to be held responsible for reports. Frequently he may be expected to open new accounts or facilitate adjustments with customers.

The branch organization usually consists of a branch manager, sometimes with assistant and departmental managers, salesmen, and such clerical assistance as may be necessary. Branches range in size from mere offices at which salesmen meet to elaborate organizations having showrooms and carrying large stocks. Wide divergencies in the nature and functions of branches are to be observed, but there is little basis for making broad general statements upon the nature and functions of branches. Upon no other operating problem is there likely to be such agreement as upon the allocation of responsibility in handling branch personnel. The branch manager is in a large majority of cases made wholly or partially responsible for hiring and firing. For this reason, as well as for many others, the selection of the branch manager is of great importance. In much the same manner as the general sales executive, he must direct selling operations within the limitations imposed in such a way as to conform generally to the plans for the development of the enterprise.

The broad question which confronts the chief sales executive as to the establishment of branches is one which is not easily answered. Branches involve substantial outlays of capital and very substantial risks of loss. During the period beginning with 1930 many firms with extensive branch organizations found that they had accumulated large capital obligations and sometimes disastrous fixed charges for rentals and salaries which were not warranted by the earning opportunities of the branches. As a consequence, many branches were discontinued, and other organizations were simplified. If there is any general rule to be applied to the establish-

ment of branch organizations, it is to the effect that the burden of proof is upon those who advocate establishment of branches rather than upon those who oppose such extensions.

79. GARDEX MANUFACTURING COMPANY—DISCONTINUANCE OF SALES BRANCHES

The Gardex Manufacturing Company found it difficult to maintain an adequate salesforce, and considered discontinuing its sales branches and sales organization and selling through independent agents.

The company produced a device, protected by patents, for writing checks so that the amount of the check could not be altered. Although the prices of "Gardex" machines varied with the different models, the most common prices were from $60 to $87.50. The Gardex Manufacturing Company had been among the first to produce a check writer, but there were two competitors who sold similar devices. The "Gardex" check writer was superior to similar devices and had a well-established reputation. For several years the company had been manufacturing lithographed checks which would show erasures and alterations; sales of checks to banks and important industrial companies constituted about 40% of the total sales volume.

There were 75 sales branches, located in the principal distributing centers throughout the United States, and about 350 salesmen. Complete stocks were carried at the branches, and each branch was under the supervision of a manager who had charge of the salesmen in that district. Credits and collections were controlled in the home office, and sales were supervised by a sales manager and sales organization maintained at the home office.

The salesmen were paid a commission of 33⅓% on the sale of machines; the company did not pay their traveling expenses. The company found it difficult to retain its salesmen, because other manufacturers of office appliances and equipment paid higher commissions than those allowed by the Gardex Manufacturing Company. Frequently the company's best salesmen left because they were offered positions with manufacturers who allowed commissions of from 40% to 60% of sales. These manufacturers produced office appliances which were not so well known as "Gardex" check writers and which required greater selling effort. The morale of the salesforce was injured when the superior salesmen accepted selling positions with other manufacturers. It often happened that newly employed salesmen who had been trained at the company's expense and to whom advances had been made left the company for positions with other manufacturers.

It was recommended that the company discontinue its sales branches and its sales organization, and appoint independent agents in the various localities where branches existed. It was expected that in most instances the branch managers would be appointed as agents and that they would retain the existing salesmen. Stocks were to be purchased from the company by the agents, who would be paid a commission on machines of 50% from which they were to pay all expenses. It was expected that they would pay the salesmen a commission of 40%. The commissions for the sale of checks were to be 20% for the agent and 15% for the salesman; these commissions represented only a slight advance over the existing rate of commission for the salesmen. Control over the service rendered to customers was to be retained by the company. The service men employed by agents were to be trained by the company, and the company would require from the agents copies of all invoices for repair work.

It was expected that the office and administration expense incurred by the company could be reduced by about 50%. The company could dispense with the services of all junior executives in the sales organization and of 75% of the clerks necessary for billing and accounting. No expenses for collections and no losses from bad debts would be incurred, and a saving of investment in inventories at branches and in accounts receivable would be realized. It had been necessary, furthermore, to pay state income taxes in many of the states in which branches were located; these taxes would be avoided if independent agents were appointed. A large proportion of the reduction in expense would be counterbalanced by the increased commissions paid. It was estimated, however, that approximately one-third of the savings could be used to reduce prices and to increase profits for the company. One of the chief advantages of the change was the increased incentive to salesmen, provided by the higher rate of commission, to secure a larger volume of sales.

If the branches were discontinued, the company would lose control over the sale of its products. Since the agents were to act independently, the selling methods employed and the prices quoted could not be dictated by the company. Some of the officers doubted whether the salesmen would increase their selling efforts and pointed out that many of them might be less active because, with the increased commissions, they could earn the same salaries as formerly by selling a reduced number of machines. The company was anxious to increase the sale of checks; a high degree of sales resistance had to be overcome by salesmen before they could induce buyers to change from their existing sources of supply. The time spent in securing orders for checks was compensated for by the commission on repeat orders which could be obtained without additional sales effort, but

many of the salesmen, if uncontrolled by the company, might not develop these customers.

Should branches be discontinued?

80. DUNDEE MANUFACTURING COMPANY—LIMITATIONS UPON THE AUTHORITY OF DISTRICT SALES MANAGERS

The Dundee Manufacturing Company was engaged in the production and installation of automatic sprinkler systems. At the date of its incorporation, its paid-up capital had been small. Sales were restricted to New England and were made from the home office. After several years the company was in a position to attempt national distribution; four district sales managers were to be appointed to transact sales within defined territorial limits.

The president of the Dundee Manufacturing Company was in favor of giving each sales manager absolute authority within his district. The four men under consideration had been with the company since its incorporation and were qualified by technical education to represent the company. They were to be paid both salary and commission. The president believed that a sales manager's interest in his company was greater if he was placed entirely on his own responsibility. He proposed, therefore, that these managers have authority to select their own local methods of distribution, to choose their own salesmen, and to locate whatever branch offices they desired. They were to have staffs of engineers and draftsmen; they could select and pay for advertising and conduct whatever sales research they deemed advisable. The product, which was built entirely to order, was to be sold to the district sales managers at cost plus manufacturing profit. They were to fix the price at which the equipment was to be resold within their territories. From the resulting gross profit the expenses incurred by them within their districts, exclusive of their own salaries, were to be paid. The only check upon them was to be in the ratio of expense to net sales and in the net profit which they reported at the end of the year.

Other officials of the company pointed out that if the proposed system were installed, the district sales managers could not benefit from the knowledge and experience of the president of the company. They maintained that the policy of allowing the district managers to fix the selling price was dangerous. It was possible that products might be sold at less than cost. The district managers, however, were to be informed concerning the fluctuations in manufacturing cost and, with their own corps of engineers, were qualified to make profitable contracts.

Another objection was that it was possible for the district sales managers to defraud the company. The president replied that each manager's books were to be checked by certified public accountants, but that, if a man was dishonest, he could cheat under any system which might be installed. A general conference of the district sales managers was to be held at least once a year for the interchange of experiences and discussions of general policies. It was suggested that, if the sales managers were competing with each other to become executives of the company, there was a possibility that instead of interchange of information, each man might guard his valuable knowledge jealously. The president, however, believed that the men under consideration were sufficiently broad-minded to appreciate the value of interchange of ideas.

An alternative plan was to have one general sales manager located at the home office who had charge of the four district sales managers. The president contended that centralized control had its advantages but that he wished to avoid the possibility of a one-man organization. Although each of the four managers was to be paid more highly than ordinary branch managers, the difference totaled was no greater than the salary of a general sales manager.

A further suggestion was that if the district managers were allowed to act independently, credits should be controlled by the home office. Notwithstanding the fact that the district managers were in closer touch with customers, centralized credit control was more impartial and was less expensive.

The management of the Dundee Manufacturing Company decided, therefore, to allow each district sales manager to control all operations within his territory with the exception of credit. Each district manager would canvass his territory through the agency of branch offices, which he established as their location seemed justified.

Was the decision sound?

81. TERRY BISCUIT COMPANY—CONTROL OF BRANCH OPERATIONS

The Terry Biscuit Company manufactured a wide line of crackers and allied products in its several plants located in various sections of the country. The company sold directly to unit and chain grocery stores through its own salesforce. Salesmen in country areas called on retailers once a week or once every two weeks, while city salesmen called on all customers at least twice a week. Salesmen took orders from the store managers even in the case of chains, and delivery was made directly to the stores by the company's trucks. Since many of the company's products

deteriorated rapidly in quality, it was essential that the stocks in the hands of the retailers be fresh. The company had 200 branches throughout the country at which stocks were maintained and from which salesforces worked. At each branch there were from 5 salesmen to 25 salesmen responsible to the branch manager. Each salesman had a definite route and called on all retail grocers in his territory, regardless of the amount of merchandise purchased. The average salesman made from 30 calls to 50 calls a day regularly. The salesmen were paid moderate salaries plus a commission on net sales. Branch managers, who were paid salaries, were responsible for the results obtained by the salesforces and had authority to discharge or hire salesmen as long as the total number of salesmen was not increased without authority. The branches were billed at the list price to retailers for all merchandise shipped to them and were given no gross margin within which to operate. They were considered strictly as an expense by the company and consequently were closely controlled. The branch credit manager, who was responsible to the branch manager, had authority to pass on all credits except those involving large sums, which had to be confirmed by the home office. The choice of quantities and types of merchandise to be carried in stock was also in the hands of the branch manager. Practically all outside purchasing for the branches was done by the general purchasing agent of the company, and all large bills, especially for equipment, rent, taxes, etc., were paid directly from the home office.

The branch managers were directly responsible to the district managers, of whom there were 16; each district manager, with the aid of an assistant, had from 12 branches to 15 branches under his supervision. The district managers were responsible to the general sales manager, who was also a vice president of the company. Several assistants aided him in handling the detail work. In the winter of 1936 the general sales manager complained that he had too much detail work to handle and that he did not have time to give adequate attention to the broader questions of sales policy. The proposal was made that the district managers be made responsible to regional managers who would be located in five different cities of the country. The regional managers, who would live in their territories, would have practically all the powers of the general sales manager and would be responsible to him. Some executives believed that the creation of the regional managers would relieve the general sales manager of considerable detail work and would aid the branch and district offices, in that many necessary decisions could be made more quickly.

The control of the branches was centered chiefly around a report which was submitted monthly to the central office by the branch managers. The report contained essentially an operating statement of the branch for

the month, a balance sheet at the end of the month, and some additional information concerning operations. For purposes of comparison, similar information for the same month the year before and the month immediately preceding was also presented. The same form was used for a report from a branch factory as for a report from a branch sales office.

Six subsidiary reports were also submitted monthly to show in more detail some of the items on the general monthly report. One report itemized the "Incidental Expense" account, which included postage, telephone and telegraph charges, porters' wages, watchmen's wages, etc. Another report showed in detail the items in the "Merchandise Shrinkage" account, which included losses on salesmen's samples, returned merchandise, etc. A detailed report on "Auto Delivery" expenses showed for each truck used by the branch the value of merchandise carried, the number of miles traveled, and detailed expenses. A report on the "Activities of Salesmen" showed for each salesman at the branch total sales, salaries and commissions, ratio of expenses to sales, and the percentage of sales to chains and to unit stores. A "Petty Selling" expense report showed in detail the items in this account, which included sample costs, cost of price cards, etc. An "Inventory Report" showed for the end of the month the merchandise in stock by items, sales for the month by items, and all stock on hand over 30 days. Another report made up every 15 days showed the quantities of merchandise on hand longer than that period.

Special reports were required from time to time if certain phases of the branch operation were not satisfactory. For example, if a branch was selling too large a percentage of low-profit merchandise, a monthly report was required showing sales by items for each salesman.

Each branch maintained, of course, the records necessary to supply accurately the information for the monthly reports. In addition, a customers' record file was maintained which showed total sales monthly to each customer. This information was valuable in setting the volume discounts customers were to receive and also for watching the progress of salesmen with accounts. If any account discontinued purchasing from the branch, the salesman was required to submit a report to the branch manager stating the apparent reason for the loss of the account. The branch manager informed the home office, and one of the general assistant sales managers wrote a letter to the manager of the store attempting to recover the account. The branch managers were required to call on the account personally if it was valuable enough to justify the trouble.

In addition to the reports, another check was maintained on the activities of the branch salesmen. Special salesmen, paid straight salaries

by the central office and directly responsible to the district managers, personally checked the work of the branch salesmen at intervals. The company maintained one special salesman for about every 12 regular salesmen. The special salesman sent to a branch would make a report to the district manager on each salesman after going around the territory with the salesman for a few days or a week. The report would cover the salesman's standing with the trade, the display the company's merchandise was receiving in the stores, the cooperation the salesman was giving the company in pushing special items, and the general effectiveness of the salesman's work. The effort of the special salesmen was not entirely along the lines of police work. It was their duty to attempt to train the salesmen to do a better selling job; this was especially true if the salesman had only recently come with the company. Since the special salesmen were usually chosen because of their successful selling experience with the company and their executive ability, they were usually in a position to train salesmen effectively.

All the written reports were submitted by the branch managers to the auditing department at the home office, which analyzed the data and made recommendations if the figures indicated an abnormal situation. The reports and recommendations were turned over to the sales department, the district managers receiving copies. If the office of regional manager was created, it was also to receive copies.

Every six months the auditing department made a complete audit of each branch, actually checking inventories and other assets. This audit was made by traveling auditors who were thoroughly acquainted with branch operation and who were able to make recommendations for the improvements of operations.

82. BUSSMANN MANUFACTURING COMPANY—USE OF SALES SUPERVISORS TO SECURE ADDITIONAL CONTROL OVER THE ACTIVITIES OF SALESMEN

The Bussmann Manufacturing Company, located in St. Louis, Missouri, produced a complete line of fuses which were used in domestic, commercial, and industrial electrical installations. Previous to the fall of 1927 the company had sold its products through a force of 40 salesmen, located in different parts of the United States. District managers had been stationed in Chicago, New York, Philadelphia, and Boston in order to control the activities of the two or more salesmen who sold in these metropolitan areas. The vice president of the Bussmann Manufacturing Company stated that these district managers had, in reality, been super-salesmen rather than real supervisors and had paid relatively little attention to the regular salesmen under them.

In 1927 executives of the company felt that a closer control over salesmen throughout the country was essential to a continued growth in sales volume and a stable earning record. The sales manager, although he had attempted to keep in constant touch with the salesmen through correspondence, had spent the major portion of his time in St. Louis and had had little real knowledge of what was happening in the field. He received frequent reports from the salesmen showing the number of calls made, the orders taken, the extent of the demonstration made, and other things of this nature, but he did not actually know the manner in which the men were conducting their interviews. Salesmen, in their anxiety to close a deal, frequently made statements which caused prospects or customers to lose confidence in them and in the company. Furthermore, the sales manager had no way of knowing to what extent salesmen were making use of the various types of printed matter and other sales aids furnished them by the company. The vice president did not believe that the volume of sales secured by a salesman furnished an adequate basis for judging his efficiency, and it was believed that in many instances a considerable portion of the available market had been untouched. An apparently good record in one territory might be considerably below that which could be secured by a better salesman. Bussmann fuses were distributed entirely through electrical jobbers, and these also frequently varied widely between territories in their ability to sell Bussmann products.

Furthermore, some salesmen who did an excellent volume of business were able to do so only by the use of tactics which tended to make future sales to their customers very difficult. In order to correct the various faults which were believed to be prevalent among the company salesmen, four supervisors—one in St. Louis, one in Chicago, one on the Pacific Coast, and one in New York—were added to the sales organization. These men were given the title of division managers but did not have any office headquarters. They were expected to spend their time primarily in supervising the sales activities of the company salesforce but were also expected to do some sales work with large distributors. The most important part of the division managers' supervisory work was training salesmen. They were expected to find out the points on which training was needed and to remedy those deficiencies. Their success was judged solely by the improvement in selling ability of the salesmen under their supervision.

Ten salesmen were placed under the supervision of each division manager, since it was believed that responsibility for a greater number would impair the effectiveness of supervisory and training work. Every salesman received a three-day visit from his division manager once each six weeks, a total of about eight visits a year. Sometimes the call was arranged by correspondence, and sometimes the division manager called

without previous notice, in order to prevent any special preparation on the part of the salesman. On the first day of the visit, the manager accompanied the salesman during his regular round of calls on customers. In order that these interviews should be as nearly typical as possible, the division manager was not introduced as such to the customer. During this first day the division manager was expected to discover the mistakes which the salesman had been making in his presentation, demonstration, approach, final closing, or in any other way. In some cases the manager would point out to the salesman such faults immediately after leaving a customer, and in others he would say nothing until the end of the day. The vice president of the Bussman Manufacturing Company believed that it was poor policy for the division manager to enter the conversation, even when it was apparent that otherwise the sale would be lost. The salesman could thus be furnished on occasion with definite proof of the ineffectiveness of his sales approach. In some cases where division managers had intervened it had been difficult to convince salesmen that their procedure would have been unsuccessful. In the evening the division manager analyzed the day's interviews with the salesman, pointing out weaknesses and proffering advice.

During the next day the division manager taught by actual demonstration. He would attempt to see those customers to whom the salesman had not been able to sell. Although company executives believed that this method of teaching was valuable, they stated that it was sometimes difficult to prevent salesmen from relying too much upon the assistance of the division managers in handling such accounts.

On the third day of the division manager's visit no particular routine was followed. Usually, however, part of the time was spent in examining the salesman's records. As a general rule, the company's experience had been that good salesmen were poor record keepers, and it was part of the division manager's task to make sure that such records as were absolutely necessary were being kept in good shape. Among the most important of these was the customer report form which is shown in Exhibits 1*a* and 1*b*. The division manager also checked over the advertising material and sample cases which comprised the salesman's equipment and made sure that he was using them in the prescribed manner; but if digression from explicit instructions was producing more satisfactory results than those anticipated, the new method of presentation was to be reported to the home office. On the third day he also went over with the salesman the expense accounts turned in by him, questioning doubtful or extravagant entries. Expense accounts were not checked at all in the home office; executives believed that checking in the field prevented the friction which often occurred when such matters were handled by correspondence.

City State

Name

ON	PUT ON	TRANSFER	NOT ON
☐ Bogey list *	☐ Bogey list	☐ From missionary to bogey list	☐ Should not be on any list
☐ Missionary list †	☐ Missionary list See other side	☐ From bogey to missionary list See other side	☐ Take off all lists

Party interviewed

Purpose of interview — Was purpose accomplished?

If order obtained, state thru whom and show each class of material separately, giving amount of each in list value, except plug fuses, on which quantity should be stated.
If contract obtained, state thru whom. If something else accomplished, give details.
If unsuccessful, give full information why we are not getting this business—state what developed—and what you propose to do next.

Was complete demonstration made?

Renewable fuse contract thru — Expires — What make

If Sales Promotion Dept. can be of any help to you, give following information and state what you want them to do.

Street Address — Business of Classification

Name, initials and title of individual

What printed matter, samples, etc. did you leave?

If this report refers in any way to new building leads, specify numbers	Date _____ 193__	Representative

Out of service losses caused by useless blowing of fuses are the biggest part of the COST OF FUSE PROTECTION. Form 1020

* Accounts which were considered especially important and on which salesmen were obliged to call.
† Accounts on which salesmen could call or not according to their discretion.

EXHIBIT 1*a*.—Bussman Manufacturing Company. Customer report form.

If prospect is to be transferred from one list to another, state why.
If prospect is to be put on bogey or missionary list, the following information must be furnished.

Subsidiary of

Buy on Contract Signed at | Business or Classification

Buys of

State Make Using or Selling and Give Estimated Annual Requirements.

Renewable	Non-Renewable	Plug	Open	Auto	BUSS Lights

Write your requests for additions to mailing list on typewriter or in printed form, arranged like this:

James K. Smith, Ch. Elecn.,
American Steel Co.,
4th and Mill Sts.,
Columbus, O.

Be sure that correct initials and title are given and all names are correctly spelled. Courtesy counts—carelessness discounts. Show street address in cities of 25,000 and greater population. For complete instructions—see General Manual.

Correct Abbreviations:—E. E., Ch. Elecn., Elecn., M. E., M. M., Engr., Cons. Engr., P. A., Asst. P. A., Gen. Mgr., Coml. Mgr., Sales Mgr., Supt., Pres., V. Pres., Secy., Treas.

OFFICE USE ONLY

Put on Mailing List — Classification — Taken care of by — Date

Put on Mailing List — Classification — Taken care of by — Date

Put on Mailing List — Classification — Taken care of by — Date

REMOVE FROM MAILING LIST

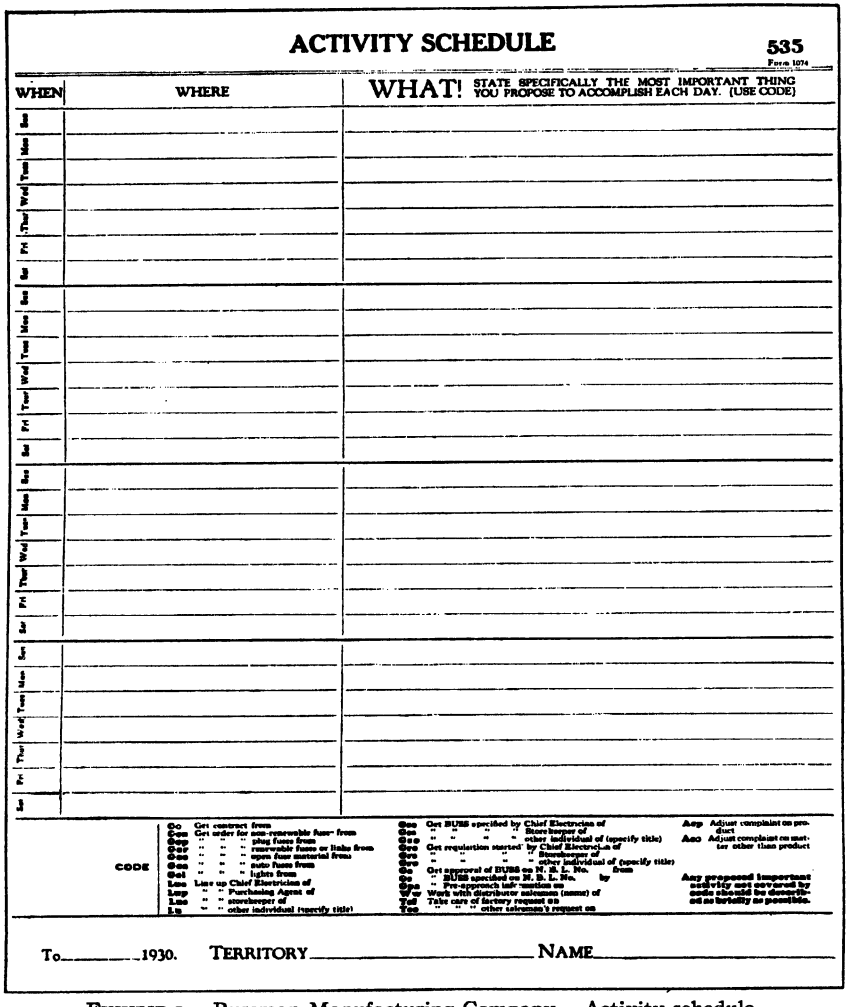
This does not have to be written in printed form, and it is not necessary to show more than name of individual, if firm name and address is given on other side. ALSO PLEASE STATE REASON FOR REMOVAL.

Taken care of by

Date

EXHIBIT 1*b*.—Bussman Manufacturing Company. Customer report form.

The division manager then planned with the salesman the routing to be followed and the customers to be called upon during the next eight weeks. Company executives believed that this official with his more intimate knowledge of the salesman's territory could plan routing much more



ACTIVITY SCHEDULE

535

Form 1074

WHEN	WHERE	WHAT! STATE SPECIFICALLY THE MOST IMPORTANT THING YOU PROPOSE TO ACCOMPLISH EACH DAY. [USE CODE]
Sat		
Sun		
Mon		
Tues		
Wed		
Thur		
Fri		
Sat		
Sun		
Mon		
Tues		
Wed		
Thur		
Fri		
Sat		
Sun		
Mon		
Tues		
Wed		
Thur		
Fri		
Sat		
Sun		
Mon		
Tues		
Wed		
Thur		
Fri		
Sat		

CODE

Go Get contract from
Gcm Get order for non-removable fuse from
Gpg " " " plug fuses from
Grf " " " renewable fuses or links from
Gss " " " open fuse material from
Gtp " " " auto fuses from
Gsl " " " lights from
Lcc Line up Chief Electrician of
Lpp " " Purchasing Agent of
Lsk " " storekeeper of
Lo " " other individual (specify title)

Gco Get BUSS specified by Chief Electrician of
Gss " " " Storekeeper of
Gso " " " other individual of (specify title)
Grq Get requisition started by Chief Electrician of
Gss " " " Storekeeper of
Gso " " " other individual of (specify title)
Gpr Get approval of BUSS on N. E. L. No. from
Go " BUSS specified on N. E. L. No. by
Gpa " Pre-approach information on
Gfm Work with distributor salesman (name) of
Tcf Take care of factory request on
Tco " " " other salesman's request on

Asp Adjust complaint on product
Aso Adjust complaint on matter other than product

Any proposed important activity not covered by code should be described as briefly as possible.

To_____1930. TERRITORY_____ NAME_____

EXHIBIT 2.—Bussman Manufacturing Company. Activity schedule.

effectively than could the head office. The salesman, in addition to laying out his proposed itinerary, stated what he expected to accomplish during each day of the eight-week period. This information was recorded on an activity schedule, shown in Exhibit 2. Although salesmen at first con-

sidered this procedure to be rather useless, they usually had to admit on the next visit of the manager that they had fallen far short of their promised accomplishments. This impressed upon them the need for continued study in developing their selling technique.

By 1936 the company had had nine years' experience with the supervisory plan with very satisfactory results. In the first place, poor salesmen were soon discovered, and if preliminary training did not seem to have the desired results, they were quickly dropped from the company's pay roll. This had not been true before 1927, when it had been very difficult to discover which men were really good producers; in one district particularly the division manager reported that the poorest man had made the second best sales record because of the presence of efficient jobbers in his territory.

In the second place, the active personal supervision and effective training methods often resulted in turning what seemed to be mediocre material into really good salesmen. In Texas, for example, an otherwise capable salesman had had great difficulty in selling fuses on new building jobs. As a means of correcting this situation, the division manager spent the entire three days of one visit on selling of this sort in order to show the salesman his weak points. As a result, this man was soon able to sell effectively in this market. The vice president believed that in no other way could it have been possible to achieve this result.

Finally, through the division managers, continuous retraining of salesmen on particular phases of selling work could be given in small installments, which could be thoroughly absorbed by the salesmen. As salesmen developed, the division manager's calls became less frequent, and more time was spent with new men and men of average ability. The vice president considered teaching to be the most important of the division managers' functions and did not believe that their supervisory activities alone would have greatly improved the efficiency of the salesforce.

The cost of the division managers was thought to have been more than covered by the greater volume of sales obtained. The vice president of the company stated that if a division manager increased the effectiveness of his 10 salesmen by 10%, his cost was fully paid.

The most difficult problem was to select from the company's personnel men suited for the supervisory work. Not only was it necessary for them to be good salesmen in order to win the confidence of their men, but they also had to be good teachers. When the plan was first introduced, it was expected that the problem of selecting new supervisors as the need arose would become easier since the supervisors, through their intimate knowledge of the salesmen, could select desirable successors. The number of salesmen fitted for supervisory positions, however, was still limited in

1936, and the vice president felt that there were not more than one or two men in the organization who could become capable division managers.

QUESTIONS

1. The Jackson Wholesale Company, located in Chicago and St. Louis, for 50 years gradually expanded its operations until its sales approximated $20,000,000 annually. It had started out as a general dry goods wholesale house but had developed a specialty business in hosiery and underwear. It controlled two nationally advertised, trade-marked lines, "Longlife" hosiery and "Packard" underwear, which were widely distributed throughout the United States. Most of its general trade came from territory contiguous to Chicago and St. Louis.

The company employed 167 salesmen, all of whom reported directly to the general sales manager or to one of his two assistants. The assistants spent all of their time at the Chicago office, but the general sales manager divided his time between the two offices. The general line was sold to retailers of all types and sizes by general salesmen who were prepared to sell any article carried by the house. In addition to these, there were specialty salesmen, for both hosiery and underwear, who not only covered the Chicago and St. Louis trading areas but the remainder of the United States.

It was proposed to the general sales manager that the company hire 10 sales supervisors, to be given the task of supervising both the general and specialty salesmen. It was pointed out, however, that such a move would entail an annual addition to the overhead of approximately $50,000.

What recommendations should the general sales manager have made to the president? Give the reasons.

2. The Bond Billing Machine Company produced an office appliance, ranging in price from $50 to $300 for the various models. The main office was in New Haven, Connecticut, with sales agencies located in 96 cities throughout the United States. Domestic sales were in the charge of the general sales manager and his assistant. There were 19 sales districts in the United States, each supervised by a district manager whose entire compensation was derived from a commission on sales in his district. Under each district manager were local managers who had charge of sales and service stations in the larger cities of the district. The district manager was responsible for employment and control of the salesforce and for the supervision of local branches in his territory. It was proposed that the United States be redivided into six districts, each of which was to be in the charge of a district manager. The managers of the new districts were to be selected from the 19 existing district managers, and those remaining were to be established as sales managers under the jurisdiction of the newly established district managers and were to be paid on a commission basis. The six district managers were to receive a straight salary instead of a commission as formerly, and they were not to do any actual selling. Should such a plan have been adopted? What were its advantages and disadvantages? What factors determine the number of supervisory levels and the amount of supervision required in a sales organization?

3. The Rogers Company of Chicago was one of the large manufacturers and distributors of heat and radiation systems. Because of its adoption of progressive sales methods and its extensive advertising over a period of 25 years, the company experienced rapid growth until there were over 40 branch offices and suboffices in the organization. At that time the branch managers were subordinate to territorial sales managers located in the central office. The country was divided into three divisions, with a territorial manager over each. These territorial managers had control and direction in their

respective districts of branch managers, who made periodic reports to them. The territorial sales manager reported to the general sales manager of the company. At the time, all accounting, billing, credit and collection work was centralized in the Chicago office; the branches were simply selling and warehousing offices. The branch manager had the power of hiring and firing salesmen and exercised control over them but had to make detailed and elaborate reports on their work to the territorial sales manager who was over him.

The district sales managers and branch managers of this company were in almost all cases superior salesmen who had been promoted to these positions. The general sales manager after much thought had convinced himself that his branch managers and territorial managers had become desk men to too large a degree; their sales ability was not being utilized through personal contact with their selling forces. Practically their whole time was taken up in handling the many order forms and report sheets required in the centralized control.

The question of organization was brought up at a meeting of the board of directors. It was suggested that the offices of the three territorial sales managers be discontinued, that the accounting, billing, credit and collection work be transferred to the branch offices, and that the branch managers be given a freer rein in their territories. The general sales manager was requested to draw up a statement to be included in the organization manual of the company, setting forth the functions and duties of the branch managers under the new arrangement. Further, it was requested that he state the relationship of the branch manager to the various functional officials in the central organization, such as the new product manager, the merchandise manager, the credit manager, and the statistician.

Should the proposal for reorganization have been adopted? What would have been the relation of the branch managers to the functional managers in the headquarters office?

4. A manufacturer of oil stoves for cooking and heating purposes employs fifty salesmen in the United States, who report either to the home office or to one of three division managers. The three division managers are responsible for spending most of their time upon large accounts in their territories. The proposal is made to hire two men as training specialists to work with the seven or eight weak men on the salesforce and to assist others to improve. One trainer is to be located east of the Mississippi River, the other west of the Mississippi River. They will be expected also to observe and report upon market conditions in their territories. Should the proposal be adopted?

5. What are the requirements for the adoption of a decentralized branch organization?

6. Which policy contributes more to the extension of the limits of managerial capacity: centralization or decentralization?

7. Should sales supervisors, branch managers, and other field executives be selected upon the basis of sales records?

8. How is the chief sales executive to determine the amount and type of supervision for salesmen in the field? Is it possible to detect the point at which diminishing returns from additional supervision begin?

9. How many salesmen can one superior supervise? How many branches and branch managers can one executive direct? What factors determine the number in each case?

10. How does competition rather than the need of buyers for spot stocks often cause the establishment of sales and stock branches?

11. What is the relationship between the policy of a company regarding the establishment of sales branches and its policy relative to (*a*) distribution channels, (*b*) financial resources, (*c*) type of product?

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VIII

MANAGEMENT OF SALESFORCE

The problems of managing a salesforce, primarily those encountered in managing any personnel group, include selection, training, compensation, and the manifold problems of supervision during employment. The differences between the problems of managing a salesforce and those of managing other groups of personnel are largely based upon the fact that a salesman frequently operates alone, far from the personal supervision of his superior. As a consequence, adjustments must be made in every phase of the management of the salesforce to the customary weakness of supervisory contact between superior and salesmen.

The salesman enters his work largely as a result of an agreement between himself and the employer. In making the decision both salesman and employer are taking risks: if either is careless, one or both suffer. A poor or dissatisfied salesman may do an employer irreparable injury. On the other hand, it is to the interest of the salesman to secure employment which is agreeable to him with a concern in which he has faith and confidence and which does not require a capacity beyond that which he possesses. An employer loses by failure or inability to select salesmen properly, because poor selection eventuates in poor results and large turnover in the salesforce. Both are expensive.

There are a number of sources which are commonly utilized in attempting to build up a salesforce, among which may be mentioned:

1. Men who have been working in the office, in the production or other departments of the company which is seeking salesmen. Other things being equal, it is obviously wise for a sales organization to promote a man within the enterprise. However, sometimes satisfactory candidates are not available within an organization. Experience of the company may have shown that men with production or other experience are not usually entirely satisfactory. Nevertheless, the dangers of destruction of morale are real and important if opportunities for promotion are not made available to employees.

2. Salesmen who are, or have been, working for other companies, either competitors or companies in related lines. Many sales organizations make it a point to hire experienced men of this type; there are certain advantages in hiring experienced men, but there are also certain dis-

advantages in a possible lack of permanence or of loyalty to the new connection. Not a few companies never hire former salesmen of competitors; many more regard it as unethical to take any action in hiring competitors' salesmen. Companies selling to retailers may find in the retail clerks possible candidates for positions as salesmen. Retailers are not in competition with the manufacturer or wholesaler; and the retail clerk is intimately acquainted with the problems and methods of the prospective retail customer. He may, therefore, be able to perform valuable service and assist dealers successfully in terms of sales and profits. Salesmen may also be hired from allied or different noncompeting businesses.

In so far as there are fundamental and even superficial similarities in selling as between different types of products, there is justification for the point of view that it is more important to hire a man with selling ability than to hire one who is intimately acquainted with some type of product. The possibility of successfully transferring experience in a particular market to other products would, however, seem to be less questionable than the possibility of transferring knowledge concerning a given product from one market to a strange market.

3. Sales executives who prefer to develop inexperienced men into junior and then senior salesmen may choose men who have been engaged in other occupations. They may sometimes take young men fresh from various types of educational institutions, the particular type of institution approached depending upon the nature of the selling task, whether requiring technical training, or general or specialized business education. In numerous companies it is known that college-trained men, although harder to develop, have made good; in others, college men have been unsuccessful. As a result, some companies prefer not to use college men for their salesforces; others will not accept one who has not had that training or its equivalent.

A. SELECTION AND TRAINING OF SALESFORCE

The sales executive who is hiring salesmen will utilize one or more methods of securing candidates. He may secure proposals from members of his own organization; he may select likely candidates from those who apply voluntarily; he may advertise in newspapers or periodicals; or he may scan the "positions wanted" columns in such publications; to a less extent, he may use employment offices or employment bureaus, although employment offices of educational institutions will be invaluable for those contemplating the hiring of inexperienced candidates for sales

positions. Lastly, other businessmen, as well as other executives with whom the sales manager comes into contact, may be in a position to recommend promising candidates.

A company hiring salesmen should previously have determined as accurately as possible the general types of work which a salesman is expected to do. Scarcely a beginning has been made in job analysis for salesmen to determine the kinds of work they must do in order to operate successfully. The average sales manager has no accurate understanding of the amount of each kind of work to be done or the methods most suitable for efficient performance of a given sales task. Nevertheless, men must be hired to make sales contacts, and the qualifications of men who perform such tasks must be determined. Numerous lists of the characteristics of good salesmen have been made. One list includes good character, personality, health, native intelligence, concentration, industry, self-confidence, punctuality, tact, initiative, resourcefulness, knowledge of goods. However, knowledge of the general and special qualifications needed for successful salesmanship does not help the sales executive unless there is some way of determining whether a candidate for a position possesses those qualifications or not. The fact is that very few men know themselves, and it is often more difficult to appraise accurately the qualities of others.

One may classify the qualities which have a bearing upon selling success into three groups:

1. Character traits which bear directly upon success in selling.
2. Intelligence or mental alertness.
3. Certain conditions which have an undetermined bearing upon success in a particular sales task, such as marital status, schooling, number of dependents, age.

Several means are used to ascertain whether a prospective salesman is suitable for a specific position; these are generally classified as interviews, application blanks, psychological tests, and certain measurement devices.

The most common method of hiring salesmen utilizes the personal interview. It possesses distinct advantages; the employer may secure a definite impression of personality which could not be obtained so quickly in any other way. A sales manager attempts to appraise a salesman in the course of an interview in which he asks certain questions which seem to him to be important or revealing. The conversation may relate only in part to the position to be filled.

Experience has shown that the single interview method has been very faulty. Men vary widely in their ability to evaluate other men. To correct these faults, some companies have attempted to bring about for each candidate for selling positions a series of interviews with one individual, or a series of interviews with different individuals. These methods

tend to reduce the risks of hiring salesmen purely on account of superficial characteristics or personality, without due regard to fundamental requirements.

To bring about greater care in the formation of judgments and bases for comparison between interviews, the rating scale is frequently used. A rating scale possesses two characteristics: enumeration, sometimes definite classification, of the qualities of an individual and measurement of the degree of each quality.

The second most common method used in the selection of salesmen is the application blank or letter of application. The application blank or letter is used for three purposes:

1. To furnish a basis for reducing the number of candidates for a sales position so that interview time may not be wasted on obviously undesirable applicants.

2. To supply a more detailed record which would be useful both in hiring and for study in connection with the performance of men who have been hired. The application blank usually requires statements as to personal characteristics, marital status, business experience, and references. The preferences of various companies and ideas which firms have as to the qualifications required for a job are reflected in the variations in application blanks. Small companies may use prepared application blanks; large companies may have application blanks prepared to suit their purposes more precisely.

3. Companies which have determined to some degree the relationship between characteristics of candidates revealed in application blank data and success in selling may make use of the application blank to furnish a supplementary grading of applicants. Through a process of rating the positive or negative value of education, marital status, home owning, age, etc., based on extensive study, certain firms have found it possible greatly to improve selection.

A small number of companies have made use of methods worked out by psychologists through the application of tests to show the presence or absence of certain qualities in applicants for sales positions. While many types of tests have been tried, none have been accorded the intensive scientific examination required to enable the businessman to know whether or not he should use them. The most frequently used types of psychological tests are the so-called intelligence or mental alertness tests, the purpose of which is primarily "not to evaluate any special knowledge, but rather to gauge objectively such capacities as attention, perception, learning, memory, imagination and reasoning."[1] Although such tests were first

[1] SNOW, A. J. *Psychology in Business Relations.* (McGraw-Hill Book Company, Inc., New York, 1925) p. 518.

developed by psychologists in the field of education and were applied to school children to determine relative mental ages, the application to adults received a great impetus during the World War when they were developed and applied to large numbers of men in the army in order to determine their levels of intelligence as a means of furnishing best utilization of man power.

The tests usually given to salesmen consist of requiring the applicant for a position, in company with other applicants, to perform certain tasks or solve certain problems, frequently within definite time limits. The tasks are of various types, verbal tests, completing or rearranging mutilated sentences, number-group checking, crossing out designated classes of words, and the like.

The experience of companies which have carefully utilized these tests shows that error in the selection of men having the required degree of mental alertness can be materially reduced. Before they can be used most successfully in the selection of salesmen, the company must determine, through study and experience, the general grade of alertness required for the performance of its particular selling task, for a man of too high grade will be easily dissatisfied, one of too low grade incompetent. Experiments have shown that, while there is no absolute relationship between intelligence or mental alertness as revealed by these tests, and success in selling—that is, the highest standing men in such tests are not necessarily the best salesmen—the fact remains that by the use of the tests it is possible to reject a larger proportion of the unfit than on the basis of unaided personal judgment.

Since mental alertness is only one of a number of important qualifications, it would be highly desirable to obtain tests for other needed qualifications. Attempts to measure special aptitudes and temperaments have not proceeded very far, although some progress has been made in testing the possession of those characteristics which distinguish the "introvert" and the "extrovert." Qualities of extroversion are asserted to be characteristic of good salesmen. Several important tests have been made by business concerns to determine suitability of certain combination aptitude tests, such as the Strong test.

Among the remaining methods used by sales executives for selecting salesmen are systems of so-called character analysis, advocated by various persons whose statements have been thoroughly discredited by scientists. Some sales managers also select on the basis of handwriting and facial characteristics, both of which have likewise been shown to have no helpful correlation with traits of character. No dependence can be placed upon photographs or upon handwriting as indicators of the possession or lack of possession of characteristics required for sales positions.

Training of Salesmen. The need for training salesmen arises from the fact that, on the whole, a newly hired salesman does not know the products which he is to sell. He may not know the buyers individually or collectively, nor may he know how to sell the products or present them to buyers. The result of investigations of cases of hiring and firing have shown very clearly that the costs of breaking in new salesmen are large. The practice of sending out salesmen to train themselves has been supplanted by definite plans for training in well-managed companies, both to reduce turnover in the salesforce and to increase efficiency of old as well as of new salesmen.

The extent of training required depends (1) upon the difficulty and complexity of the selling task; the task is more difficult if it is necessary to create demand than if a product is a well-known staple, or if a product is a complex one which is not readily understood either in use or in construction. (2) The extent of training required depends upon the amount of general education and training which a salesman may have had; it may be greater for a high school graduate than for a college graduate. (3) The need for training will be affected by a salesman's previous selling experience. The experience of a shoe salesman in selling shoes may be readily transferable to another shoe company; likewise, to a greater extent than is ordinarily supposed, the general methods in a particular trade may be transferred to another trade with success. (4) The amount of training needed will depend upon the type of buyer whom the salesman is to approach. The salesman who is entrusted with the task of approaching expert buyers of a product must have more intimate knowledge of his sales proposition than a salesman who is approaching buyers with no technical knowledge who are primarily interested in the use of the product, which may be simple.

The content of the training which a salesman should receive may be divided into three parts:

1. He should know his product and sales proposition, and the history and organization of his house; he should thoroughly understand the policies which the company has adopted with reference to its business transactions; he should understand that for best results his efforts must be coordinated with those of other salesmen, with the sales department, and with other departments of the enterprise, such as merchandising, accounting, and production.

2. Since a salesman should know the types of buyers of his product, who are the buyers and how to find them, the training course must provide some method of acquiring this knowledge. Too often the sales manager does not furnish significant data or significant information about customers, prospects, or classes of buyers. Many sales managers feel that

the training job should be confined largely to instruction concerning the product and not to selling methods. The omission of training in relation to the market is the weak point in the usual teaching program.

3. The most difficult portion of the training of salesmen relates to the teaching of salesmanship, that is, teaching a salesman to use his knowledge of the product and his knowledge of the market in such a way as to accomplish the purposes for which he was hired.

Frequently but little training is given. A salesman is encouraged to study his product and trust to experimentation and experience to suggest methods of presentation to specific customers; or sometimes the company furnishes a sales manual or a house bulletin or in personal contact suggests methods which may have been used successfully in selling. Some firms have organized courses and schools for training salesmen; other firms recommend or require a standard sales presentation as a part of the training. This presentation may or may not be required in actual conduct of the selling work. An increasing number of companies provide for practice selling under the tutelage of another salesman, official, or instructor, that is, essentially, "training on the job."

83. OLIN TIRE COMPANY—SELECTION AND TRAINING OF SALESMEN

The Olin Tire Company, a large manufacturer of automobile tires, tubes, and accessories located at Akron, Ohio, had a salesforce of 385 men who traveled from the 40 branches operated by the company. The executives of the company believed that the turnover of the salesforce was excessive, although they recognized that such a situation was typical in the rubber industry. Salesmen could easily shift to other companies in the automobile accessory field, since the numerous lines were sold in much the same manner and to the same general market. Three factors within the control of the company had important influence on the turnover of the salesforce: the selection of salesmen, training of salesmen, and compensation. As the company was expanding its chain of controlled retail stores, an increasing number of trained men were needed to continue this development.

The company secured men for sales work from three sources: other departments of the company, experienced salesmen seeking employment, and colleges and universities. About 25% of the new salesmen were recruited from other departments of the company at the suggestion of the department heads, branch managers, or members of the salesforce. Considerable care was taken in choosing men from this source, because a good clerk or mechanic was considered more valuable to the company than a mediocre salesman. Approximately 50% of the new salesmen were

men experienced in sales work with other rubber companies or in allied lines. Although there was an understanding among the larger rubber companies not to seek salesmen from each other, there was no objection to hiring a salesman who had severed his connections with his former employer. The remaining 25% of the new salesmen were recent college graduates who were trained by the company for sales work.

The branch managers interviewed applicants for sales positions but could hire salesmen only after securing the approval of the sales personnel department in Akron. The sales personnel department recommended that the branch manager have with each prospective salesman at least three interviews which were to be of short duration in order not to give the man time to "sell" himself. The repeated interviews were to give the

EXHIBIT 1

OLIN TIRE COMPANY—EMPLOYMENT ANALYSIS FORM

Name_____ Date_____
(Last name) (First name) (Middle name)

Hired for_____ Branch_____
(Field selling or operating)

Salary_____
(Initial rate) (Future commitment, if any)

Nature of work_____
(Description of territory, if field selling or definite duties if operating)

(If a question cannot be answered "yes" or "no" use adjective such as fair, uncertain, average, good, poor, inexperienced, etc. Write answers in longhand)
Does he create and leave a good impression?_____ Does he talk convincingly?_____
Has he a good bearing?_____ Is his personal appearance good?_____ Does he appear naturally optimistic and congenial?_____
Is he reliable?_____ Is he absolutely honest?_____ Are his personal habits good?_____ Does he incur indebtedness beyond his ability to pay?_____
Has his previous work required real selling initiative instead of mere routine order taking?_____ Has he shown resourcefulness in securing this position?_____ Has he been tactful, courteous, and has he shown good judgment in his efforts to make this connection?_____
Does his education and fundamental training fit him for development with this company?_____ Is he physically fit?_____ Is he mentally alert?_____ Has he any physical defects or peculiar mental characteristics which may impair his effectiveness?_____
Has he actually demonstrated an ability to sell under modern conditions?_____
Is he adapted by previous environment and experience for the job?_____ Does he fully understand the character of the work for which he is hired and the conditions under which he is employed?_____ Is he sincerely interested in the development of the job for which he is hired instead of regarding the position as just a quick step to something else?_____ Will his home ties and family obligations handicap him in giving his best services to this company?_____

Comments:_____

Branch Manager

APPLICATION BLANK

ANY INFORMATION GIVEN ON THIS BLANK WILL BE TREATED IN A STRICTLY CONFIDENTIAL MANNER BY THIS COMPANY. IT WILL BE TO THE APPLICANT'S ADVANTAGE TO ANSWER EACH QUESTION FULLY AND ACCURATELY. THE USE OF THIS BLANK DOES NOT INDICATE THERE ARE ANY POSITIONS OPEN AND DOES NOT IN ANY WAY OBLIGATE THIS COMPANY.

THIS APPLICATION IS SUBMITTED WITH THE UNDERSTANDING THAT A PHYSICAL EXAMINATION SATISFACTORY TO THE COMPANY MUST BE PASSED BEFORE EMPLOYMENT CAN BE SECURED.

NAME _____ DATE _____

PRESENT ADDRESS _____ PHONE NO. _____
STREET CITY STATE

HOME ADDRESS _____ PHONE NO. _____
STREET CITY STATE

POSITION DESIRED | HAVE YOU PREVIOUSLY APPLIED HERE? | WHEN CAN YOU REPORT FOR WORK?

OTHER POSITIONS YOU WILL CONSIDER | WERE YOU EVER EMPLOYED BY THIS COMPANY? IF SO WHEN AND WHERE?

PERSONAL DESCRIPTION

AGE	DATE OF BIRTH (MO. / DAY / YEAR)	SEX	COLOR	HEIGHT	WEIGHT	PHYSICAL DEFECTS OR AILMENTS

SINGLE OR MARRIED? WIDOW OR WIDOWER? | LIVING WITH WIFE OR HUSBAND, PARENTS? | HOW MANY CHILDREN | WHAT OTHER DEPENDENTS HAVE YOU?

DO YOU OWN OR RENT THE HOUSE IN WHICH YOU LIVE OR DO YOU BOARD? | NAME OF NEAREST RELATIVE? ADDRESS RELATIONSHIP

WHERE WERE YOU BORN? | ANTECEDENTS (ENGLISH, IRISH, ETC.) | CAN YOU FURNISH SURETY BOND?

STATE ANY FOREIGN LANGUAGES YOU CAN SPEAK, READ OR WRITE | OF WHAT COUNTRY ARE YOU A CITIZEN? | RELIGIOUS DENOMINATION?

EDUCATION

SCHOOL	LENGTH OF TIME ATTENDED	YEAR FINISHED	GRADUATED YES OR NO	COURSE, PROFICIENCY, DEGREE, ETC.
GRAMMAR SCHOOL AT				
HIGH SCHOOL AT				
COLLEGE OR UNIVERSITY				
COMMERCIAL OR TECHNICAL SHOOLS; CORRESPONDENCE COURSES, ETC.				

STATE BELOW OF WHAT FRATERNAL ORDERS; CLUBS OR OTHER ORGANIZATIONS YOU ARE OR HAVE BEEN A MEMBER.

NAME	ADDRESS	OFFICE HELD (IF ANY)

Form 1223B-5M-4-30-Fly. 30 P. Printed in U. S. A.

EXHIBIT 2.—Olin Tire Company. Application blank.

branch manager an opportunity to judge whether the applicant would "wear well" with the trade. It was further recommended that at least two, and preferably three, members of the executive staff of the branch interview the applicant, each interviewer to make an independent appraisal of the applicant and submit his opinions and recommendations to the sales personnel department on a form shown in Exhibit 1. No guidance was given in the conduct of the interview beyond the questions to be answered on this form.

BUSINESS EXPERIENCE

EMPLOYER GIVE FULL NAME OF COMPANY OR FIRM	CITY AND STATE	KIND OF BUSINESS	TIME EMPLOYED FROM MO. YR.	TO MO.

STATE HERE ANY OTHER BUSINESS EXPERIENCE NOT INCLUDED IN THE ABOVE

REFERENCES

NAME	ADDRESS	BUSINESS	STATE WHETHER REFERENCE IS FOR CHARACTER OR ABILITY	STATE WHETHER RELATIVE

MAY WE REFER TO YOUR PRESENT EMPLOYER?

STATE BELOW ANYONE CONNECTED WITH THE OLIN TIRE CO. OR ITS ALLIED COMPANIES WITH WHOM YOU ARE ACQUAINTED. STATE WHETHER A RELATIVE.

EXHIBIT. 2.—(*Continued.*)

After the first interview, if the applicant seemed promising, the branch manager gave him an application blank which was used to secure information of a personal nature, educational background, past employers, length of employment, salary, and references (see Exhibit 2). The branch manager wrote to all previous employers to see if the information supplied

AND REFERENCES

	POSITION YOU HELD	MONTHLY SALARY (IF COMMISSION GIVE AVERAGE OVER PERIOD OF SERVICE)	REASON FOR LEAVING	PERSON UNDER WHOM YOU WORKED	NO. OF PERSONS UNDER YOUR CHARGE
R.					

CHECK KINDS OF WORK IN WHICH YOU HAVE HAD EXPERIENCE

_____ ACCOUNTING
_____ ADJUSTING
_____ ADVERTISING
_____ AUDITING
_____ BOOKKEEPING
_____ CHEMICAL
_____ CALCULATING
_____ CLERICAL (GENERAL)
_____ COLLECTIONS
_____ COMPOUNDING
_____ CORRESPONDENCE
_____ COST
_____ CREDIT
_____ DRAFTING
_____ EXPORT
_____ ENGINEERING CHEMICAL
_____ " CIVIL
_____ " ELECTRICAL
_____ " INDUSTRIAL
_____ " MECHANICAL
_____ " TEXTILE
_____ FILING
_____ LEGAL
_____ MAIL
_____ MESSENGER
_____ ORDER
_____ PAYROLL
_____ PRINTING
_____ PROFESSIONAL
_____ PURCHASING
_____ SELLING
_____ STATISTICAL
_____ STENOGRAPHIC
_____ STENCIL CUTTING
_____ STOCKKEEPING
_____ SUPERVISORY
_____ TELEPHONE EXCHANGE
_____ TIMEKEEPING
_____ TIME STUDY
_____ TRAFFIC

CHECK ANY OFFICE APPLIANCE YOU HAVE HAD EXPERIENCE IN OPERATING

_____ ADDING MACHINE
_____ ADDRESSOGRAPH
_____ BILLING MACHINE
_____ BOOKKEEPING MACHINE
_____ CALCULATING MACHINE
_____ COMPTOMETER
_____ MONROE CALCULATOR
_____ COMPOTYPE
_____ DICTAPHONE
_____ DUPLICATOR
_____ EDIPHONE
_____ GRAPHOTYPE
_____ MIMEOGRAPH
_____ MULTIGRAPH
_____ MOON HOPKINS MACHINE
_____ PHOTOSTAT
_____ PRINTING PRESS
_____ PUNCHING MACHINE
_____ SORTING MACHINE
_____ TABULATING MACHINE
_____ TYPEWRITER

IN WHAT DO YOU CONSIDER YOURSELF MOST PROFICIENT?_____

WHAT IS YOUR ULTIMATE AMBITION?_____

STATE FULLY WHY YOU BELIEVE YOU ARE QUALIFIED FOR THE KIND OF WORK FOR WHICH YOU ARE APPLYING

DATE OF SALARY DESIRED_____

OVER

EXHIBIT 2.—(*Continued.*)

was correct, and to persons given as reference to check on honesty and ability. If the applicant was to be recommended for employment, the completed application form, pertinent reference material, and the independent appraisals of the branch executives were sent to the sales personnel department in Akron. This department secured a report of an inde-

STATE BELOW ANY ADDITIONAL FACTS THAT MAY AID IN THE CONSIDERATION OF YOUR APPLICATION

AGREEMENT

In the event of and in consideration of my securing employment with the Company (or any of its allied Companies) I agree:

1. To furnish upon the request of the Company, and at its expense, a Surety Bond satisfactory to your Company.
2. That there is no liability on the part of the Company for any expenses arising or growing out of my entering the employ of the Company.
3. That all liability of the Company for expenses or salary in connection with or growing out of my said employment, shall immediately terminate at the time when and at the place where I may resign or terminate my employment or be discharged by the Company.
4. That the Company shall not be liable for any expenses not expressly agreed to in writing.
5. That the Company shall not be responsible for the loss of or damage to personal property belonging to me.

WITNESS _____ Signature of Applicant

INTERVIEWED BY _____ DATE _____ REMARKS

EXHIBIT 2.—(*Concluded.*)

pendent investigation, made by the retail credit company, of the man's character, local reputation, credit standing in his community, habits, and stability in regard to previous employment. On the basis of this information the sales personnel department accepted or rejected the recommendations of the branch manager. In actual practice, very few rejections were made. Inexperienced college graduates were hired in the same manner as the experienced salesmen, except that one or two members of the sales department were sent to the colleges to conduct the interviews.

In approaching the problem of training, the sales personnel department prepared the following general outline of the types of information and training that every salesman of the company should receive:

Factory and home office preliminary training should include:

Institutional. A history of the company; the nature and extent of its products and service; the sales volume; an outline of the financial structure; the amount and adequacy of capital; the size and capacity of plants; an outline of the organization, lines of authority; the names and personalities of executives.

All presented with the idea of developing respect, loyalty and a grasp of the opportunity presented for the individual.

Product. A general knowledge of materials, construction and quality; choice and description of sales advantages; the product in use, normal wear, failures and injuries.

Manual Training. Application of products, removal, inspection, maintenance and repair; this training to be complete enough so that the salesman can perform as well as an experienced dealer or service man the foregoing functions.

Distribution Function. A history of the development and an outline of the present status of the types of distribution and of competition. Territorial analysis; town analysis; quotas and objectives; the franchise; presentation of the franchise to new and to established dealers; credit and collection requirements and terms, and credit procedure both preliminary and with established accounts.

Field Tactics. Objectives, division of time; systematic travel; dealer maintenance and sales extension work; consumer and commercial resale work; selection of stock.

Routine. Paper work, including correspondence, reports and forms; cooperation; discipline; attendance to job; hours; expenses.

Training in the field should include:

Preliminary travel for a few days with some better than average experienced salesman on a territory other than the one to be taken over.

Review with branch manager, credit manager, chief clerk and adjuster, knowledge of field tactics and routine.

Review with each of the foregoing the actual conditions in territory to be taken over.

Actual work on territory in company with branch manager or his assistant, meeting good established accounts and working on new accounts.

Continual follow-up of knowledge and accomplishments in branch conferences, and personal meetings with branch manager.

Because of their lack of experience in the rubber industry, college men recruited for sales work were given the most thorough training. They were all sent to the factory at Akron, Ohio, for a full-time course lasting from four to five weeks. An outline of the training course is given in Exhibit 3.

The training course was the same for all men regardless of whether they were going into the retail division or into territorial selling to dealers. After the training course, however, men interested in retail stores were assigned to one of the company's retail outlets, and men going into territorial selling were assigned to some branch. For 90 days these men were shifted through the various departments of the branch or store to

EXHIBIT 3

OLIN TIRE COMPANY—SALES TRAINING COURSE

First Week.

Individual conferences with manager sales personnel.
Enrollment:
  Compiling complete employment papers.
  Physical examination.
Office rules and regulations.

General factory trip.
Written quiz.
Development of rubber industry—lecture.
Crude rubber—lecture.
Facts about the Olin Tire factory—lecture.

Raw materials—lecture.
Factory trip—crude rubber, washing and drying, compounding, calendering.

Discussion.
The Olin organization—lecture.
The plantation industry—lecture.
Student papers read.

Discussion.
Compounding—lecture.
Factory trip—reclaim.
Reclaim—lecture.

Factory trip—beads, creel room, bias cutters, passenger car tires.
Pneumatic tires—lecture.

Discussion.
Functions of fabric in a tire—lecture.
Factory trip—curing room, inspection, wrapping.
Student papers read.
Importance of good letter writing—lecture.
Tire construction—lecture.

Reading assignments—*Tire Manual.*
Written quiz.

Second Week.

Factory trip—tubes.
Tubes, rims, valves—lecture.
Passenger car tires—lecture.
Passenger car sales policy—lecture.
Control tests—lecture.
Factory trip—control tests.

Discussion.
Olin tire sales—lecture.
Selling Olin tires—lecture.
Prices, discounts, bonus, forms—lecture.

Discussion.
Original equipment—lecture.
Tire merchandising—lecture.
Factory trip—accessories.
Accessories—lecture.
Factory trip—solids.
Student papers read.

EXHIBIT 3.—(*Continued*)

Discussion.
Truck and bus sales—lecture.
Factory trip—heavy duties.
Solid tire construction—lecture.
Heavy duty tire construction—lecture.
Truck and bus tires and sales—lecture.

Solid and industrial tire sales—lecture.
Soliciting Olin tire specifications—lecture.
  New equipment.
  National accounts.
State and city business—lecture.
Soliciting and servicing mileage contracts—lecture.

Assignments: *Tire Manual* and *Sales Manual.*
Written quiz.

Third Week.
Discussion.
Technical purpose and survey of change-overs—lecture.
Practical demonstration of change-overs.

Change-over discussion.
Advertising—lectures.
Window display—lecture.

How to sell Olin tires—lectures.
Retail stores—lectures.

Retail store operation—lecture.
Retail store advertising—lecture.
Selling various supplementary commodities—lecture.
Retail markets—lecture.
Discussion.
Treasury—lecture.
Wholesale credits—lectures.
Retail credits—lectures.

Discussion.
Other products of company—lecture.
Aeronautical sales—lecture.

Reading assignments—*Merchandise Manual.*
Written quiz.

Fourth Week.
Service department.
Repair department.
Adjusting department.
  Lectures and practical demonstrations.

Final quiz.
Conferences and placements.
Lectures by:
  Manager personnel department.
  General sales manager.
  President.

which they were sent, receiving experience in the following types of work: stockroom, accounting, credit, inspection and adjustment, counter and telephone sales, and general service and repair work.

After this period each man was assigned to a definite job, which varied according to the needs of the store or branch. Counter sales, adjustment, and identification truck[1] work were typical of work assigned. After one year on this work, the training period was considered completed, and men were assigned to territories or stores as soon as openings became available. After becoming acquainted with local conditions, the salesman started to travel the territory, accompanied for a period of one to two weeks by the branch manager or his assistant. No definite program was followed by the branch managers in training salesmen in the field, although general recommendations were made by the sales personnel department.

Men from other departments of the company were also given the four weeks' training course if they were to be assigned to sales work. These men were often sent on the road during the busy season without having had the training course, in order to cover territory which had been left without a salesman. In such cases they were called to Akron in the first slack season and given a short training course offered for experienced salesmen who had been recently employed by the company.

Experienced salesmen were sent directly into a territory after a few days or a week at the branch, since they were usually hired in the busy season when time was not available for more than meager training. However, during the first slack season these salesmen were called to Akron in groups of 10 or 20 for 2 weeks of intensive full-time training. The course was shorter than that given to college men but covered much of the same material. Particular stress was laid upon two subjects: products and general policies. Through factory trips and lectures a more thorough knowledge of the product was given, emphasizing those qualities which made Olin tires superior to competing products. In dealing with general policies, the attempt was made to build up the loyalty of the men toward the company.

Salesmen were paid either straight salary and expenses or salary plus commission on sales varying from ½ of 1% to 2%. Net compensation of territorial salesmen ranged from $150 to $450 a month with adjustments being made every six months. College men entering the training courses received from $125 to $135 a month with periodic increases which brought the salaries up to between $175 and $185 at the end of the first year. At the end of the second year their salaries were around $225 a month, varying somewhat according to the section of the country.

[1] A truck and two men with full equipment for sign painting and erecting were sent through a territory frequently to see that dealers adequately identified themselves as carrying the company's line.

Did the methods of selection avoid the dangers of the single interview method? Was the application blank suitable for the Olin Tire Company's purposes? Should the Olin Tire Company have required each applicant to furnish a surety company bond? Should the Olin Tire Company have refused to consider a candidate who declined to fill out an application blank? Should the Olin Tire Company have used written contracts with its salesmen? What should the contract have contained?

84. TEMPLETON COMPANY—PROPOSAL TO ADOPT A TRAINING PROGRAM FOR SALESMEN IN EMPLOY OF COMPANY FOR A NUMBER OF YEARS

The Templeton Company manufactured hand and electrically operated duplicating machines for office use, designed to reduce costs on volume duplicating operations. For many years prior to 1938, the company had conducted annually a training course for new salesmen, which normally occupied a period of two weeks each year and was held at the company's home offices and factory in Chicago. While all the newer salesmen had attended these meetings, there were a number of older men on the selling force who, because they had been employed before the course had been established, had never received this type of training. Even though these older men had proved themselves satisfactory salesmen, some of them were not performing what the executives considered a complete selling job. Moreover, there were a number of men on the force who, in spite of having attended the training sessions, were selling to a part rather than to all of the potential customers in their territories. This situation was attributed to the fact that these salesmen were familiar with the application of Templeton equipment to the uses of only a part of their prospective customers and were not trained in selling to new types of users. In order to remedy this condition, the executives were considering the desirability of holding a training school for those salesmen who had been in the employ of the company for some time.

The Templeton Company's line of duplicating machines was supplemented by such accessories as types, plates, and record drawers and cabinets. Customers included firms in almost every kind of manufacturing business; banks; publishers; insurance companies; educational institutions; public utilities; railroads; and municipal, county, and state governments. New equipment sales constituted approximately 45% of the total volume, while supplies and accessories made up the remainder. Of new equipment sales about 65% were made on a cash settlement basis, and 35% were sold on short-term installments. Templeton duplicating machines and equipment were sold throughout the country by exclusive

agents who handled only Templeton equipment and over whom the company was able to exercise close control. Each agency was a unit in the company's sales organization; and, although the company actually had no salesmen who might technically be considered its own, the agency selling forces were referred to as "company salesmen." It was for the new recruits in these ranks that the Templeton schools were held.

The 1938 training program for new men, typical of those given in former years, was held in Chicago during the first two weeks in April. The 53 men who were enrolled from 23 agencies had previously spent at least 60 days in the field assisting senior salesmen. Only those men who had shown progress were asked to attend the company's training classes, where they were given the fundamental principles employed in selling Templeton products. Expenses of the men during their stay at the school were borne by the company, while traveling expenses to and from Chicago were paid by the agency office.

The 1938 program consisted of lectures, discussions, and demonstrations, and each day's sessions were held from 9 a.m. to 5 p.m., allowing an hour at noon for lunch. Evening classes were also held three nights during the first week and two nights during the second week. On Monday, the opening day, "get acquainted" activities and addresses of welcome by Templeton executives occupied the entire time. On Tuesday the men were informed of the purpose of the school and attendance requirements, and were given an introductory lecture on the history of the company, which was followed by talks upon the advantages and uses of Templeton equipment and the importance of having a good knowledge of a prospective customer's business. Wednesday and Thursday were spent in discussing the preliminary work necessary before calling on a prospect, the planning of calls, the approach, the conduct of demonstrations, the sales kit, the use of advertising and sales promotional material, the use of the price book and quotation of prices, and the closing of the sale. On Friday class members gave demonstrations on selling to several types of prospects, including a retail department store, church, lodge, laundry, and insurance office. The class was also taught how to follow up leads, sell attachments, and install and teach the operator how to use the machine. The week's program was concluded on Saturday morning with discussions concerning the handling of customer objections and complaints, and the regaining of lost or inactive customers. Entertainment was provided for Saturday evening, after which the group was recessed until Monday morning.

On Monday of the second week the men were asked to demonstrate how sales should be made to particular classes of prospects as, for instance, a manufacturer, school, dry cleaner, hattery, hotel, and bank; and discussions were also held regarding the company's budget plan, trade-in allow-

ances, and unusual applications of equipment. Demonstrations of sales to a creamery and dairy, an ice cream manufacturer, and a towel supply company opened Tuesday's meeting, and the remainder of the day was spent in instructing men how to sell particular products in the company line to general users. On Wednesday the men carefully analyzed the advantages and disadvantages of competing products. Most of the time on Thursday and Friday was occupied by class members who demonstrated how sales should be made to the following types of customers: real estate office, government department, city and county tax office, wholesaler, newspaper and magazine publisher, stock and bond broker, loan company, mail-order house, charitable organization, bakery, and brewery. During the remainder of these two days, salesmen's contests and methods of establishing company quotas were discussed, and the desirability of cooperation throughout the organization was stressed. On Saturday morning the training period was completed with a general summary and review of the complete course, together with final instructions and best wishes from the president, vice president, and sales manager.

Because Templeton products could be used in a wide variety of business enterprises, the executives wished to train salesmen to become thoroughly familiar with the application of the equipment to as many types of business as possible. As far as the new salesmen were concerned, this phase of the training program was considered effective, but the executives believed that a number of the men who had been on the salesforce for longer periods were devoting their attention to but a narrow part of the potential market. The cause for this specialization was believed to lie in the fact that most of the older men had never been given a complete training course in which they could learn of the various applications of Templeton equipment or, if they had attended a training school and knew of the applications, in the fact that they were concentrating on those businesses which were either most interesting to them or easier to sell. To overcome this difficulty, Templeton executives were considering the advisability of conducting a training program for the company's older salesmen. That such a plan would benefit the men was apparent to the Templeton executives, but whether it could be introduced diplomatically and carried out effectively was open to question.

Company officials believed, first of all, that since the criticism of specialization did not apply to all of the older men, it would not be wise to consider offering a training course to the entire group. Moreover, several executives pointed out that it would be difficult to draw a line of distinction between those men who should be asked to attend and those who should be excluded. They believed, furthermore, that those men attending the school would feel somewhat embarrassed by the implications of the invita-

tion. One member of the sales department suggested that embarrassment could be avoided if a proper training plan was prepared. He suggested that a number of the older salesmen might be asked to address the young men attending the regular sessions, speaking on the particular application of Templeton equipment with which each man had had the greatest selling success. At the same time each older salesman would be in a position to listen to explanations of other methods of using Templeton products and thus, it was believed, would profit considerably by the meetings. The effect of this plan, it was stated, would be to cause each older salesman to feel that he was invited to talk on some application of the equipment concerning which he was a recognized authority, rather than to feel that he was asked to attend because he knew too little about the other phases of his sales work. Other executives, however, questioned whether this would be a desirable policy, since they believed it would tend to develop an attitude of overconfidence in the men rather than to make them realize that they were not doing a complete and satisfactory selling job.

If such a training course was agreed upon, the executives were further undecided as to whether the older men should meet with the regular training session as proposed above, whether separate meetings should be held at Chicago at another date, or whether some attempt should be made to train the men at the agents' headquarters. Of the three alternatives, the plan to train the men at the local agency was known to be least expensive since the service of a traveling training supervisor would be the only cost. On the other hand, there was some question as to the effectiveness of the local training program, because the salesmen would not be able to profit from the contact with salesmen in other agency offices.

Since the regular training course for new men stressed fundamentals and gave great attention to detail, several executives stated that it would waste considerable selling time to have the older men attend the Chicago training school during the same period. It was suggested that a special program be devised for older salesmen which would feature only those problems with which they were unfamiliar. This type of program would be shorter and less expensive than keeping the men for a full two-week period.

After much discussion there still remained considerable difference of opinion among Templeton executives as to the advisability of embarking on any type of training program for the company's older salesmen. One group believed that the problem was a local one and could be handled by placing pressure upon the agent himself; another group believed that the men should be trained locally under the guidance of a traveling supervisor employed by the company; and still another group contended that the men should be asked to attend a formal training school at the company's home

office, although within this group there was some question as to whether the men should meet in conjunction with the regular courses for new men or whether a separate, and perhaps shorter, course should be given at another time.

QUESTIONS

1. A widely distributed course on salesmanship contains the following quotation: "There are many attributes characteristic of life and growth that are common to all organisms whether simple or complex, and in the study of human types we can easily identify certain individuals by the preponderance of one quality over other qualities in their make-up. For our immediate purpose we will classify but four easily recognized types of individuals: the fine type, the coarse type, the positive type and the negative type.

"The individuals of each distinctive type will have a marked tendency to act in conformity with their inherent nature. Those people characterized by fineness of inherited qualities will have definite traits of character, likes and dislikes, entirely different from the traits of other types."

Why has this not become the general basis for selection of salesforce?

2. A recent advertisement for salesmen in the *New York Times* asked the applicants to write in their own handwriting a letter of application enclosing a photograph. To what extent may selection be made upon the basis of these data?

3. Discuss the relationship between the score or the I.Q. in mental alertness tests and success as a salesman. Must good salesmen be "intelligent"?

4. Should a textile machinery firm hire experienced or inexperienced men?

5. What sources of salesforce should an automobile company tap in order to build up a reserve of young men who may be sent out to help train salesforces in retail branches?

6. Where should the Sutton Company, manufacturing women's and misses' shoes, seek new salesmen to be trained in its course? Past experience has not given any really significant clue to sources. Salesmen now in the employ of other manufacturers, retail shoe salesmen, young men in the Sutton plant, men just out of high school or college have all been suggested.

7. What conclusions are to be drawn from the fact that comparative tests of different men as to ability to select salesmen have revealed considerable differences? How may the disadvantages of the interview method be reduced?

8. Discuss the uses and limitations of the application blank as a tool in the selection of salesforces.

9. "The selection of salesmen, because of the intangible factors involved, will always be an unsatisfactory task. The device of the rating scale, used particularly in connection with the personal interview method, greatly increases the accuracy and specificness of judgment. The rating scale does, however, have definite and manifest limitations. . . . " What are these limitations?

10. "Many reasons are being advanced against the effectiveness of corporation sales schools. Among the strongest are: high costs; difficulties of operation; risk of losing men to competitors after training; impracticable nature of the school work. These reasons are due to flaws in operation and not due to any fundamental weakness in that method of training salesmen. Because of this the present period is probably but an

interruption in the upward trend in the growth of these schools which was begun several years ago." Discuss critically.

11. Is training necessary for experienced salesmen provided (*a*) they have sold similar lines; (*b*) they have been engaged in selling different lines to the same class of dealers?

12. Should training of salesforce be centralized or decentralized? To what extent should the decision as to centralization be influenced by the size of sales districts, the size of the enterprise, location of sales and production headquarters, and type of product?

13. A manufacturer well known for the quality of his goods seeks to place upon the market an article of merchandise which he has not previously manufactured and because of the high quality of the article is obliged to ask a higher price than his competitors are asking. How should his salesmen be trained to present this new article of merchandise to the trade?

14. Under what conditions is it advisable to establish a special school for training salesmen? In what matters should instruction be given? Should candidates be paid during the period of instruction?

15. Should sales training be confined to new recruits to the salesforce or should older members of the organization be retrained at intervals?

16. What methods may be used to train salesmen on the job?

17. How may subordinates be trained to train salesmen?

18. Should a company manufacturing machine tools, cutters, milling machines, etc., continue a course of training which it now is requiring—four years' shop apprenticeship and two years' special training on particular classes of machines—before permitting young men to go out in the field as assistants to older salesmen? Salesmen are expected by this company to design special attachments for the various large machines which are made and sold.

B. COMPENSATION OF SALESFORCE

Two questions are involved in determination of salesmen's compensation: (1) the level of income which is to be paid to the salesman for his service and (2) the methods of payment, the arrangement whereby this income is to be paid to him.

As to the level of income, little may be said which does not apply to every class of compensation for work. It should be sufficient to provide for a reasonable standard of living for the salesman in his class. It is fixed in part by the amount of competition for the services of salesmen of a particular type needed and further by the policy of the company, which may be to pay only the going market rate or possibly to hire superior men for whom a correspondingly higher income is offered.

The compensation plan should, in addition to giving compensation for work done, provide for payment in such a way that the sales effort of the company should be expended when and where desired. The loyalty

of the salesforce should not be adversely affected, while unit cost of salesforce expense should be kept at the lowest consistent figure.

It must be emphasized that compensation plans alone are not a substitute for management. They may constitute a useful adjunct but will not take the place of adequate supervision, training, and direction.

Plans of compensation vary widely. The two basic types are salary, in which compensation is based upon the time occupied, and commission methods, in which compensation is based much more directly upon the amount and difficulty of work done. Other elements may be added, such as bonuses, profit sharing, and the like; and the two methods may be combined in various ways to eliminate some of the disadvantages of each.

The straight salary plan of compensation provides that a salesman shall be compensated by the payment of a stipulated sum for a period of time, usually a week, month, or year. For traveling salesmen this payment is usually exclusive of traveling expenses. Salary plans of compensation have certain definite advantages from the viewpoint of the salesmen. They tend to relieve him of anxiety regarding the regularity of earnings, thus permitting him to exert himself fully on the job. Salary plans presumably make it possible and profitable for salesmen to acquire knowledge of the different types of work for building up goodwill as a basis for future sales; they are not tempted to slight reselling work which may not yield immediate orders but which may be very valuable to the firm at a future time. Again, the fact that salesmen are operating under the salary plan makes them in a sense more clearly members of the sales organization and more amenable to direction. There is, however, a definite lack of incentive in the salary plan; adjustment of salary is usually not made accurately or promptly; good work is not sufficiently rewarded and poor work may be overpaid. A salesman who does not find his income adjusted to the effort which he makes every day or every week tends to relax efforts.

The commission plan of compensation involves the graduation of compensation according to volume of sales or profits, usually on a percentage basis. From the viewpoint of the house there is often an advantage in paying commissions because the salesman is rewarded in accordance with volume of sales or profits. The plan insures incentive, which a man may need to keep him industrious and alert, and which increases, because the commission plan ordinarily does not limit earnings as does the salary plan. The unusual salesman is able to make large earnings, often much larger than would be paid him on a salary basis. On the other hand, the commission plan tends to exert pressure upon a salesman to get volume of sales or profits, even at the expense of goodwill. A sales-

man is inclined to push easy-selling goods or goods with the largest commissions. Many variations may be made in commission plans to meet difficulties encountered in order to avoid abandonment of the plan as a whole.

More common today than either of the two principal plans are the combination plans which aim to furnish both an incentive element and regularity of income. Regularity of income is furnished by a limited salary, while the incentive is furnished by commission or bonuses arranged in numerous ways.

There are, of course, many other questions which need to be decided in connection with compensation. Traveling expenses, control of expenditures for automobiles, splitting of commissions, provisions for salesmen's pensions—these and many more deserve study under particular circumstances.

85. WESTLAND COMPANY—COMPENSATION OF SALESFORCE

The Westland Company manufactured a varied line of candies, including penny pieces, 5-cent bars, bulk candies, and some package goods, which were sold through 4,200 confectionery, tobacco, and drug wholesalers, and general merchandise and grocery chains. The company's plant, considered one of the finest in the country, covered nearly ten acres of floor space and had an annual capacity of 60,000,000 pounds. The annual sales of the company amounted to approximately $5,000,000; 90% was sold to jobbers and the remainder directly to chain stores and large department stores. Twenty senior salesmen called upon jobbers; eight brokers worked the sparsely populated territories. Fifteen of the salesmen traveled throughout the country; five sold to the jobbers who visited the company's store in the home office building. A group of eight junior salesmen, known as "detail" men, performed missionary work in various sections of the country, aiding jobbers' salesmen and presenting to retailers new items, some of which had not yet been stocked by jobbers.

Previous to 1938 senior salesmen had been paid a flat salary and traveling expenses, plus a bonus for attainment of quota. Quotas had been based primarily upon past performance, although allowance had been made for general and local business conditions, type of competition, and extent of local advertising. Bonus earnings had begun as soon as a salesman reached 80% of his quota and had been computed as follows: 1% on sales between 80% and 90% of the quota; 1½% on sales between 90.1% and 100% of the quota; and 2% on excess over 100% of quota. An additional sum of $200 had been awarded for quota attainment.

Junior salesmen had been paid a straight salary and had not participated in bonus payments. The sales executives had become dissatisfied with the plan because it had stressed total volume rather than sales of profitable items; salesmen, anxious to exceed their quotas, had pushed those products which provided the greatest volume or perhaps were easier to sell rather than those which were the most profitable for the company. One-third of the company's items were unprofitable and were carried merely to contribute to overhead costs and to provide a complete line. In January, 1938, a new compensation plan was proposed which placed emphasis on the more profitable items in the company's line. A description of the plan, quoted below, was given to several key salesmen, who were asked to state how, in their opinion, the new method of compensation might be received by the salesforce.

Objective of Plan.

One of the major aims of the compensation plan outlined herein is to insure that you receive compensation in proportion to the degree of success that you attain in selling Westland products in your territory. It permits you to determine by your own efforts the amount of your total income. By operating under this plan you have much to gain and nothing to lose, inasmuch as it in no way affects your regular monthly salary. However, the plan provides the opportunity for you to make more money than at present by improving your sales results in one or both of two ways, as follows:

1. By increasing the total amount of your sales.
2. By increasing the proportion of your sales of the more profitable items.

Establishing Sales Quotas.

In order to provide a standard by which your performance can be measured, it is essential that a sales quota be established. The sales quota can be defined as the sales volume, expressed in dollars, which, in the light of the various factors affecting sales, the Company can reasonably expect you to attain within a given time in your territory. The sales quota can thus be used as a yardstick by which sales results are measured. It should be clearly understood, however, that the quota is in no sense a forecast of what the Company expects your future sales to be; instead the quota is a volume of business which the Company must receive out of a territory in a given period of time in order to continue in business with a reasonable degree of success.

It is the intention of your management to guard against setting quotas that are so high that it would be unreasonable to expect attainment, and on the other hand so low that they can be achieved without at least average effort. Quotas, therefore, will be based primarily upon past performance in each territory, although consideration will be given to factors such as general and specific business conditions, nature and extent of competition, whether you have detail assistance and advertising, and your present proportion of sales of "A", "B", and "C" items. Quotas will be established upon a quarterly basis and bonuses earned during that quarter will be paid shortly after its close.

Attaining the Quota.

In order that a maximum amount of money will be available for bonuses and at the same time permit your Company to operate with the greatest success, it is desirable that

each salesman concentrate his sales efforts on those products that carry the widest margins of profit. Therefore, those products which are most profitable to the Company have been grouped together in an "A" classification. Likewise, those products which show a smaller profit have been placed in the "B" classification; and those products which show little or no profit but which are "burden earners" have been classified as "C" items.

It is reasonable that each salesman should receive greater credit for selling "A" or "B" products than for selling "C" items. To achieve this, therefore, each salesman will be credited $1.20 toward his quota for every dollar's worth of "A" items sold. He will also receive a credit of $1.00 toward the attainment of his quota for each dollar's worth of "B" items sold, and he will receive a credit of 80 cents toward the attainment of his quota for each dollar's worth of "C" products sold.

For example, if a salesman's quota is $100,000 for a quarter and he sells $60,000 worth of "A" products during the quarter, he will be credited with a total of $72,000 toward the attainment of his quota since $60,000 multiplied by $1.20 equals $72,000. If, during the same quarter, he sells $24,000 worth of "B" products, he will receive a credit of $24,000 toward the attainment of his quota. Similarly, if he sells $16,000 worth of "C" items, he will receive a credit of $12,800 toward the attainment of his quota since $16,000 times 80 cents equals $12,800. Adding the various sums given as credits toward quota attainment shows a total of $108,800 which is $8,800 over the quota and it is upon this figure in excess of the quota that bonuses will be paid. In this example, the salesman receives a quota credit of $108,800 for $100,000 of actual dollar sales due to his good performance on "A" items.

It can be seen from the foregoing that the greater the proportion of "A" products sold by you, the sooner you will attain your quota. For instance, if a salesman with a quota of $100,000 for a quarter sold only "A" items, he would only have to have actual dollar sales amounting to $83,400 in order to exceed his $100,000 quota. Your price book shows whether each item is in "A", "B" or "C" Classification.

Bonus Payment for Exceeding Quota.

You start earning your bonus as soon as you exceed 90.1% of your quota. The following table shows the rates of commission which will be paid for various degrees of quota attainment:

Percentage of Quota Attained	Rate of Commission Paid on Sales over Quota
90.1% to 95%	½%
95% to 100%	1%
Over 100%	2%

For example, if a salesman with a quota of $100,000 builds up quota credits during the quarter amounting to $112,000 as previously explained, he will receive a bonus as follows:

½% on sales between $90,100 and $95,000	$ 24.50
1% on sales between $95,000 and $100,000	$ 50.00
2% on sales between $100,000 and $112,000	$240.00
Total Bonus Earned	$314.50

Since the $112,000 was built up at the rate of $1.20 for "A" items, $1.00 for "B" items and $.80 for "C" items (for each actual dollar sale) the actual rate of commission for sales over 100% of quota amounts to 2.4% on "A" sales, 2% on "B" sales, and 1.6% on "C" sales.

Distribution of Bonus.

In territories where there is only a jobber salesman, the distribution of the bonus will be made in total to that salesman. However, in territories where there are detail men, the bonus will be divided among the Company representatives inasmuch as all contributed directly toward earning the bonus. The bonus will be divided among the men in the territory on a fixed basis as follows:

Number of Detail Men	Percentage Distributed	
	Senior Salesman	Each Detail Man
0	100%	00%
1	65%	35%
2	60%	20%
3	55%	15%

Under this method of distribution the senior salesman is given the major portion of the bonus. The detail men also receive a substantial percentage since, as each detail man is added to the territory, the opportunities for the senior salesman to increase the amount of his bonus are greater.

Should the proposed plan of compensation be adopted?

86. KEPNER COMPANY—COMPENSATION OF SALESMEN BY A COMPANY SELLING INDUSTRIAL INSTRUMENTS

The Kepner Company was engaged in the manufacture and sale of industrial instruments used for indicating, recording, and controlling purposes in the various manufacturing processes and machines of about 58 different industries. The main groups of Kepner products included gauges, pyrometers, thermometers, and control instruments for temperature, humidity, pressure, and flow; each type in turn had as many as 100 different combinations, since it was necessary to individualize each product for the particular concern using it. Prices of complete units ranged from $50 to $1,500.

The Kepner Company, which had been successful from its formation, had grown gradually until it had 16 branches and 7 agents scattered throughout the United States and 16 foreign agencies. There were 9 competitors in the field, 3 of which were as important as the Kepner Company. In spite of this competition, the company, noted for high-quality products and excellent service, had received during 1934 more inquiries from potential users than could be taken care of by the salesmen. Consequently the salesmen did not have to spend time finding new users, but

could merely follow through inquiries from interested prospects. A good deal of promotion was done at the home office, however; both product and market research were carried on continually. Every order received was placed in detailed application files, and from these both customers and industries were studied in an attempt to find their potential use of Kepner instruments both for products they already used and for products not yet tried.

The sales organization was set up on a product, industry, and territorial basis. Under the sales manager, who was directly responsible to the president, there were 8 managers of products and industries, 16 branch managers, an advertising manager, and the foreign agents. Products were grouped according to their basic types. Each product manager was in charge of pricing, research, and preparation and dissemination of descriptive bulletins for his one group of products. Each of these product managers also had charge of certain of the industries with which the company dealt. He studied the special requirements of his particular industries and attempted to develop new products for them as well as to find new general uses for his specific products. The branch managers had complete charge of all sales of all the types of products in their districts and were responsible to the sales manager alone. They did some selling within their districts but spent most of their time in control, that is, in seeing that inquiries and requests for service were answered, and in serving in general as a point of contact for all customers. There were in the United States 42 salesmen and 7 commission agents, who sold all the products of the company to all types of industry.

Since the products were technical and required much special adjustment and adaptation to the uses of the purchaser, the salesmen all had to have technical training and had to be able to give technical advice. This technical advice necessitated a study on the part of the salesmen of both the purchaser's product and his process of manufacture. The control instruments had to be fitted to the individual type of process, and their operation had to be constantly checked until the results were as perfect as possible. They also had to be able to demonstrate the various technical uses and to some extent to forecast the potential results of using specific Kepner instruments. After the instruments were sold, the salesmen had to continue giving technical service and advice. All of these requirements presupposed thorough technical knowledge on the part of the salesmen and necessitated the expenditure of a good deal of time and money on the part of the company. Engineers were stationed at each branch to check all the technical details.

Because most of the instruments had to be specially adapted to the customer's use, prices were listed only on the base parts and the accessories,

but the salesman quoted only the total list price on complete instruments. This price had to include the estimated servicing costs. The salesmen were not allowed to give discounts of any sort.

Mr. Hall, the sales manager, believed that the company was selling results as well as products, for the use of these industrial products would not increase if the results were not profitable to the various concerns using them. He therefore insisted upon high-grade salesmen who would be both willing and able to give service. Before they were sent into the field, salesmen were given training in the special features of the company's products. They were not given any specific sales training, since Mr. Hall felt that the quality of the instruments and the company's guarantee of service were more important in making sales than the ability of the salesmen to influence the prospective customers by sales talks. After their technical training, and before they were sent into the field, Mr. Hall did talk to the men individually in order to test the extent of their knowledge and their ability to use it when selling. He then told them of the importance of using their own personality and not that of someone else, and of the importance of morality and honesty in making sales. They were then put under the supervision of branch managers and traveled with the more experienced salesmen for a short time. Mr. Hall did this in order to give them some idea of the selling problems they would meet; he did not allow such supervision to continue until the men had acquired "canned" sales talks.

Because the nature of the product and the market made it necessary for salesmen to spend a great deal of time with prospects to secure orders and with customers in order to give some service, and because demands were sudden, unexpected, and unpredictable, Mr. Hall felt that it was not advisable to control the salesmen's expenses by any set standards or ratios of expenses to sales or to plan their routes for them. To show this lack of correlation, Mr. Hall told of one salesman placed in an undeveloped district. It was three years before profits from sales in this district exceeded expenses; thenceforward the district was most profitable. He also told of spending as much as $3,500 in engineering advice merely in the hope of getting a sale. The salesmen, however, were given an expense-to-sales ratio for the purpose of a guide or goal rather than as a maximum allowance, the ratio varying according to the territory where the salesmen worked.

The salesmen were also expected to send to the sales and branch managers weekly personal and automobile expense reports, copies of which follow in Exhibit 1. If these reports showed any unusual expenses, the salesmen were expected to state the reasons therefor. Usually no comment was made by the company on these reports; branch managers

EXPENSE VOUCHER No. _____

TOWN _____ STATE _____ DATE _____

REPORT OF EXPENSE INCURRED FOR _____ FROM [DATE] _____ TO [DATE] _____

SEND CHECK TO [TOWN] _____ BY [DATE] _____ SIGNED _____

VOUCHER APPROVED	BR. MG'R	SALES	RECORD	ACCTG.

DATE	DESCRIPTION	TOTAL	DISTRIBUTION															
			SALARIES		OFFICE SUPPLIES PRINTING PETTY		TRAVELING								POSTAGE TELEGRAPH AND TELEPHONE					
							HOTEL		MEALS		FARE		INCID.							

EXHIBIT 1.—Kepner Company. Expense voucher.

checked and approved the expense reports before sending them on to the home office. The salesmen also made daily reports on all their calls and sent in individual service reports for each service call made. The call reports were more for the purpose of building up the customer files in both the branch and company offices than for control purposes. The service reports were made out in triplicate and sent to the sales managers and the factory engineers. When major faults were found, the reports were sent on to the foremen and even to the workmen concerned with broken parts. Summaries of these service reports were kept by territories, products, and months. These summaries allowed the product managers to watch for the main weaknesses of their products over a period of time. Copies of these report forms appear in Exhibits 2 and 3. The salesmen met with their branch manager once each week to plan their routes for the following week, although the salesmen were free to change these plans at any time if it seemed advisable. Mr. Hall counted on the high caliber of the men to result in their doing their own routing in the most beneficial way for the company. He felt that this freedom was essential and proper inasmuch as it often took weeks of work to make a sale and since the salesmen were, in effect, building up their territory and creating goodwill for their own future benefit as well as for the company's.

Mr. Hall gave the salesmen various aids in their work and also gave advice as to the products that should be pushed and the industries in which they should be stressed. Each month he received from a trade association the total sales within his industry, which enabled him to check his position within the field by comparing the amount of sales of his company with the total. He also checked each of his territories by types of instruments sold and by the industries to which the sales had been made. In allotting sales to territories, credit for sales made in one territory and shipped to another was split on a 50/50 basis. Frequent bulletins were sent out by the company giving stimulating sales advice and "pep" talks. Advertising was also done through trade journals, and $35,000 to $60,000 was spent each year in direct-mail advertising, stressing certain items to each particular type of industrial consumer.

Until the early 1920's, the company had specialized in the production of thermometers and similar instruments which did not require much servicing. The company's compensation policies had not been well defined. Most of the salesmen had been paid on a commission basis, with travel expense allowances but without being supplied with company cars; others had been paid on a straight salary basis.

As the company expanded its line of products to include more complicated control instruments, more special work in adaptation and servicing was required of the salesmen, who, therefore, were not able to spend

INDUSTRY, NATURE OF PRODUCT OR BUSINESS

FIRM

ADDRESS

TOWN STATE

SPECIAL ACTION — ROUTING | ATTENTION (✓ DATE) — FIRM

SALESMAN'S REPORT

INSTRUCTIONS FOR MAIL LIST: ADD | CHANGE | REMOVE | MAIL LIST ATTENTION

CLASSIFICATION OF PROSPECT

1 USER
2 COMPET. USER
3 PROSPECT — DEFINITE POSSIBLE PRESENT FUTURE DOUBTFUL
4 NO PROSPECT OR APPLICATION
5 OUT OF BUSINESS
6 CALL FREQUENCY — NORMAL REVISED
7 WILL PLACE ORDER ABOUT
8 CALL BACK ABOUT
9
10

PERSONS INTERVIEWED	TITLE	DEPT. OR FUNCTION
1		
2		
3		
4		
5		

CHECK TYPE OF CONTACT BELOW:
- NEW
- PERSONAL
- CONFERENCE
- PHONE
- SERVICE

CHECK RESULT OF CONTACT BELOW:
- OBTAINED ORDER
- MADE QUOTATION
- DISCLOSED APPLICATION
- MADE SALES PRESENTATION
- INTERVIEW
- UNABLE TO SEE

SEND FOLLOWING BULLETINS TO INDIVIDUALS AS INDICATED BELOW:

No.	BULLETINS	SENT BY	DATE

IF NO CALL MADE BUT REPORT MADE TO CHECK MAIL LIST ☐ TICKLE

ANALYSIS AND RECORD

INDUSTRY ML OR MARKET PLAN ML

CODE MP

COUNTY TERR.

CUSTOMER ☐ NON CUSTOMER ☐

RATING CUSTOMER

PROSPECT

SPECIAL MAIL LIST ☐ ☐ ☐

1 2 3 4 5 6 SALESMAN DATE

FORM 902 6-25 20M

CALL REPORT

EXHIBIT 2.—Kepner Company. Salesman's report.

so much time making sales, a condition which would doubtless be reflected in earnings and which might also bring about shirking of servicing duties. If servicing were slighted, the well-established goodwill of the company

SERVICE REPORT

Do not write in this space

Territory No.

Date

City State Interviewed Position

Company

Address

	Kind of Instrument Examined	Serial No.	Class or Type	Original S. O. (Do not write here)	Application
1					
2					

(Make a Separate Report for each Instrument Serviced unless Instrument and Trouble are Identical)

(A) Condition of Instrument or Installation. (Sketch is Desirable)

(B) Work done to remedy trouble.

(C) Suggestions for improvement.

Service Time	Travel Time
Mileage	Other Expense

Material used.

Charge		If no Charge
No Charge		Give Reason

Salesman

Always send two copies of Report to the Home Office and a third copy if Instrument will be returned. When another Branch Office is involved send it a copy.

EXHIBIT 3.—Kepner Company. Service report.

would be endangered. If the salesmen attempted high-pressure selling in order to increase their commissions, the result would doubtless be the forcing upon customers of goods not needed by them, perhaps with avoidance of service duties and attendant loss of consumer goodwill.

The compensation policy was therefore changed. All salesmen were placed on a straight salary basis, furnished with a company car, and given expense money. To foster and maintain company loyalty among the salesmen, they were permitted to use the company cars for personal use, the only stipulation being that they report the number of miles driven on personal business and pay for gas and oil used on vacation trips. When a salesman was employed, he was given a certain amount of expense money, the amount depending upon the living costs in the district where he was to sell. Each week thereafter he sent in his expense account with vouchers attached, and a check reimbursing him for his outlay was immediately sent to him.

All new salesmen were started with a minimum salary of $125 to $175 a month, the amount depending upon their former experience, and a promise of reconsideration for raises every three months until they were receiving $200. After that each salesman's salary was considered for possible raises once a year after the company's financial statements had been made. Since the company wanted to stress loyalty and a willingness to serve customers, considerations for salary raises were the salesman's cooperativeness, honesty, technical knowledge, appearance, potentials, and morality, and not his sales volume. The sales manager did not approve of the use of sales stimulants such as bonuses or salesmen's contests; he relied on an all-round fair treatment and the assurance that there would be no salary cuts except under extremely unusual conditions. He felt with this policy there was no need of sales stimulants; if the men were not loyal and working for the company without artificial aids, he did not want them. No contracts were made with the salesmen.

The straight salary plan had been in operation a number of years when, because of the general business depression, the company felt compelled to propose a change in the salary scale. The salaries of all but seven salesmen were to be lowered; those seven were to be placed on a commission basis. Five of these men, located in districts with very low sales potentials, would otherwise have to be dropped. They were made agents for the company in their districts, received instructions from the nearest sales district, and were paid on a commission basis. The other two were the oldest and most trusted men in the concern, whom the sales manager thought to be entirely reliable and of the highest caliber. They both worked in territories where living costs were high. They would probably feel that they needed more income than the salary with the cut would give them, and it was agreed to make exceptions in their cases and pay them on a commission basis for the time being if they so desired.

Should the company have maintained the salary plan? Should the exceptions to the set salary basis have been allowed?

87. ROCKFIELD RADIO COMPANY—COMPENSATION OF SALESMEN

For some time the sales manager of the Rockfield Radio Company had known that a majority of the company's salesmen were overstocking wholesalers in an effort to obtain larger commissions. On numerous occasions the wholesalers had found themselves at the end of the selling season with an excessive inventory which often had to be liquidated at a loss. The sales manager was of the opinion that such a procedure was detrimental to the company's relations with its distributors; and, in an attempt to correct the situation, he introduced a new compensation plan. Under the plan the salesmen were to be paid on distributors' sales to retailers rather than on sales to the distributors. It was thought that this would cause the salesmen to exert greater energy toward increasing distributors' sales and toward aiding them with missionary and promotional work. After the plan was tested with a few salesmen for a year, it was applied to all of the company's salesmen, the sales manager being convinced that it had great merit.

The Rockfield Radio Company was a large manufacturer of long- and short-wave radio receiving sets. The company maintained 30 salesmen throughout the country. The company intended that its salesmen should not merely sell radios to distributors but should also assist the dealers to promote the product. In addition to selling, each salesman had three other duties. First, he was to act as the contact man between the company and its distributors, interpreting the sales plans in use; he was to be thoroughly conversant with all elements in a promotional campaign and was to report reactions of distributors. Second, each man was to educate the dealers' salesmen in the best methods of selling radios. Third, contacts were to be maintained with the key dealers and smaller dealers in the market in order to keep both the distributors and the company fully informed of any valuable sales information from the field.

In preparing the compensation plan, the sales manager kept in mind several points which he believed were requisites for any satisfactory system of compensation for salesmen: (1) it should be easily understood; (2) it should provide an incentive; (3) it should be valuable both to the salesmen and to the company; (4) it should be flexible so as to be workable in all territories; (5) it should be economical to operate; (6) it should provide an adequate living wage for the salesmen; and (7) it should direct the salesmen toward the ends desired by the company.

Under the new compensation plan the salesmen were allowed drawing accounts, to be charged against and deducted from commissions on total sales, with each man caring for his own expenses. A bonus of 1% of all amounts in excess of previously assigned quotas was also awarded. The

commissions varied among salesmen to allow for the size of the territory, selling expenses, and the value of each man to the company. As an example, in arriving at the percentage commission for salesman A, the sales manager, after consulting past records, found that salesman A's drawing account had been $200 monthly, or $2,400 annually, and that his selling expenses during the previous year had approximated $2,600. Therefore, it was necessary to pay him a total of $5,000 ($2,400 + $2,600) during the coming year. The territorial quota for salesman A had been set at $400,000, so that, applying the ratio of the drawing account and expenses to this figure, his commission was found to be 1.25%

$$\left(\frac{5{,}000}{400{,}000} = 0.0125\right).$$

A similar procedure was followed for each man, and the resultant commissions ranged from 0.8% to 2%.

It was pointed out that much of the success of the plan lay in ability to determine proper and adequate quotas. The sales manager did not believe that sales potentials based on the buying power of the territory with adjustments for business conditions were accurate enough to use. He indicated that quotas prepared in this manner were often so large as to be impossible of attainment, proving discouraging to the salesman. As an example, it was explained that in one particular area the sales potential had been set at $400,000 on the basis of a buying power index, but, owing to competitive factors, it would have been impossible to reach half that quota. The sales manager therefore decided to use the past sales for each territory, with certain minor adjustments for business conditions, in arriving at the quotas he thought were nearer to actual possibilities. On the other hand, it was pointed out that if quotas were based on past sales, a poor distributor would continue with a low goal, so that a salesman in his territory with only a small amount of effort might easily exceed the quota figure and participate in bonus payments. Similarly, a salesman working in a territory where a distributor had been successful in building up a volume difficult to exceed would be unable to become eligible for a bonus, in spite of his aggressiveness and ability to sell. The sales manager indicated that no such situation had arisen, however, and that no difficulty was expected in this regard.

At the outset the problem arose as to the method by which the company could obtain a record of distributors' sales. While the company had always received some written report of the movement of stocks in wholesale outlets, it never before had been important to insist upon absolute accuracy. Moreover, it was felt that the plan might create extra clerical work on the part of distributors, which would be annoying

if not burdensome. The system developed by the sales manager in accounting for wholesalers' sales created little added work, however, and it was believed that it was an adequate and economical procedure. The method involved the simple process of taking the inventory at cost for each distributor at the beginning of the year, adding the purchases during the year, and subtracting the ending inventory, which gave the total dollar amount sold in terms of original cost. All figures were kept at cost to the distributor inasmuch as quotas and bonuses were determined similarly. For illustrative purposes, the procedure for one distributor was as shown below:

Inventory January 1[1]	$250,000
Plus purchases during year[1]	300,000
Amount available for sale[1]	$550,000
Less inventory December 31[1]	150,000
Amount sold during year[1]	$400,000

[1] At cost.

In the opinion of the sales manager, there remained several faults with the plan. First, without a system of monthly sales reports from distributors it was necessary to delay payment of commissions and bonuses until the ending inventory figures could be accumulated, so that actual payment could not be made until late January or February of the year following. While some of the salesmen stated that they preferred to receive commissions in one lump sum, others believed it a disadvantage. The drawing account supposedly provided the men with ample living expenses during the year, so that this objection was somewhat lessened.

A second fault lay in the fact that the plan placed emphasis on a distributor's sales volume rather than on the desirability of sale. Instead of promoting those models which gave the company the largest profit, the salesmen often aided the distributors in selling those sets which were easiest to sell and brought the greatest volume. On several occasions an attempt was made to alleviate this situation by offering a higher commission for the more profitable models. The sales manager believed that, although the compensation plan itself stressed volume, the varying percentages applied from time to time on certain models eliminated the disadvantages and tended to make the plan much more flexible.

The contract and provisions of payment under the new compensation system were as shown below:

AGREEMENT

THIS AGREEMENT made this _____ day of _____ 19__, between the Rockfield Radio Company (hereinafter called the Manufacturer) and _____ a resident of the _____ (hereinafter called the Salesman).

WITNESSETH That:

1. The Manufacturer hereby employs the Salesman, and the Salesman hereby agrees, to serve the Manufacturer under and in accordance with the terms and conditions hereinafter set forth.

2. *Duties:* The Salesman shall devote all his time and attention, subject at all times to the control and direction of the Manufacturer, to the promotion of Sales of Radio Sets by the Manufacturer to the _____

_____

_____

(hereinafter called the Authorized Distributors); and it is contemplated that in connection therewith and as a service to the Manufacturer he shall aid and assist said Authorized Distributors in the sale by them of radios purchased or to be purchased from the Manufacturer, and shall perform such other duties as the Manufacturer shall from time to time assign to him. The Salesman shall pay all expenses incurred by him in the performance of his duties hereunder, including traveling, entertainment, and other expenses.

3. *Compensation:* As full compensation for the services to be rendered by the Salesman hereunder (including such as may be rendered by the Salesman to the Authorized Distributors) the Manufacturer shall pay to the Salesman a commission as follows:

(*a*) __% of the Manufacturer's net selling price of all radio sets which shall during the Contract Period be sold by the Manufacturer to the Authorized Distributors named in Article 2 and re-sold by the latter within their respective authorized territories, to others than authorized Rockfield radio distributors, plus

(*b*) __% of so much of such Manufacturer's selling price (in the aggregate) as exceeds the sum of $____.

No commission shall be payable hereunder in respect to merchandise sold by the Manufacturer to Authorized Distributors during the Contract Period which shall not have been resold by the latter within such Contract Period; that is to say, commissions shall be payable hereunder only in respect to sales made by the Authorized Distributors during the Contract Period, of radio sets purchased by them from the Manufacturer during said period.

For the purposes of this agreement, a sale of an article shall be deemed to have taken place when it is shipped or delivered irrespective of when the order therefor shall have been placed or when payment therefor shall be made. Such commissions, less any deductions provided for under Article 4, shall be payable within 75 days after the expiration or termination of this agreement.

4. *Drawing Account:*

(*a*) The Manufacturer shall advance to the Salesman the sum of ____ per month payable semi-monthly, during the Contract Period as a drawing account to be charged against and deducted from the Salesman's Commissions earned under Article 3.

(*b*) Any debit drawing account or other balance owing by the Salesman to the Manufacturer under an agreement, similar to this, dated _____ and ending _____ shall also be charged against and deducted from the Salesman's Commissions under Article 3.

5. *Rejection of Orders—Returns—Allowances:*

The Manufacturer in its sole discretion may refuse or reject any order in whole or in part; may fix such terms and conditions upon which it will accept such orders; may cancel or permit the cancellation by the purchaser of any order or portion thereof after acceptance; may accept any and all returns of merchandise, and grant such allowances as it deems proper, without incurring any liability to the Salesman in respect thereof,

for the payment of commissions, or otherwise. If commissions shall have been paid to the Salesman hereunder as to any merchandise refused or returned or any such allowances, the Salesman shall refund such commissions to the Manufacturer.

6. *Transfer of Radios Between Distributors:*

A transfer of radio sets having a Manufacturer's current net selling price aggregating $100 or more from an Authorized Distributor not named in Article 2 to an Authorized Distributor named in Article 2 will be deemed to be a sale to the latter by the Manufacturer. On the other hand, any such transfer from an Authorized Distributor named in Article 2 to an Authorized Radio Distributor not named therein will be deemed to be a reduction of, and shall accordingly be charged against and deducted from, the sales to the Authorized Distributors named in said Article 2.

7. The Salesman shall under no circumstances accept orders or enter into any contracts for the sale or delivery of any merchandise; nor shall he make any other commitments on behalf of either the Manufacturer or said Authorized Distributors. All orders or other contracts obtained by the Salesman shall be subject to acceptance.

8. *Term of Contract:* This agreement shall be and continue in force and govern the service to be rendered by the Salesman to, or for the account of the Manufacturer, (including such services as may be rendered to the Distributors named in Article 2) during the period beginning _____ 19__, and ending on December 31, 19__, unless sooner terminated under the following provisions:

(*a*) The Salesman may terminate this agreement and his employment hereunder with or without cause, effective upon one week's written notice to the Manufacturer.

(*b*) The Manufacturer may terminate this agreement and the Salesman's employment hereunder:

(1) for cause—effective immediately upon notice in writing delivered personally to the Salesman or mailed to him at his last known address, and

(2) without cause—effective upon two weeks' notice in writing delivered or mailed to him as provided in the foregoing clause (1).

(*c*) Upon such termination or expiration the Manufacturer shall under no circumstances be liable for commissions or other compensations, or in any manner whatsoever in respect of sales which may have been initiated by the Salesman during the Contract Period and consummated subsequent to such termination or expiration, or in respect of orders which shall have been accepted by the Manufacturer specifying shipment or delivery during the Contract Period if for any reason (other than the Manufacturer's own willfulness) shipment or delivery shall not be made during the Contract Period.

9. Upon the expiration or termination of this agreement the Salesman shall turn over to the Manufacturer and to the Authorized Distributors respectively all correspondence, records and other papers or documents containing information relating to their business, and all such supplies or other articles belonging to them as may have come into his possession, as a prerequisite to a final settlement between him and the Manufacturer.

10. If the Salesman uses an automobile in the performance of his duties hereunder he shall procure at his expense insurance against public liability arising from the operation of such automobile in the sum of $10,000 as to injuries to one person in one accident and $20,000 as to injuries to more than one person in one accident and $5,000 as to property damage, such insurance to be issued in the names of the Salesman and the Manufacturer jointly, as their interest may appear, and the policy of such insurance or a certificate thereof executed by the insurer shall be deposited with the Manufacturer during the Contract Period.

11. The Salesman shall, for tax accounting purposes, submit to the Manufacturer monthly statements of expenses incurred by him in the performance of his duties hereunder on form to be furnished by the Manufacturer.

12. *Definitions:* As used herein the term:

(*a*) "Radios" or "Radio Sets" means radio broadcast receiving sets, radio all-wave antenna kits and radio metal and glass tubes, for domestic, as distinguished from commercial use, bearing the brand or label "Rockfield"; it does not include such sets, kits or tubes as may be manufactured or sold by the Manufacturer and bearing a brand or label other than "Rockfield."

(*b*) Manufacturer's Net Selling Price means the net price charged and to be received by the Manufacturer, less all discounts, and advertising and other allowances.

(*c*) Contract Period means the period during which this agreement shall remain in force under and in accordance with the provisions of Article 8.

13. Other conditions and provisions:

_____

_____

_____

_____

14. This instrument contains the entire agreement between the parties; there are merged herein all prior and collateral representations, promises and conditions in connection with the subject matter hereof, and any representation, promise or condition not incorporated herein shall not be binding upon either party. This agreement supersedes and is in lieu of all existing agreements or arrangements between the parties relating to the salesman's employment by, or any services rendered or to be rendered by him to the Manufacturer.

15. This instrument and any extension, renewal or termination hereof, or modification or waiver of any of the provisions herein contained, or any future representation, promise or condition in connection with the subject matter hereof shall not be binding upon the Manufacturer unless approved in writing on its behalf by the Sales Manager.

IN WITNESS WHEREOF, the parties have executed this instrument on the day and year first above written.

_____
Salesman

ROCKFIELD RADIO COMPANY

By: _____
Sales Manager

_____
Witness

QUESTIONS

1. The Hallett Company manufactured and sold nationally advertised food products. A general sales manager, located at the home office, was in charge of an organization of approximately 150 salesmen, who visited grocers and solicited orders to be shipped through the wholesaler whom the retailer designated. The salesforce had always been paid on a straight salary basis, plus traveling expenses.

For purposes of sales control the United States had been divided into 52 sales territories, ranging in size from a single city, such as New York, to two or three states. In territories where several salesmen were employed one salesman was usually designated as a territorial manager. Sales territories were grouped into 17 districts, each under the direction of a district sales manager, who resided in the principal city in the

district. The number of salesmen under each district manager varied widely, depending on the territories. Because of the need for missionary work and the impossibility of securing an adequate basis for compensation through a straight commission plan, the proposal was finally made by the general sales manager that a dividend plan be developed. He proposed that, for every case of the products sold, a fraction of a cent be placed in the dividend fund, to be divided four times a year among all the salesmen employed by the company. As before, salesmen were to be paid salaries according to their ability and the length of their term of service. Each salesman and each territorial and district manager were to share in the dividend fund in proportion to the amount of salary that they received. For example, if all salaries for a period amounted to $100,000 and A's salary for this period was $500, A should receive one two-hundredth of the dividend fund.

Should the plan have been adopted?

2. A furniture manufacturer, who employed approximately 5,000 persons, contemplated the introduction of a profit-sharing plan whereby a dividend would be paid to all employees on the basis of pay roll at the same rate paid to the stockholders on the common stock. The salesmen were to be treated the same as any other employees. They had been paid by commissions on sales. Would the profit-sharing plan be effective as a means of stimulating the salesmen to put forth their best selling effort?

3. A wholesale drug firm did not allow credit to salesmen on their commission accounts for mail orders received from their customers. The management asserted that mail-order business should be cut down to a minimum and that salesmen should be induced to spend as much time as possible with their customers in order to look more fully after their interests. It was believed that to allow salesmen credit for mail orders would make them careless in their visits to customers. Do you agree?

4. A manufacturer of women's trade-marked garments paid his salesmen a commission of 7½%, out of which they paid their own expenses. Salesmen in the home territory received the same commission as those located in far western territory. The sales manager felt that this arrangement was not equitable because expenses of salesmen in far western territory were considerably greater than those in local territory. Could a workable plan be devised which would equalize income without losing the incentive of the commission plan or departing from the practice of leaving the control of expense in the hands of salesmen?

5. To what extent is the selection of a plan for payment of salary dependent upon (*a*) the customs of other firms in the same line, (*b*) the nature of the business, (*c*) the financial business of a specific enterprise, (*d*) the character of the salesmen?

6. Outline the conditions under which the salary plan of compensation is practical today.

7. Should a manufacturer of calculating machines selling direct to users through 100 salesmen, each assigned exclusive territories, provide definite rules for division of commissions upon sales made to national organizations with branches in different territories? Sales might be made in one territory and shipments made to another.

8. Do depression conditions affect the companies whose salesmen are paid on a commission basis? How does depression affect the companies whose salesmen are paid on a salary basis?

9. How should a sales manager, confronted with the problem of adjustment of salaries, go about making the annual adjustments of the incomes to the men of a company in which no special commission or other incentive elements are used?

10. Since the ultimate purpose of business is to secure net profit, why should not the plan of compensating salesmen on the basis of net profit on the sales which they secure be universally adopted?

11. Should a firm insist upon detailed itemization of expense accounts?

12. Should allowance be made for entertainment by salesmen?

13. Should firms paying salesmen commissions with minimum drawing accounts have written off overdrawn accounts in the fall of 1933? To what extent would the policy have depended upon the outlook for business conditions?

C. MANAGEMENT AND SUPERVISION OF SALESFORCE

Two reasons may be assigned in particular for the need for supervision and direction of the salesman in his work. The first is the fact that the salesman operates independently, frequently a long distance from the sales manager; he is the representative of his house, often the only member of the organization with whom the customer comes in personal contact. Since the selling process is being effected more and more by a combination of different forms of selling effort, the work of salesmen is supplemented by advertising, by special equipment furnished to him, and by the development of other forms of selling effort. A salesman, therefore, benefits by these other efforts in proportion as his own efforts are correlated with them. In the second place, a salesman does not and cannot know the exact work which he should do in order best to serve himself and his employer. Conditions change rapidly. A salesman is not different from other men in his lack of willingness to drive himself to work for his own best advantage. The supervision of a superior officer is of benefit both in furnishing incentive to work more regularly and in helping to make that work more productive.

Supervision over salesmen may be exercised either by personal contact or by correspondence and reports. It is desirable in supervision to furnish some personal contact with the sales executive who can help and inspire salesmen. The supervision, furthermore, should not require an excessive amount of clerical work in making reports and carrying on correspondence. The sales manager should secure from his contact the information which he really needs for direction, although in the interpretation of that information he must endeavor to be fair and just when either favorably or unfavorably criticizing the work of the salesman.

Personal supervision is the chief and most effective method of directing the work of salesmen. It may be done by the sales manager himself, by branch managers, or by special supervisors, or sales "foremen." However, personal supervision is expensive and, as organizations grow larger and

men are scattered through wider areas, it becomes difficult to furnish it in the quality and quantity desired at reasonable cost. Consequently, resort must be had to supplementary means of supervision and cooperation.

Next to personal contact with members of the salesforce, supervision through correspondence is the most common means of giving information to and securing information from salesmen. Most sales organizations provide definitely for frequent letters to the salesmen, for purposes of both information and stimulation, as part of the supervisory plan. Though correspondence may be used as an effective supplement, it is frequently made the basis of an artificial type of stimulation and often misused. As in personal contact, correspondence permits the sales manager to vary the nature of his contact in such a way as to fit the needs of particular situations. He may display his leadership and his ability to secure the cooperation of his men through correspondence in some instances as well as by means of personal contact.

Daily, weekly, or even monthly reports constitute a third means whereby the sales manager keeps in touch with the salesmen. While occasionally salesmen are expected to make only verbal reports at the end of each trip, some formal type of report is usually required. The conditions which will determine the use of written reports are the extent to which the salesman is away from headquarters, the length of his trip, the distance of his territory from sales headquarters, and the importance of having information for decisions in the sales department. Personal preferences and ideas of the sales manager and the number of salesmen with whom he has to deal will also influence report policy. Requirements for report supervision are very similar to the general requirements for control systems in any phase of business. Adequacy and economy of time and effort needed to secure useful information are prime desiderata.

It becomes apparent that only a few of the many phases of the problem of managing salesmen may be mentioned here. One of the most important phases relates to the measurement of salesmen's effectiveness; another to that of stimulating effort through various devices. As to the first, it is obvious that every salesman's work must be measured by his superiors. He must be kept in the same position, promoted, demoted, or dismissed. Adjustments of salary or commission must be made from time to time. Comparisons must, therefore, be made with the required standards of performance. Careful sales management requires that these standards be consciously thought out and carefully set up. While fully dependable standards are difficult to set up, the recognition of inadequacy will at least constitute an influence against the type of hasty judgment which is so common in the appraisal of salesmen.

The fact that a salesman is more or less his own master while on the road, that he lacks the direct incentive of working with others whom he may seek to excel, and that the salary method or many other compensation methods may not furnish sufficiently strong motivation, lead to the need for additional stimulation and incentive so that a salesman may do justice to himself by doing the best that he can, and so that the work of all the salesmen may be carried on at a minimum of cost in comparison with results. This incentive may be furnished in a number of different ways:

1. Compensation plans, as pointed out above, may be adjusted to furnish special incentives for the performance of particular tasks.

2. The stimulation to greater effort may come through letters and correspondence.

3. The sales manager may hold conferences with salesmen or have more elaborate conventions at which salesmen secure both training and incentive.

4. Devices may be used to furnish an element of rivalry between individual salesmen, between groups of salesmen, and between a salesman's own performances at different periods. One form of such rivalry is illustrated by the use of sales contests.

Stimulation by means of sales letters, to be effective, must show that the writer knows the situation in the field; they must offer real help or real inspiration. If a letter is written by a person in whom salesmen have no confidence, its good effects will be slight. The letter as a means of stimulation is a dangerous tool, because (1) many sales managers cannot write letters which express what they intend to express; (2) letters may be received under conditions which exaggerate or minimize the effect of what is written.

Conferences with the sales manager and with fellow salesmen furnish many possibilities of benefit and instruction. Two chief classes of conferences may be distinguished: those which are held at frequent intervals, sometimes weekly or monthly, for the purpose of bringing salesmen together to discuss current problems or plans for the future or the results of past experiences, and those more elaborate conferences or conventions held at frequent intervals to bring together salesmen from a wider area, in some cases from the entire United States, in a few cases also including foreign countries. The purposes of the two types of conference vary somewhat, but in general they may be classified as stimulation, instruction, and control.

The sales contest is a device through which the sales manager seeks to utilize the spirit of rivalry, making use of the desire to excel to furnish an incentive to better and more satisfactory effort on the part of members

of the salesforce. More specifically, contests may be used for a number of different purposes: to increase sales on an entire line, to launch and introduce new products, to increase the number of calls and demonstrations, to obtain new accounts. An incidental purpose may be that of ascertaining the real capacity of the salesmen. The length of a contest may vary from a week to a year, but most of them range from one to three months, and they are quite often dramatized by setting up goals of volume in the form of a game to stimulate the desire for distinction and the desire to stand well with one's fellows. Rewards in prizes may be offered which in themselves stimulate effort on the part of certain men.

There can be no doubt that the contest under certain conditions may be desirable both from the viewpoint of the salesmen and from that of the house. Like most devices, there are conditions under which they should not be used. There are disadvantages which at times may outweigh usefulness. Contests may lead to jealousy among salesmen rather than healthy rivalry, to charges of unfairness, to overstocking or underservicing of the customers. If contests are used wisely, they may be made to help both the salesmen and the company using them; if they are made a substitute for good direction, if they are used to compensate for the ineffectiveness of the general sales plan or for able direction by the sales manager, they are to be denounced.

88. DAVION DRUG COMPANY—JUDGING SALESMEN'S PERFORMANCE

The Davion Drug Company of Cleveland, Ohio, prepared several drug sundry items which were sold by retail druggists throughout the United States. The company's extensive advertising in newspapers and in national magazines had obtained a large consumer demand for its products which pulled it through the various stages of distribution, so that a great amount of direct selling effort was not necessary. For this reason the company was able to obtain a large volume of sales with a salesforce of only 12 men covering the entire country. These men were "detail men" rather than wholesale salesmen as might be expected, since practically all wholesale orders were sent in without solicitation when wholesalers found that their stocks were low. They spent the majority of their time with retailers, encouraging the sale of the company's products, fostering the use of window and counter displays, and attempting to create a favorable feeling on the part of the retailer toward the company. The salesmen took a few orders, both from retailers and from wholesalers, but these were only a small portion of the company's total sales in their territories. In order to cover their assigned areas in a reasonable length of time, the salesmen did not attempt to attain complete coverage. They

visited only the larger cities in their territories and called on only the larger druggists in these cities. The sales manager considered that this coverage of the larger stores was sufficient, since studies by the government showed that 41% of the druggists made 72% of the drug sales. The salesmen were paid a straight salary and all expenses, subject to the approval of the company. Salesmen did all their traveling in automobiles which were the property of the salesmen. Since selling was not the sole duty of the company's traveling men and since the amount of sales varied widely, owing to circumstances in the territories rather than to the industry or ability of the representatives, the sales manager could not evaluate the salesmen on the basis of the volume of their sales. Thus it was necessary for him to devise some other means of judging salesmen's performance.

He obtained, therefore, a daily report from each salesman which informed him as to the number of calls made during the day, both in total and separated into the two classifications of customers and prospects; as to the amount of sales made during the day, in total and also separated into customers and prospects; as to the proportion of the visits to each classification that had resulted in sales; as to the amount of detail work done; and, finally, as to the number of miles traveled during the day.

The information as to the amount of detail work was necessary because more time was spent with a retailer when detail work was done than when an ordinary call was made. Information as to the miles traveled was also necessary because the farther the representative had to travel, the fewer calls he could make. The sales manager believed that such information would enable him to determine how industriously the salesmen were covering their territories, and comparisons of their records would permit him to find salesmen who were less industrious than the average. The proportion of sales to calls, especially to prospective customers, would give some indication of the salesmen's ability, but the sales manager did not believe that this should be the sole basis for evaluation. Therefore, while the sales manager could use this information to determine whether or not a salesman was working industriously, he did not consider it a wholly adequate method of judging the ability of the salesmen.

Since a salesman might be very industrious and yet not be successful, the sales manager obtained three types of information which he believed would enable him to determine the salesman's missionary ability. The first of these was a study of the trend of each salesman's sales monthly. To obviate the difficulty of seasonal sales variations, the trend was obtained in terms of the proportion of the total sales in each territory which had been secured by the salesman in that territory. If the relation of the salesman's sales to total sales in his territory increased, the sales manager was satisfied with the salesman's results from the standpoint of

this measure; but if the proportion began to decrease, he started an investigation to determine, if he could, the cause.

The next indication the sales manager intended to study was the volume of sales in the territories. If sales in a territory were increasing in a proportion as great as were the total sales, or decreasing at a rate not greater than that of the total sales, the district was considered satisfactory; if not, the sales manager had another indication that the salesman was not so able as he should be. He recognized that there were many outside factors which must be taken into consideration, such as business conditions in the area, the amount of advertising the company was doing there, and the activity of competitors.

Since practically all the company's sales went through wholesalers or through chain stores, the sales manager did not feel that it was possible to compare sales with population. He knew that a large portion of the sales volume to one territory was redistributed to other territories, but he did not know how much; thus, any comparison of sales with population would be inaccurate to the extent of this redistribution.

The last measure the sales manager intended to use was a comparison of the percentage of the salesman's total sales in each of the several items with the percentage of the company's total sales in these items. The sales manager thought this was important because certain of the items were seasonal in nature, and he wanted to be sure the salesmen were putting the proper amount of effort on these items at the proper time.

Whenever the trend of the sales made by a salesman was downward and the volume of sales from his territory was decreasing, the sales manager required that he send in a monthly report on business conditions in his territory, amount of competition, and any general information which might explain the cause of his difficulties. He further had a report made up showing sales to the most important customers in the salesman's territory to discover if the loss of one or several of these was the cause of the sales decrease. The sales manager believed that such information would enable him to segregate the salesmen who were not giving the proper amount of attention to their work, or those who did not possess the type of ability required for such missionary selling.

Did the system used furnish the sales manager with adequate, flexible, and economical control over the salesforce?

89. WESTCOTT COMPANY—ANALYSIS OF SALESMEN'S TIME

The Westcott Company, one of the large petroleum companies, operated in the central and western sections of the United States. The company's subsidiaries produced slightly less than half of the crude oil it refined

for the domestic market; the balance was purchased from outside sources. Since competition was keen and margins were very small, the company was continually searching for means of improving the effectiveness of its operations and reducing wastes. While the sales officials knew approximately the costs of handling different products and serving various types of customers, they realized that sales operations could be directed efficiently only if accurate cost data were available. Moreover, the provisions of the Robinson-Patman Act made it advisable for the company to secure authoritative information on the costs of distribution upon which to base discounts and other terms of sale. In July, 1937, therefore, the company made an analysis of the activities of a small group of salesmen to ascertain the apportionment of their time to products and customers.

The products of the Westcott Company were sold primarily to the automotive trade, but some items were used for industrial purposes. The automotive products consisted of premium, standard, and third grades of gasoline; various grades of motor oils and greases; and a wide line of accessories sold to service stations, garages, and similar outlets. Gasoline, kerosene, and oil were sold to farmers and a number of commercial users, among whom were department stores, contractors, and transportation systems. The company's petroleum products were distributed from refineries to bulk plants, where they were stored until tank trucks carried them to dealers and commercial buyers. In many instances these bulk plants were small, being operated by one man, who filled tank trucks and performed other routine duties. In addition to selling, the company's general salesmen were each in charge of one or more bulk plants and spent considerable time checking over products and records and supervising plant operations. General salesmen were further classified as "country" or "city," depending upon the area in which they worked.

Industrial products, such as lubricating oils, fuel oil, and naphthas, were sold in large quantities to dry cleaners, rubber manufacturers, paint manufacturers, and others. These customers were called upon by a separate group of salesmen who, having attended the company's six weeks' training school, understood the ordinary requirements of industrial buyers.

It was obvious that all of the company's costs had to be borne by commodities sold and that each commodity handled or service performed should bear some portion of the total cost. The sales executives recognized the fallacy of believing that certain items could be handled or services performed at no cost because "salesmen were calling on dealers, anyway" or because the pay roll did not have to be increased immediately upon the addition of a new product or service. As the officials conceived it, the fundamental objective of cost allocation was to find certain measurable factors with which the individual expense items, as revealed by the

EXHIBIT 1

WESTCOTT COMPANY—TIME ANALYSIS SHEET

Salesman_____ Title_____ Date_____

Checker_____ Page_____

Customer's Name and Address	Type of Customer	Bulk Plant Area	Trip Mile Reading	Travel Time (Minutes)	Total Time with Customer (Minutes)	Remarks

EXHIBIT 2

WESTCOTT COMPANY—SALESMAN'S DAILY REPORT

Salesman_____ Date_____ 193____

	Customer	Class of Trade	Town	Solicitation	Collection	Inspection	Information	Training	Delivery	Contract	Complaint Adjustments	Sale	Remarks (include amount of sale or collection)
1													
2													
3													
14													
15													
16													

Miles driven_____ Spent preceding night at_____

Notes: _____

Product Code		Class of Trade
1 Motor fuel	9 Fuel oil	A Undivided Westcott dealer
2 Motor oil	10 Industrial products	B Divided Westcott dealer
3 Kerosene	11 Specialties	C Fully competitive dealer
4 Tires and tubes	12	D Westcott commercial
5 Batteries	13	E Competitive commercial
6 Accessories	14	F Industrial
7 Advertising material	15	G Office or plant
8 Educational material	16	

EXHIBIT 3

WESTCOTT COMPANY—ANALYSIS OF TIME—FOUR KENTUCKY COUNTRY GENERAL SALESMEN

(Each salesman checked for period of one week)

Four salesmen:

Total time accounted for	204 hours
Less time for personal use (lunches, private business, etc.)	13
Total working time	191 hours

Average per salesman:

Average hours per salesman per week	51.0 hours
Less average time per salesman for personal use (lunches, private business, etc.)	3.2
Average working time per salesman per week	47.8 hours

Distribution of working time:

	Percentage of Total Hours Worked	Average Hours Spent per Week
Clerical and supervisory	31.4	15
Travel time	28.9	14
Time with customer	39.7	19
Total	100.0	48

Clerical and supervisory time (31.4% of total working time):

	Per Cent of Total Working Time
Clerical time[1]	13.7
Bulk plant supervision	7.1
Other office time[2]	6.5
Meetings	2.4
General	1.7
Total	31.4

[1] "Clerical time" indicated that time which the salesman spent in making out daily reports and other routine clerical work. The form for the daily report is reproduced in Exhibit 2.

[2] "Other office time" was really a catch-all which included time in the office rather than that actually spent in dealing with reports and routine clerical matters. This included such things as making telephone calls to dealers and similar duties.

Travel time (28.9% of total working time):

	Per Cent of Total Working Time
On customer calls	20.9
On other business	8.0
Total	28.9

Time with customer (39.7% of total working time):

	Per Cent of Total Working Time
Commodity selling	14.4
Other time	25.3
Total	39.7

(Of the total time spent with customer, 36.4% was concerned with commodity selling 63.6% with other business.)

EXHIBIT 3.—(*Continued*)

Commodity selling (14.4% of total time with customer):

	Per Cent of Total Working Time
Motor oil	4.1
Tires and tubes	3.3
Accessories	3.0
Motor fuel	1.4
Specialties	1.2
Automobile oils and greases	0.9
Batteries	0.3
Industrial oils and greases	0.2
Kerosene	0.04
Total	14.44

Per cent of total commodity selling time by products:

	Per Cent
Motor oil	28.6
Tires and tubes	22.8
Accessories	21.0
Motor fuel	9.3
Automobile oils and greases	8.4
Batteries	6.5
Industrial oils and greases	2.2
Kerosene	1.2
Total	100.0

Other time with customer (25.3% of total working time):

	Per Cent of Total Working Time
Collections	1.4
Lease arrangements[1]	1.9
Service station appearance	2.1
Advertising	2.2
Equipment	4.2
Waiting	4.5
General time	9.0
Total	25.3

[1] Under "lease arrangements" was included salesmen's time with dealers in contracting new leases, renewing leases, etc. The company operated in some instances on a "third party lease" basis. In this event the company leased a given piece of property from the owner who, in turn, constructed certain buildings and equipment and re-leased the property to a dealer who operated it. Salesmen were expected to take care of the signing of these leases as well as the details connected with their execution.

Type of customer:

	Per Cent of Time with Customer
100% Westcott dealer	83.5
Service station leased to dealer	7.5
Competitive dealer	6.8
Commercial account	1.8
Farmer	0.4
Total	100.0

accounting records, might be apportioned among commodities or among customers. It was planned to extend cost studies eventually to every expense item to obtain complete allocation of the company's costs.

The accurate allocation of salesmen's expense presented a particularly difficult problem. On the basis of past experience, the company did not place much confidence in the ability of a salesman to tell what proportion of his time was devoted to different commodities, since much of his work

was of an intangible nature, such as securing new dealers, signing contracts, or talking with prospects. The sales officials believed that only 50% of a general salesman's time was spent with customers or prospects, the remainder being expended in traveling, office work, managing bulk plants, and conferring with superiors. It was decided that an intensive analysis of salesmen's activities in one state at a time would produce far better results than a single extensive study of the entire territory. Moreover, the officials believed that many costly errors would be avoided by proceeding cautiously.

EXHIBIT 4

WESTCOTT COMPANY—ALLOCATION OF FOUR KENTUCKY COUNTRY GENERAL SALESMEN'S TIME CHARGEABLE TO COMMODITIES

(191 HOURS PER WEEK)

(Tentative—subject to revision on basis of further study)

	Percentage of Total Salesmen's Time	Average Hours Per Week
Motor fuel	57.2	27.5
Motor oil	14.7	7.1
Tires and tubes	11.2	5.4
Accessories	8.6	4.1
Automobile oils and greases	3.3	1.6
Specialties	3.2	1.5
Batteries	1.0	0.5
Industrial oils and greases	0.5	0.2
Kerosene	0.3	0.1
Total	100.0	48.0

Kentucky was the state chosen for the July, 1937, analysis. An employee from the company's executive office was instructed to check and record the activities of four country general salesmen for a period of one week each. As may be seen from Exhibit 1, the record form provided space for the name and type[1] of customer, the bulk plant area in which the customer was located, trip mileage reading, travel time, and total time spent with the customer. In the column headed "Remarks" notes were made regarding the types of product sold during the call, any services performed, what the salesman talked about, and the approximate time devoted to each subject. Records were also made of the time spent in bulk plant supervision, office work, and conferences with superiors. From these data it was believed the company could obtain facts sufficient to

[1] Customers were designated as follows: (1) one hundred per cent dealer selling Westcott products exclusively; (2) company-owned service station leased to independent dealer; (3) competitive dealer selling Westcott and competitive products; (4) commercial account; and (5) farmer.

discover the approximate division of a salesman's time among his various activities. Exhibit 2 shows the salesman's daily report form. A summary of the time analysis for the four general salesmen in the Kentucky territory is shown in Exhibits 3 and 4.

What significant conclusions should be reached from this analysis? Should this analysis be extended over the entire market?

90. PHILADELPHIA SCALE COMPANY—STIMULATION OF SALESMEN

The Philadelphia Scale Company assembled and distributed four lines of scales: retail or counter scales and industrial scales, which included platform scales, office and letter scales, and "person weighers." The company organization was divided into four divisions: engineering, production, selling, and financing. Engineering was relatively important since the new uses continually being found necessitated the adaptation of old models. Production was relatively less important since the company bought all of the castings and other parts which were assembled at the factory. Expert work was needed only for adjustment.

The most important function of the organization was selling. The president was particularly interested in sales, and in his absence, the vice president in charge of sales operated the company. Responsibility for sales was sharply divided. In the office there were five operating departments: sales, advertising, order, export, and service. A junior executive was in charge of each. These junior executives reported directly to the vice president in charge of sales and remained throughout the year at the home office. The sales manager, older than the other department heads, occupied a strategic position. He had charge of sales promotion, special construction, multiple sales, weights and measures, and market research. Sales promotion was divided into the proposal department and the direct-mail department.

The advertising manager had charge of all national, magazine, and local newspaper advertising. His work was largely supervisory, however, since all the copy was prepared, inserted, and checked by a local agency. He spent the bulk of his time devising and directing sales contests, which ran for a month at a time, 8 to 10 months a year. He selected the prizes, prepared the literature, and wrote the letters which went out to the salesmen. The officers of the Philadelphia Scale Company firmly believed that contests were necessary to stimulate salesmen who sold a specialty line such as scales. Retailers, office managers, and manufacturers often had to be educated even to the need of scales before Philadelphia scales could be sold to them. The advertising manager believed that most contests should be short, not longer than 10 days or 2 weeks at the

most. All contests were based on the same unit, a point. Although a point could represent many different elements, in the case of the short contests it equaled $10 in sales. No element but sales was given any consideration.

The company originally gave money prizes, but these had been discontinued because they failed to increase sufficiently the initiative of the salesmen. The manager felt that a money prize was looked upon more as a bonus and merely as an unimportant addition to the total monthly income. Its equivalent in merchandise, such as a razor set, a small vanity case, or a sled, often struck the fancy of a salesman or a member of his family, with the direct result of increased sales effort. In some cases no prizes were given. In others certain definite articles, such as a cigarette lighter or an umbrella, were offered for a definite number of points. Finally, in some contests a number of prizes were offered, each one to be given in exchange for a definite number of points.

The policy of conducting a number of contests each year necessitated a considerable budget. The advertising manager was given ½ of 1% of the total company budget, and he planned accordingly. From experience he knew that about 70% of the sum could be spent for prizes and that 30% had to be saved for overhead, catalogues, and literature. Since all prizes were awarded on a point system at the basis of which were dollar sales, he could easily estimate the amount of sales effort which had to be expended before a particular prize had been earned. For example, if an electric toaster cost $7 at wholesale, he would make it a prize worth 200 points or give it as a prize for selling $2,000 worth of merchandise. Because of the amount and variety of prizes offered, the company made up its own list and did not use the services of a premium house. Arrangements were made with local wholesale houses, usually at wholesale prices, to deliver all the merchandise direct to the salesman at the order of the advertising manager. Previous to practically every contest, special announcements were sent to the wife of each married salesman explaining the contest and displaying pictures of the prizes. The manager felt that if he could secure the interest of the wife, the salesman would work all the harder.

For the Christmas shopping contest, the only long contest, which started the last of September and ran until the middle of December, a special catalogue was printed. In 1937 this catalogue included 109 prizes, which were pictured and described in full and which could be earned by securing from 50 to 1,690 points during the period.

The vice president in charge of sales was so pleased with the results of the various contests during 1937 that he proposed to extend their scope during the coming year. The result was that in the January 15, 1938, issue of the *Philadelphia System*, a weekly newspaper edited by the

advertising manager for the entire organization and particularly for the salesforce, the second page was headed "A Year of Definite Achievement—1938." A subhead read "A Goal for Every Man—A Prize for Every Goal."

1. Each month, to the salesman out of the entire organization, who secures for that month the greatest increase over his average monthly percentage of quota for 1937 there will be presented a fine gold watch.

2. To each salesman who was in the employ of the Company for at least the last three months of 1937 and during that time secured less than 50% of his quota, and who during 1938 secures an average of 75% of his quota for any three consecutive months, there will be presented a cash award of $75.

3. To each salesman who was in the employ of the Company for at least the last three months of 1937 and during that time secured less than 50% of his quota, and who during 1938 secures an average of 100% of his quota for any three consecutive months, there will be presented a cash award of $100.

4. Each month, to the one agency, company branch, or supervised operating unit out of the entire organization, which secures the greatest increase over its average monthly percentage of quota secured during 1937 there will be presented for permanent possession a beautiful silver cup of special design.

5. Each month, to the one agency, company branch, or supervised unit in each district, which secures the greatest increase over its average monthly percentage of quota secured during 1937, there will be presented for permanent possession, an impressive bronze medallion.

6. To the one agency, branch manager, or sales supervisor out of the entire organization who secures the greatest percentage of increase over his 1937 record, there will be presented a fine gold watch.

7. To the district manager who secures the greatest percentage of increase in net sales volume during the year, there will be awarded the Lenox S. Rose Cup.

8. To the district manager who makes the best record during the year, as determined by his grade in respect to certain factors of successful district management, there will be presented a beautiful platinum watch.

A further subhead read: "There is an Opportunity for Everyone to be Counted."

This is to be a year of perpetual contest, with incentive for increased effort and reward for improved results. Every man in the sales organization is given a definite goal. Every man can lay his plans to the accomplishment of a definite purpose. It presents the greatest incentive for individual and collective attainment. It presents the most valuable set of prizes ever offered. Look back to 1937 only to do better than you did. Make every day contribute its share toward your definite achievement.

The provisions governing these 1938 awards were listed as follows:

MINIMUM QUOTA PERCENTAGES

All awards are for increased accomplishments in 1938 over 1937. To place the contest for the greatest increase over the average percentage of quota secured in 1937 on a fair footing and avoid undue recognition to those who in 1937 had exceptionally low averages, a minimum basis has been established in each class.

In the case of any 1937 average falling below the 1937 organization average, the percentage of increase in 1938 will be computed on a minimum basis for each class as follows:

Salesmen	76%
Agencies, Branches, and Operating Units	69%

The minimum percentages are the actual averages secured during 1937 by the entire organization for these classifications.

Any new salesmen employed during 1938 or any new agency, branch, or operating unit established during 1938 will have the same minimum assigned as a basis for reckoning awards.

Awkward Squad—Cash Award $75 and $100

Special consideration has been given to the men who last year made less than 50% of quota. These men are regarded as belonging to the Awkward Squad.

When a man wins either one of these prizes he is graduated from the Awkward Squad and therefore is not eligible to win either of these prizes for a second time during the year.

District Manager's Grand Prize

The award for the best district management will be made upon the following basis:

1. Highest Percentage of Territories Filled. Any tie will be decided by the percentage of increase in volume secured.
2. Highest Percentage of Increased Volume. The percentage will be figured against the average per month secured in each district during the year 1937.
3. Highest Percentage of Territories Producing 50% or More of Quota. The percentage is to be figured against the complete number of territories in the district occupied and unoccupied, and in case of a tie the percentage of increase in volume will be the determining factor.
4. Highest Percentage of Increase on Class II Business. The percentage will be figured against the average per month business secured during 1937.
5. Lowest Percentage of Cost of Operation.
6. Highest Rate of Consignment Turnover.
7. Highest Percentage of Exchange Scale Recovery.
8. Highest Percentage of Service Stations Showing Profit. The percentage is to be figured against the entire number of service stations in the district, and in case of a tie the percentage of increase in profit figured on net sales volume will determine the winner.
9. Lowest Percentage of Past Due Accounts.
10. Greatest Number of Grand and Other General Prize Winners. All general prize winners, that is, excluding district prize contests, will furnish the basis for crediting points in this classification. The number of prize winners in a district will be figured against the complete number of contestants in the district, and credit points awarded in proportion.

Credit on Each Subject

The contest between the district sales managers for the year 1938 on the above ten subjects will be divided into twelve separate monthly units. Ten credit points will be awarded on each subject per month, five points to the district sales manager ranking highest on that particular subject, three to the second, and two to the third. On the

ten subjects in all one hundred credit points will be awarded each month, making a total of 1,200 for the entire year.

At the end of the year the district sales manager who has been awarded the greatest number of points will be declared the winner.

All the shorter contests were to be duplicated as usual during 1938. The Christmas Shopping Contests were to be repeated. These prizes were given in addition to all previous ones, not as a substitute.

Was the decision to use contests so extensively in 1938 sound?

91. ELLSWORTH COMPANY—PROPOSAL TO HOLD SALES CONVENTION

The Ellsworth Company of Portland, Maine, manufactured a line of belts, men's and women's garter products, arm bands, and suspenders. The company sold to wholesalers, department stores, and smaller retail outlets throughout the United States. In 1931 the salesforce, consisting of seventeen full-time men and seven side-line men,[1] was separated into four divisions: the first one, of six men, covered New England and was under the control of the sales manager at the plant. The second group, which covered New York City and the surrounding territory, had four men in New York City, one in New Jersey, one in western Pennsylvania, and two part-time men, one in eastern Pennsylvania, the other in Delaware, and was under the direction of a branch manager who had an office in New York. The third group, which covered Chicago and vicinity, had three salesmen in Chicago, one in Detroit, and one part-time man in Wisconsin and Minnesota, and was under the direction of a branch manager with an office in Chicago. The fourth division was under the control of the sales manager and consisted of one man who covered the entire Pacific Coast region. The four remaining part-time salesmen, one in western Ohio, one in Missouri, one in Florida and one in Texas, were also under the sales manager at the home office.

The salesmen were paid a commission which varied according to the product and the three types of customers already mentioned and from which they were to pay their salary and all expenses. Because the majority of the company's sales were made during the fall season, the salesmen's commissions would not support them the remainder of the year, and they were allowed a monthly drawing account, virtually a salary, which was set at the minimum wage the company thought would satisfy them.

In 1929 a new management took over the company, and the annual sales convention which had been held under the old management was

[1] Side-line men carried the company's line as well as one or more related, noncompeting lines.

discarded owing to its cost and also to the doubt that the returns were great enough to compensate for the expense. Since the salesforce covered the entire country, the cost of gathering them all in the East for a convention was great; and, since the unit of sale of the product was so small, a very substantial increase in sales over the volume the company would get without a convention during the fall season would be necessary to offset this expense. The executives doubted if a sales convention would result in such a large sales increase.

Since the discontinuance of the sales convention, there had been no group meetings, and the contact with the salesmen had been limited to correspondence and an occasional visit to the plant or to the branch offices. The new management had set up a sales control system, consisting of weekly and monthly salesmen's sales records, a monthly profit and loss statement for each of the lines, and a monthly record of sales by classes of customers. These records enabled executives to keep in continual touch with their salesforce. On the basis of their control system the executives made suggestions which they felt would aid the men, especially during the peak selling season in the fall. However, since the salesmen were paid by commission, the company could not exercise any great amount of control over them.

Because of the important sales peak in the fall, the former management had concluded that the sales convention, just prior to the fall season, was effective in stimulating the salesmen and helped to increase their sales during the period following. In 1931 certain considerations were present which brought the question of a convention once more before the company. In the first place, general business conditions were depressed, and company sales were below normal. This meant, of course, that the majority of the salesmen were below their usual sales, and their commissions were not equal to the amount they had received on their drawing account. Because of the seasonal nature of the company's sales, it was often true that many of the salesmen's commissions were less than their drawing accounts until the fall season when the majority of them were able to make up their deficits. However, before the fall season in 1931 practically all salesmen were below their drawing accounts, and some were so far below that there was no possibility of their commissions ever equaling their drawing accounts. The company feared that this would have a depressing effect on the morale of the salesforce during the important fall selling season and thus affect adversely the company's sales.

In the second place, in an attempt to improve its business in spite of depressed conditions, the company had made certain technical improvements in its products and had developed a new style line which it intended

to present to the trade during the fall season. While the information about these changes and improvements could be imparted to the salesforce by mail, the executives believed this method would not be nearly so effective as discussing them with the salesmen in a convention. Furthermore, the officials felt that the men were not making the fullest possible use of the selling points of the company's line and that the discussion of these points by officials of the company, by men from the production department, and by the salesmen themselves would increase the effectiveness of the salesmen's efforts. Thus a sales convention at this time would be a means of presenting the new line, explaining the improvements, giving the salesmen selling ammunition, and reviving the morale of the salesforce, as well as a means of sending the salesmen out with a feeling of loyalty to the company and a desire to sell, which were the usual effects of a sales convention.

Against these advantages, the company had to consider the costs of a convention. Since the company's plant was in the East and salesmen were in all parts of the country, it would be very expensive to get some of the men to the plant. The officials were doubtful whether even the increased advantages of a sales convention would offset this expense, especially when the information could be presented with a fair degree of effectiveness by mail. Furthermore, many of the men in the more distant territories were side-line men, and the effectiveness of a convention so far as they were concerned was questionable. The president estimated that a short convention of the 14 salesmen in the New England and New York territories and the 2 branch managers would cost from $500 to $1,000, including all railroad fares. A national convention would cost between $1,500 and $2,000 more.

Should the company have held a national convention, a convention of the salesmen in the New England and New York territories, or should it have continued without conventions?

92. STATEN TOOL COMPANY—CONTROL OF SALESFORCE

The Staten Tool Company of Columbus, Ohio, manufactured a line of shop precision instruments, machine-shop accessories, and a line of general-purpose machine tools. These tools were sold in important manufacturing centers throughout the United States from the plant and from eight branch offices. The salesforce of 80 men was divided into 4 groups: the first, of 30 men, sold the machine tools; the second, of 20 men, installed and repaired the machine tools; the third, of 25 men, sold the precision instrument lines; and a group of 5 specialty salesmen sold special portions

of the line of the machine-shop accessories to certain types of users. The first two groups, who sold direct to users, were under the control of the branch managers in whose territories they sold and through them were under the control of the general sales manager. The third group, who sold to hardware dealers and mill supply houses, was also under the control of the branch managers in whose territories the salesmen sold, but through them was under the control of the sales manager of precision instruments, who was in turn under the general sales manager. The fourth group was under the direct control of the sales manager of precision instruments. The control system for all types of salesmen was similar. In 1931, however, during depressed business conditions, sales had decreased. As a result selling expenses in proportion to sales had risen rapidly, so that the officials were wondering if an increase in the amount of sales control would enable the company to increase sales or at least decrease the selling expense to some extent.

The company received four types of reports from each salesman: a daily report showing the territory being worked and the customers who were visited; a report, whenever necessary, sending in a request from a customer for a demonstrator, repair work, or some sort of service which the company rendered; a weekly expense record showing totals for the week in six classes of expense; and an individual report of each sale made. All these reports were sent to the branch manager who, from a study of the salesman's calls, sales, and expenses, taking into consideration conditions and potentials in each salesman's territory, determined whether or not the salesman was satisfactory. The company maintained complete customer records for the territory in each branch office, which were kept up to date by means of the salesmen's daily reports. Each contact made with a customer was entered on these records, so that at any time the branch manager could determine when any customer was last called on; he often did so in order to see that the salesmen were covering all accounts in their territory and were not spending too much of their time with prospects which did not warrant the attention. Thus all salesmen within wide limits were left to their own devices. Since the company's customers were relatively few and the company kept complete customer records, it seemed possible that by directing the salesmen to these customers the company could get a more complete coverage at a lower selling expense.

The machine tool salesmen, however, performed a type of selling function which did not lend itself to such control. These men were highly trained sales engineers whose work was to adapt the company's general-purpose machines to the use or uses for which they were desired, in such a way that they would be more efficient or more economical

than competitors' machines. This process often involved considerable time, and the amount of time varied in each case, so that it was impossible for the company to plan the salesmen's daily program. In addition, since the amount of repeat business was large, the company wished these salesmen to provide special services to their customers so as to maintain good relations with them. Such services included giving aid in the installation of the machines, doing small repair jobs, and visiting the customer whether or not he was in the market for a new machine. These salesmen were in much closer contact with conditions in their territories and with the needs and wishes of their customers than were the branch managers and thus were probably better able to decide where their efforts would be of most value.

Owing to the nature of their work, the installation and repair men were more closely controlled. These men installed new machines and instructed the customers' employees as to operation of the machines, or they were sent out on salesmen's or customers' requests to do repair work. Since orders to do such work could come only from the branch managers, these men were completely under their control.

The salesmen for shop precision instruments called on their customers more regularly than did the machine tool salesmen. While they also did some missionary work, consisting of demonstrating and selling their instruments to some few actual users in their territory, this work occupied but little of their time. These salesmen sent in the same sort of reports as did the machine tool salesmen, but the branch manager could exercise closer control over them, since he knew more about the conditions and the potentials for the instruments; also, since the time spent with each customer did not vary greatly, he could determine whether or not the salesmen were wasting time. Any such control, however, was based mainly on the experience of the branch manager. Since the sales of these products usually amounted to only 15% of the company's total sales volume, while sales of the machine tools accounted for practically all the remaining 85%, the attention of the company officials was more concerned with the machine tool salesmen, so that not much consideration had been given to planning a sales control system for the salesmen of shop precision instruments.

The five specialty salesmen were directly under the small tool sales manager. The sales volume of the products these men sold was so small that they received even less attention than the instrument salesmen. The sales manager of precision instruments, considering their sales, whether or not they were visiting all their customers, and their expenses, could determine, making allowances, of course, for conditions, how satisfactorily these men were performing their selling function. The

officials wished to maintain their trained salesforce intact as far as possible yet desired to reduce the selling expenses.

Should they have attempted to accomplish these aims by increasing the amount of control exerted over any portion or over all the salesforce?

QUESTIONS

1. The Continental Wholesale Dry Goods Company, located in St. Louis, Missouri, sold a varied line of merchandise throughout the middle-western and southwestern states. The company employed a salesforce of several hundred men, who were paid a commission on their total sales. They received a drawing account monthly and were forwarded traveling money each week. The end of the company's fiscal year was November 30, at which time the salesmen's total earnings were computed. If these were in excess of the total of their drawing account and traveling account, such excess was paid them as a bonus; but if the total amount of the traveling account and the drawing account was in excess of their earnings, the settlement blank was placed in a "no bonus file" for consideration as early as possible. Company executives usually decided in the month of December whether or not these salesmen were to be retained. In December, 1930, the record of J. W. Jones showed that he had incurred a deficit for the second successive year, and his case was taken under advisement. What principles should govern action of the sales manager in such cases?

2. Originally the Adams Rubber Shoe Company tried to obtain salesmen from among the members of the production and shipping department as well as from the office. It was found, however, that the percentage of successful salesmen secured in this manner was very low. In hiring young, inexperienced men, the company found that it was relatively expensive to train them to the point where they became an asset to the company. It seemed necessary not only to give the men some training in the office and factory, but also to put them on the road under the direction of an experienced salesman. All three branch managers, consequently, limited their list of prospective salesmen to those who had had experience in selling footwear. Each branch manager hired, trained, and fired upon his own responsibility. The turnover of salesmen, however, remained relatively high, and performance was unsatisfactory. The training given such men was limited largely to the unusual policies and methods of the company, as well as to the particular features of the various products which the men were to sell. The instruction consisted of individual conferences with the branch manager as well as an occasional group conference of all salesmen of a branch with the manager presiding. At such times new lines were explained and any change in policy indicated. Other instructions were also given verbally. What action might this company have taken to improve the effectiveness of its salesmen?

3. A salesman who had been doing an excellent selling job in the territory where he represented a manufacturer of paints and varnishes expected recognition therefor. It was the judgment of his superiors that he did not possess the ability to manage men and that promotion to an executive position would probably destroy a good salesman without securing a capable executive as compensation. What recognition or promotion might be provided for such cases without increasing selling costs?

4. Company A manufactures a line of pharmaceutical products which it sells throughout the United States. These products are extensively advertised in national magazines and in newspapers. Retail dealers are furnished with display stands and other forms of sales promotional material. A salesforce of 100 men, supervised by 8

branch office managers, sells directly to unit stores, chain stores, and wholesalers. These men are expected to cooperate with dealers in arranging attractive displays and to see that effective use is being made of other sales promotional aids. Wholesaler distribution accounts for only 10% of sales.

Company B employs six salesmen, who sell packaging machines directly to manufacturers. Some of these machines are designed to package dry free-flowing materials and others to package liquids and semiliquids. Salesmen are thoroughly conversant with the complicated design and operation of the equipment and are competent to advise customers and prospects on their packaging problems. The cost for a complete set of equipment ranges from $10,000 to $25,000. Manufacturers of food products constitute the most important market, although soap producers are also important. Some trade-paper and direct-mail advertising is carried on, but major reliance is placed on personal selling effort.

Discuss critically the methods available to the sales managers of these companies in judging the effectiveness of their salesmen. How do these compare with methods which might be used to check the effectiveness of the complete selling program?

5. An insurance company which issued automobile and workmen's compensation insurance frequently conducted sales contests. In 1931 a contest was announced, extending from October 1 to December 31, in order to increase premiums for the year over those for the previous year. Salesmen were grouped in teams, and sales quotas established for each team. Prizes were offered to the teams first completing the first and second stages of the contest, to the three teams which completed their quotas first, and to the teams attaining the largest excess over quotas. At the close of the contest none of the teams had accomplished the quotas. It was evident to the officers that the quotas had been set too high in view of the continued poor business conditions. Since unusual interest in the contest had been aroused, the question of awarding prizes to the teams that had most nearly completed quotas was discussed. Should the prizes have been given?

6. Under what conditions should a company divide a salesman's territory? Under what conditions should salesmen's territories be combined?

7. What should be the characteristics of a sales manager's correspondence with his salesmen? Should he prepare regular letters to be sent to all salesmen? Should he send inspirational material and write inspirational letters to keep salesmen working industriously and intelligently in the field?

8. "The sales convention has come as a necessary factor in the handling of the large national selling organization and, because of its success in a large way, has demonstrated its value even for small sales organizations. . . . Small as well as large concerns have found it absolutely necessary to gather together the district managers, if not all the salesmen, at least once a year in order to develop best *esprit de corps* and draw by personal contact from the master minds of the business." Discuss critically.

9. In what respects do the problems of conducting weekly conferences of salesmen differ from those of handling infrequent conventions? Should conferences be held? Under what conditions may salesmen's conferences become a waste of time, if not positively harmful to the work of a sales organization?

10. Are sales contests consistent with the growing attitude of distrust toward high-pressure sales tactics? Do sales contests cause the salesman to disregard the interests of buyers?

11. Should a sales manager notify all salesmen as to the quota standing of each one?

12. A specialty food manufacturer, whose products were sold largely through food brokers in various parts of the United States, maintained a force of salesmen to supplement the work of brokers in disposing of its output. The sales manager believed that an increase in the frequency of call on the part of the salesmen would bring at least proportional returns. New salesmen were added, and the experiment was made. No increase in sales resulted. How may the result be explained?

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IX

FILLING AND DELIVERY OF ORDERS

The physical distribution of commodities is important to the sales department for other reasons than that a sales transaction is not completed until the goods or services are delivered: (1) Unless orders are filled and delivered satisfactorily, ill will is built up, and it becomes increasingly difficult to sell or to buy. (2) If orders are not filled satisfactorily, the advertising and selling effort which has been consumed in securing the orders is entirely lost, creating thereby also adverse influence upon production or other departments. (3) The sales department is usually held responsible for proper delivery, even though the physical handling of the product may be turned over to other departments in the business or to other agencies.

A. FILLING AND DELIVERY OF ORDERS; THE SMALL-ORDER PROBLEM

The processes in filling and delivering orders may be roughly grouped as follows:

1. Receiving and interpreting the order.

2. Filling and billing the order. This may include many detailed operations such as passing on the order by the credit department, making out bills for checking and shipping departments, making of invoices, shipping lists, etc., to be used in connection with the completed order.

3. Packing the order, which includes particularly the assembly of the various units and the provision and use of proper containers for shipment to the buyer.

4. Delivery of the order, including provision for both delivery to the transportation agency and delivery to the destination. Sometimes this delivery includes, in addition to internal plant or warehouse transportation, the maintenance of trucking equipment sufficient to make prompt or frequent deliveries to all customers in an area.

5. Maintenance of stocks from which orders are to be filled. The problems involved here include those of determining what products are to be stocked, where stocks are to be maintained, and how they are to be

maintained with the greatest economy consistent with necessary service to buyers.

Filling the Order. The clerical and other operations having to do with filling the order up to the point of packing and shipping make up a large portion of the work of order filling. Receiving, acknowledging, checking, billing, invoicing, and recording operations, all clerical in nature, demand many employees, and larger companies also utilize business machines of numerous types. The task of providing for the filling of orders promptly, accurately, and at low cost requires the utmost simplicity of operations and skill in performing them, supplemented by adequate checking and inspection. Promptness may require a specially trained staff and easy accessibility of finished goods. Economy requires that a balance be struck between the desires for promptness and the real needs of customers, and that accuracy be not sought at a cost which much outweighs the value of possible mistakes of more economical methods.

The systems which have been developed for the handling of orders represent routines based upon the repetition, perhaps many thousand times a day, of sequences of operations required to secure the satisfactory filling of orders. These systems range from very simple ones in which an individual performs all or nearly all of the steps; complex sequences, such as those represented by a large electrical supply house in which 91 different operations were required to fill an order; or the block system of filling orders used in certain mail-order and wholesale houses. The development of a satisfactory system has usually been the result of the process of trial and error, although at the present time techniques have been developed for determining necessary operations and for eliminating unnecessary steps.

The physical assembling of the order so that it is ready for packing is likewise performed in many ways, ranging from the most simple handling by an individual to an elaborate system of "order pickers" with mechanical conveyors and arrangements so that the various parts of a single order meet within a prescribed time limit at the packing room ready and complete for the specialized and highly skilled packing clerks.

Packing and Shipping. The problems of packing include those relating to the type of container to be used and to methods and timing of shipment. In determining the type of container to be used, the person interested in packing finds that he must choose between standard packages and special packages for each order; he must decide upon the material and design of the packing container to fit the requirements of the product and of transportation facilities; bales, boxes, crates, barrels, etc., may be used; or containers of wood, metal, fiber, burlap, cotton, and other materials may be employed. Equipment and processes are available for

testing the real strength and suitability of different containers. If goods can be sold in standard lots, the problem of repacking may be reduced to a minimum. Mechanical aids, even to the mechanical packing of cases, may be utilized in large enterprises with substantial savings. It is possible to use mass production methods in securing economy in packing.

In determining shipping methods, the executives in charge of the physical distribution of goods find a choice between parcel post shipment, express shipment, shipment by truck, railroad, or air transport to provide the economy, celerity, and certainty of transportation required by buyers. Choices are available also within each group, and in some cases different trucking lines, in other cases the routing of traffic by various railroads, may make substantial differences in service if not in costs.

Small-order Problem. Hand-to-mouth buying continues to present a problem for many types of manufacturers. Though the term has often been loosely used, it refers customarily to the lessening of the size and frequency of forward orders and to the fact that orders for immediate delivery are smaller in size compared with some previous standard or average. The principal reasons for the practice are the development of attitudes of fear and caution on the part of buyers, based upon declining prices, political uncertainty, international unrest, and financial instability. Furthermore, during the last twenty years it has been easier to buy on the hand-to-mouth basis, because progress in manufacturing technique permits more rapid production. Transportation and communication have immensely improved, and the carrying of spot stocks has tended to aggravate the situation. Middlemen have been attempting to keep their own stocks smaller in order to increase their rate of turnover and their rate of profit. Meanwhile the increasing number of commodities, the broader variety, the frequency in change of style and design, and the multiplication of branded articles are tending to split business up into smaller parcels. The conditions which favor hand-to-mouth buying seem likely to persist; consequently, to meet the problem various methods and policies have been devised.

The principal measures used by firms to meet the hand-to-mouth buying problem are indicated in the following outline:

A. Measures which are intended to bring about increase in average size of orders or reduction in the number of small, unprofitable, or less profitable orders.

1. Price inducements, quantity discounts, advertising allowances.
2. Special credit terms, postdating.
3. Establishment of minimum-size order.
4. Close cooperation with retailers, wholesalers, and other buyers in maintaining stocks.
5. Less frequent solicitation of customers.

6. Confining solicitation of orders to profitable or potentially profitable accounts or to buyers who give sizable orders.
7. Selective distribution to increase average sale.
8. Getting cooperation of retailers, wholesalers, or other buyers in reducing excessive number of small orders and shipments.
9. Improved salesmanship.
10. Combination incentives or penalties to bring about a larger proportion of profitable orders.
11. Addition to or diversification of line.

B. Measures directed toward lowering the cost of soliciting or of handling orders so that losses may be decreased or profits increased on such orders.

1. Reducing the number of shipments or number of packages per order.
2. Improving and simplifying order filling routine.
3. Changing size and types of shipping containers.
4. Changing breaking point at which carload lots are divided into small shipments.
5. Utilization of public warehouses instead of owned or leased warehouses.
6. Better routing and planning of the salesmen's work.
7. Adjusting amount and cost of solicitation of customers or classes of buyers to reduce average cost.
8. Shifting handling of small orders to wholesalers or other agencies.

C. Measures which involve increased prices, charges, or margins to defray, at least in part, the extra cost of handling small orders.

1. Charging higher price for small lots.
2. Special handling charge.
3. Larger general market.

93. BEAUMONT HARDWARE COMPANY (A)—PROPOSAL TO CHANGE THE METHOD OF ORDER FILLING AND INVENTORY CONTROL

The Beaumont Hardware Company, which distributed a full line of hardware at wholesale, was located in a middle-western city. The line, consisting of about 35,000 items, was sold direct to selected hardware stores, general stores, department stores, drug stores and other types of retail outlets throughout the greater part of the United States. The 200 salesmen were to call on the customers in their territory on an average of once every three weeks. The company had three complete warehouse branches; one in the East and two in the Middle West. The salesforce was divided into four divisions, one at the main office and one at each of the three branches, and these divisions were separated into groups of seven to fifteen men, each under a manager who reported to a branch sales manager, who in turn was under the general sales manager at the main office. The salesmen were paid a fixed portion of the gross margin on their sales.

For some time the executives had noticed a gradual trend toward smaller, more frequent orders, and a corollary need had arisen for a rapid

delivery of orders. The officials had found that as a result of these changes their order filling costs had been rising, and they wondered whether or not the method of inventory control in use was the most satisfactory one possible in the light of changing conditions. They also wondered whether or not some improved method of order filling would enable them both to decrease costs and to increase the rapidity of delivery. With these considerations in mind the executives, late in 1930, were studying a new method for order filling and inventory control which had been proposed.

The system in effect in 1930 was the one in general use among hardware wholesalers. The line was divided into large departments of similar items, which might cover only a portion of one floor or occupy all of one or two floors. All bins were of the same size and as a result often were not the most suitable size for the items which were to be stored in them. When there was too much of an item on hand to be kept in the bins, the surplus was kept in a reserve stock.

In each department there were order workers and stock men; a force of stock counters worked in all departments. There were 19 order workers in all who filled the orders from the stock bins; there were 13 stock men who replenished the bins with merchandise from the reserve stock or stocked merchandise received into the bins; there were 5 stock counters who counted stocks, that is, made a physical count of the inventory of all the company's products; there were 2 shortage clerks who made sure there was not a reserve supply of the items on which the stock counters reported shortages.

When an order was accepted by the credit department, it was given to an invoice clerk who entered, in a space provided on the order, the symbol of the department from which each item was to be obtained. A copy of the order was made out for each of these departments and sent to it. The order was given to an order worker who went from bin to bin collecting and placing in a truck the items ordered. When the order was completed, it was initialed and sent with the filled truck to the packing and shipping room. On arriving at the packing and shipping department, the various parts of the order from the different departments were combined and checked with the invoice.

The stock men kept the bins stocked so that no time would be lost in filling the orders. It was the duty of the stock counters to check the stocks of every item at least once a month and report their count to the merchandise department where records were kept for every item, showing the purchases made and the monthly inventory count. Whenever the stock count showed the inventory to be low, the merchandise department ordered goods to replenish the stock.

Several difficulties were encountered in the operation of this system. The first and perhaps the most important was the difficulty of placing responsibility. There were so many men performing similar functions, and there was so much overlapping of function that responsibility for shortages, for poor condition of the stocks, for misplaced or disorderly stocks could not be placed. Second, each order worker had to obtain items to fill his orders from all the bins in the department in which he worked. Since there were so many, he could not remember the location of each one exactly, and as a result considerable time was lost while he searched for them. Third, a department often took up a considerable amount of floor space, and, unless the order worker planned in advance the route he would follow to obtain the items, there was likely to be considerable retracing and waste motion. Fourth, orders were much more numerous at certain times during the day than they were at other times; thus the number of order workers had to be great enough to handle with reasonable rapidity the many orders during such rush periods, and there was little or nothing for many of them to do during the slack periods. In the fifth place, there was the possibility of such a rush of orders to one department that the order workers there could not handle them adequately; yet since no one else knew the location of items in that department, no assistance could be given to relieve the congestion. Sixth, slowness in any one department delayed the entire order in the packing and shipping department, and for this reason, especially during rush periods, there was likely to be considerable confusion in final assembling and checking. Lastly, there was no satisfactory way to have a rush order filled rapidly.

The inventory control system consisted of an individual record for each product. The monthly reports of the stock counters were entered on this record. Purchase orders were entered on the card when made, and the entries were erased from the record when the order was received. Merchandise was purchased by the merchandise department when it seemed to the manager that the stocks of any of the items were not sufficient, or when the stock counters reported a shortage.

Certain defects of this order filling control system became apparent to the merchandise department. The monthly inventory count was more frequent than necessary for some of the items, while for others, especially the seasonal and the fast-moving staple items, it was not frequent enough, with the result that shortages frequently occurred in this latter group of items. The system provided no inventory limits. Purchases were made when stocks became low, and more consideration was given to price than to any other factor; as a result, stocks were often larger than the sales justified, and the turnover on many items was very low. The merchandise department had no accurate information as to how long it

would take to obtain an order after it was ordered, and shortages resulted when adequate time was not allowed. Finally, the plan made no adequate provision for the discontinuance of items, and such an omission was likely to be dangerous.

Under the proposal placed before the executives, the entire warehouse was to be rearranged. Each department was to be subdivided into groups of about 1,500 items. One man was to be put in charge of each of these subdepartments and was to perform the work done under the system then in effect by the order worker, the stock clerk, and the stock counter.

When orders were being filled, the subdepartments were to be visited in a definite rotation. All orders to be filled were to be sent to the subdepartment which was to be designated as No. 1. The storekeeper in charge of the subdepartment would place all the items called for from among the items in his group in a truck and push the truck and the order along to subdepartment No. 2 where the same procedure would take place. The rotation was to be arranged so that the last subdepartment would be near the packing and shipping department. During the rearrangement of the bins it was planned to build them so that they would be more nearly the size required by the various items. A conservative estimate was that this would result in approximately 30% saving in floor space. It was further planned to arrange and to number the bins so that even a man who was not familiar with the items kept in the subdepartment could locate them with comparative ease. In addition, the subdepartments would not cover a great amount of floor space, so that the loss of time and effort in searching and retracing would be avoided. Finally, the 25 subdepartments would require only 25 storekeepers and 2 shortage clerks, so that the warehouse force was to be decreased considerably.

Besides saving in floor space and decreasing the warehouse force, this method of order filling would correct many of the faults of the method then in use. It would permit a very definite placing of responsibility, in that each storekeeper would be responsible for the proper filling of orders for items from his department, for the condition of the stock in his department and the way in which it was stocked in the bins, and for any shortages which occurred in his department. The restricted areas of the subdepartments and the reduced number of locations which had to be known by each man would greatly reduce the time lost as a result of the opposite conditions under the plan in use. In the opinion of the executives, time also would be saved because a storekeeper would always have something to do; if there were no orders to fill, he could replenish the stock in his subdepartment from the reserve stock, or he could check the inventory. Orders for rush delivery could be hurried through the warehouse much more satisfactorily. Storekeepers would be instructed

to fill rush orders ahead of all others, and the officials estimated that an order could be filled within half an hour. Finally, this method would obviate the assembly of orders and thus avoid the danger of confusion and the time wasted in that process.

The new plan, however, was not free from troubles. In the first place, it would be difficult to divide the items into subdepartments that would be nearly equal in the amount of work required of the storekeeper. The company could not be sure that subdepartments of 1,500 items were of such a size that a storekeeper could take care of them adequately. Perhaps the most important danger would be the sickness or the dismissal of a storekeeper. While the company intended to index the bins so that a new man could do the work, there was no doubt that, if one of the storekeepers was absent, order working in his subdepartment would be considerably slowed down, which would in turn affect order working in all the subsequent subdepartments. Two men in the subdepartment, however, might be able to take care of the work. The company intended to prevent tie-ups when there was a rush of orders to one subdepartment by using two men there. Lastly, the change in bin arrangements would be expensive and would make order working difficult while being made.

Under the proposed plan, the method of inventory control was to be entirely changed. The most important change was to be in the purchasing. Monthly sales for the last 10 years of every item handled by the company were to be studied. The source of supply, the buying terms (especially the savings on quantity purchases), and the time necessary to get an order delivered after it had been ordered were to be considered. With these factors in mind, the merchandise manager would set a minimum stock level at a point where the stock on hand would be great enough to supply the demand until a shipment of the item could be ordered and delivered. Whenever the stock reached the minimum, purchases were to be made to restore it to the maximum, which would be set so that the company could take advantage of any quantity purchasing savings that would not prevent it from attaining a turnover of at least eight times a year. For seasonal items a varying minimum was to be used. The first one was to be set, on the basis of past records, at a point that would call the item to the attention of the merchandise department about the middle of its selling season. At this time a study of sales and of conditions would be made to determine whether or not more of the item should be purchased, and the maximum and minimum both would be lowered in accordance with the results of this study. When the second minimum was reached, another study would be made and another maximum and minimum set.

The second important change in the inventory control system was to be the method of checking the inventory. Under the proposed change in the order working, the inventory count would be taken by the individual storekeepers in the following way. Each day the merchandise department was to send a list of about 200 items to each storekeeper. If the stocks of these items were between the minimum and the maximum (it was usually possible to tell at a glance whether or not this was the case), the storekeeper was to check the item on the list. If the stocks of any items were below the minimum or above the maximum, the storekeeper was to write down the inventory figure on the list. The merchandise department would arrange these lists so that it obtained a check on fast-moving and seasonal items each week, and a less frequent check on slower moving items. In addition to this method of controlling the stocks on hand, a bin tag was to be placed on each bin giving the maximum and minimum stock for the item, which would enable the storekeeper to catch any shortages caused by unusually large orders which might occur between stock counts, and to report such shortages to the merchandise department. From time to time the merchandise department would have the storekeeper count stock on certain items so that the sales of the item could be determined.

The third important proposed change in the inventory control system concerned the form of records kept. The records maintained under the inventory control system in use would be replaced by a form as shown in Exhibit I.

The cards were to provide space for the following information about the items: name and description; name and address of supplier; buying terms; routing from the supplier to the warehouse; and maximum and minimum for the various seasons. The left side of the card was to provide space for noting the location of the item, that is, the subdepartment in which it would be found, the maximum and minimum shelf stock (this maximum might differ from the other maximum since some of the stock might be kept in reserve), the sales by months for two years, and finally the number of days necessary to get an order from the supplier to the warehouse. The body of the form was to provide for the notation of purchases (in items), which were checked when acknowledged by the supplier and on the receipt of the order. When the storekeeper reported the stock below the minimum, it would be possible to enter the sales; that is, an amount had been sold which decreased the stock of the item from the maximum to the minimum. This fact would be noted in the sales column and the balance would be changed. When the order to replenish the supply was received, the balance was again to be changed. The only other changes in the balance were to be made when the merchandise department asked for a count of the item; this balance to be entered in the balance column.

From the information recorded on these cards, the merchandise department would be able to check the amount of time necessary to get delivery on each item and to determine how long a period of time was

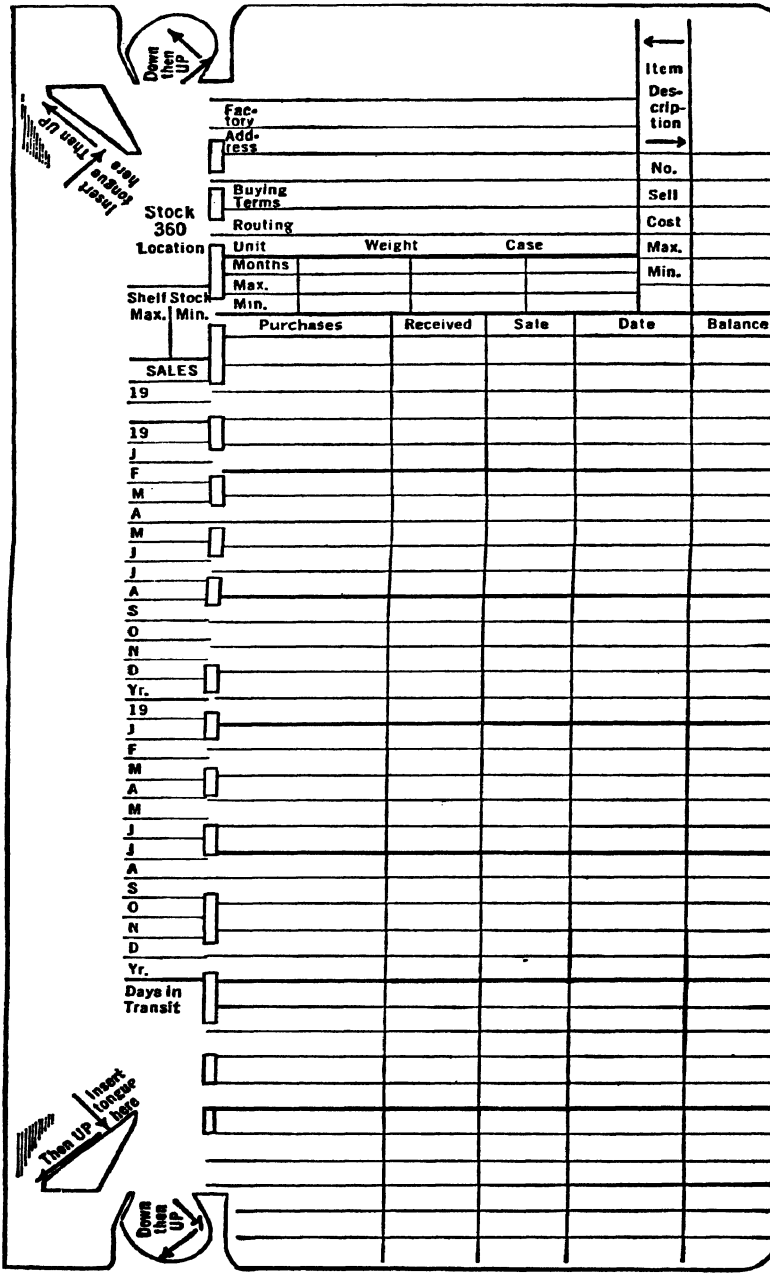

EXHIBIT 1.—Beaumont Hardware Company (A). Inventory control card.

necessary to turn the stock. These cards were to be kept in such a manner that the balance column of each card would be visible. A glance at these balance columns would show whether or not the items had been turning rapidly enough; that is, if there were very few changes in the balance column, the maximum had not been set properly. In these cases the merchandise department would request a count of the item so that it could determine the sales, and on the basis of this information it would either lower the maximum or close the line out entirely.

These records could be maintained and controlled without any increase in the personnel of the merchandise department. They would provide a physical inventory check more in accord with characteristics of the item than did the plan in use; that is, faster moving items would be checked more frequently. The executives felt that the maximum and minimum plan would end the haphazard purchasing and would increase the company's stock-turn. The visible balance columns would call the attention of the merchandise department to any items on which the maximum had been set too high, or which had stopped selling. Finally, it would be possible to obtain from the cards estimates as to stock-turn, sales, and inventory.

There was always the danger, however, that such a system would become mechanical, and, if so, it would probably not be so satisfactory as the system in use.

Should the company have adopted the proposed changes?

94. HIBBARD, SPENCER, BARTLETT AND COMPANY—RECOMMENDED MINIMUM SIZE OF PROFITABLE ORDER ACCORDING TO THE NUMBER OF ITEMS

Hibbard, Spencer, Bartlett and Company distributed a wide line of hardware, sporting goods, house furnishings, paints, automobile accessories, and electrical supplies in the area between Pittsburgh and the Pacific Coast. Over 60,000 items were carried in stock in the company's warehouse at Chicago, Illinois. Approximately 200 country salesmen traveled the outlying territories, and 30 city salesmen sold in Chicago and nearby cities. Salesmen were allowed practically no discretion in quoting prices. All the products handled by the company were divided among 18 product departments,[1] each in the charge of a buyer who was responsible for pricing the products, watching the stock, and purchasing. The sales control system used by the company supplied information on net profit monthly for each department.

[1] Ten in 1932.

Company executives attempted to price merchandise so that every item sold would bear at least the direct costs of handling it. The number of items handled in a department during a given period, as well as the total handling costs (which were assigned to the department almost entirely directly), were available from the sales control records. The average cost of handling an item was thus obtained for the department. Over a period of time the executives had studied the numerous lines in each department to determine what size each item sale had to be in order to provide gross margin larger than the apparent handling costs. A full package price, broken package price, and single unit price for the line were established which compensated for the varying handling costs. In many cases the minimum unit of sale was a package of a dozen, because it was apparently unprofitable to sell any smaller quantity. Relatively few competitors considered these factors in setting single unit and broken package prices.

Although the executives had taken considerable trouble to price products so that the item sales would bear their direct handling costs, up to 1930 little attention had been given to the question of the profitability of orders with various numbers of items. In 1930 the National Hardware Association published a bulletin[1] which showed the results of a study made by a member of the association to determine the costs of handling orders. Excerpts from the study are quoted below.

The firm chosen for the survey is located in a fairly thickly populated section of an eastern state. Railroad facilities in this locality are not especially good. However, good roads radiate in all directions from the city, making it possible to transport goods by truck for several miles without unusually high transportation costs.

The average volume of wholesale business runs a little over $1,000,000 a year. About 75% of the total volume of sales are received through traveling salesmen, 10% from customers coming to the house and 15% from mail and telephone.

This firm is using the perpetual inventory system of stock control. The firm is handling a wide variety of merchandise. The chief lines are heavy hardware, builders' hardware, tools, paints and varnishes, brushes and glass, plumbing fixtures and equipment, automobile accessories, sporting goods, house furnishings and radios.

A 6-year average (1923–1928) of the total operating expenses for the firm surveyed was 19.9% compared with 19.8% for the average of 137 wholesale hardware firms in various parts of the United States. The average rate of stock-turn for the firm surveyed was 3.8 times per year, compared with 3.3 for the average of the 137 firms. A further comparison of other factors indicates that the firm surveyed is quite representative of wholesale hardware firms in the United States. . . .

One of the most interesting and profitable parts of the survey was the study of the cost of handling orders of various sizes. All orders for the year 1928 were analyzed. In all, there were 43,100 orders made up of 272,868 items. The orders were all classified

[1] *Cost Study of a Wholesale Hardware Business*, by Eldon Wittwer, issued by the National Hardware Association of the United States, Philadelphia.

according to size into the following groups: orders under $5 in value, orders from $5 to $10, $10 to $15, $15 to $25, $25 to $50 and orders over $50.

It was discovered that 44% of this wholesaler's orders were under $10 each. These orders made up 13.1% of the items and 6.9% of the sales. On the other hand, 32% of the orders were over $25 each. These orders constituted practically 80% of the total sales.

The chief purpose of this detailed analysis of orders was to devise a method of working out a standard, or score card, by which wholesalers might measure the profitableness of their business. Through conversing with executives and employees in the various branches of the business, studying expense accounts and carefully checking on the different operations connected with filling an order of goods, it was discovered that some expenses increased in proportion to the number of orders, regardless of the size of the order. That is, some expenses were as high on a $1 order as on a $100 order. Such expenses as postage, telephone, a part of the office salaries and office supplies fall into this class. Other expenses depended almost entirely upon the number of items in the order. (Item here meaning line on the order.) Warehouse salaries, packing materials, advertising, buying salaries, etc., are examples of this type of expenses. A third class of expenses are affected entirely by the dollar value of the order. This class includes such expenses as interest on accounts, interest on investment, insurance, bad debts, etc. Commissions paid to salesmen are treated alone as a separate expense.

Some of the expense items as they are listed in the operating statement do not fall entirely in any one of the foregoing classes. Such expenses must be carefully analyzed and divided among the different classes. Some may fall in two of the foregoing classes, others in all three classes.

Each class of expense is then totaled. To get the expense per order, per item and per dollar, we divide the total order expense by the total number of orders, the total item expense by the total number of items and the dollar expense by the net sales.

In the firm surveyed, it was found that it cost 66 cents for handling the routine of the order itself. This expense remains constant for each order regardless of size. It cost 31 cents for handling each item, or line, on the order. It cost 3.9 cents per dollar on the value of the order. The commission paid to traveling salesmen averaged 5.6 cents per dollar of net sales.

A brief word of explanation will make this point clear. To handle the documents connected with any order, large or small, costs on the average 66 cents, when due allowance is made for office salaries and supplies, telegraph, telephone, postage, etc.

To handle one item (item meaning one line on the order) of merchandise sold at wholesale costs 31 cents on the average, when due allowance is made for warehouse salaries, interest on equipment, advertising, etc.

The 3.9 cents is made up of certain purely financial items, such as interest on accounts, insurance, bad debts, etc.

Commissions to traveling salesmen depend upon the gross margin on the goods sold. These salesmen receive 33% of the gross profit. For this particular firm the average commission was 5.6 cents on the dollar.

The statistician of the company applied the data obtained in the study to the operating results of the company for 1929; this was easily done, since the number of orders and items handled was known. Instead of the 5.6% salesmen's expense used in the study, 4.49% was used, because it was the actual percentage attained by Hibbard salesmen. The total

expenses calculated with the use of the order and item cost plus the fixed percentage costs for salesmen's and financial expenses were only $1,200 higher than the actual total expenses of the company for the year 1929. Executives believed this afforded ample proof of the relative accuracy of the figures for use by the company.

The average gross margin of the company in 1929 was 22.5% of net sales, although the gross margin attained in the different departments varied from 18% to 24% and the variation on individual items was even wider.

Using this information, the executives proceeded to calculate the necessary size of a one-item order before it would be profitable on the average. If the gross margin was 22.5%, the financing costs 3.9%, and the salesmen's costs 4.49%, 14.11% would be left to cover the expenses incident to the handling of the item and the order. According to the study the cost of handling the order was 66 cents, and the cost of handling the item was 31 cents. Consequently, the minimum size one-item order that would be profitable on the average would be about $6.85 (97 divided by 0.1411 = 6.87). A similar analysis was made for orders having up to 10 items.

In the summer of 1930 the president of Hibbard, Spencer, Bartlett and Company sent the following letter to each salesman outlining the conclusions drawn from the analysis:

Insert This Sheet for the
First Page in your Catalogue.

HIBBARD, SPENCER, BARTLETT & CO.
211 East North Water Street
Chicago

July 1, 1930

TO OUR SALESMEN:

Based on a recent cost investigation the following facts have been developed. In order to avoid a loss, an order consisting of:

1 item must amount to	$ 6.85
2 items must amount to	9.00
3 items must amount to	11.25
4 items must amount to	13.50
5 items must amount to	15.75
6 items must amount to	17.85
7 items must amount to	20.10
8 items must amount to	22.35
9 items must amount to	24.45
10 items must amount to	26.60

The above, of course, is based on average profit and average cost of handling.

To make an order profitable, it is necessary to exceed the figures shown above. Study this carefully. You will note that we lose money on a 5-item order, amounting to less than $15.75, but an order for $15.75, consisting of but three items, would be profitable.

We have found that retail dealers have shown a willingness to work with us and, accordingly, are printing this information on a catalogue page so that you may show it to your customers.

Yours very truly,
(Signed) C. J. WHIPPLE
President

Should the procedure followed by Hibbard, Spencer, Bartlett and Company be generally adopted?

QUESTIONS

1. A large jobber of electrical merchandise, located in a middle-western city and doing a business of approximately $5,000,000 annually, was disturbed by the increase in the number of small orders and the decline in the number of large orders. He asked his assistant to look into the problem. The assistant sent him a memorandum which contained in essence the following statements:

1. Sixty-two per cent of all orders were on the average below $25 and amounted to only 8% of the value of all orders.
2. Orders below $25 were unprofitable, for the gross margin on orders below $25 averaged $2; it cost usually $3.75 to accept and put through the house an order for less than $25. The average expense per order for all orders was $7.50; allowance was made, therefore, for the similar amount of work required for the small order.
3. Losses on such small orders were conservatively estimated at $150,000 a year.
4. When studied, the shrinkage in profits was found to be concentrated particularly upon 3 lines of merchandise; 75% of the losses on orders below $25 fell in these 3 classes. Furthermore, certain items within each class were more frequently found on small orders.
5. An investigation to determine whether certain classes of customers were placing most of the unprofitable orders showed that 64% of the orders below $25 came from contractor dealers, 11% from other jobbers and 9% from hardware dealers.

The remedies proposed were reduction in the expense of handling orders on the basis of careful study, and increase of size of small orders to above $25 by education of the dealer, salesmanship, and contests.

Should these recommendations have been adopted? Is the small-order problem primarily a depression problem?

2. A manufacturer of saws, machine knives, and files operated factories in Cleveland, Ohio; Pittsburgh, Pennsylvania; and Worcester, Massachusetts. His product was distributed through 11 branch offices in various parts of the United States and Canada. These sold direct to large consumers and to the retail trade. Two or three months' supplies of different lines were carried, while plant stocks amounted to four months' supply of finished material. Branch managers asked that the factory stocks be divided among the branch offices so as to increase the stocks carried at each branch. Should the request have been granted?

3. The Little Wholesale Drug Company employed order fillers who took an order and collected the desired items obtainable on their respective floors in a hand truck, which they pushed from place to place throughout the stock room. The lot was then sent to another floor for completion, if necessary. It was proposed that in order to assemble and dispatch orders more rapidly the company install an electric conveyor and

an electric pneumatic tube system. Order fillers were to be stationed along the route of the conveyor to assemble the items which each order required from their assigned sections on the shelves. What factors would determine the adoption of the proposal?

4. The chief executives of a large department store discovered that, during the first five months of 1933, 23,000 separate return shipments of merchandise were made to manufacturers by the store's traffic department. Believing this to be excessive, the executives have asked that a study be made to determine the cause and suggest measures to be taken. What steps should be taken in such a study? What are the probable reasons for so many returns?

5. A wholesaler of bakers' supplies has found that his average cost of filling orders is slightly over $5 per order. Because he believes this figure to be too high, he has asked his assistant to look into the problem and suggest appropriate remedial measures. How should the assistant determine the remedies to be applied?

6. Should the filling and delivery of orders be considered functions of the sales department? If not, how should the needs of the department for building up a satisfactory clientele through service be met? Does the necessity of handling both inward and outward shipments furnish a valid argument for placing the control of shipping in a separate department?

7. What plant and equipment are required for the filling of orders and shipment of goods? Should selection and provision of equipment be controlled by the sales department if shipping activities are so controlled?

8. Where stocks of finished goods are carried ready for shipment, to what extent is the application of the principles of scientific management as related to stores systems in manufacturing establishments feasible? To what extent is the planning necessary to avoid excessive stocks and shortages the function of the sales department?

9. How can shipments be planned and scheduled when no stock is maintained? What methods may be used to insure prompt shipment without entailing excessive costs?

10. What routine is required for the handling of orders? Is it possible to establish a standard practice in the handling of orders? Is the handling of claims for losses during transit the function of the person in charge of filling and delivery of orders?

11. Under what conditions should the Beaumont Hardware Company permit cancellations of orders? Under what conditions should it permit return of goods by retailers who have already purchased and paid for them?

B. INVENTORY POLICY AND CONTROL—WAREHOUSING

Maintaining Stocks. Some carrying of stocks of finished goods is inevitable. It would be uneconomical, if not impossible, to adjust production and shipments to the rapid fluctuations in consumption and demand without the buffer of stock, though not all concerns need to provide for stocks of finished goods, particularly those who manufacture to order and those who ship their products entirely to others. In fact, one of the principal justifications for the existence of wholesalers and retailers is their performance of the vital function of storage, although in constantly increasing measure during the past 15 years the maintaining

and warehousing of finished stocks in the field have had to be assumed by manufacturers. The service requirements of customers, the decreasing size of orders, and competitive pressure have all contributed thereto.

No general principle can be laid down regarding the allocation of responsibility for stocks of finished goods which will apply to all conditions. Factors such as product requirements, size of stocks, location, and costs all enter into the decision, but more important than any other requirement is the enforced demand of the buyers. The performance of the storage function requires that goods be safely stored to reduce depreciation to a minimum, and that the required degree of accessibility be provided to accomplish delivery expeditiously.

The most common point at which stocks of finished goods are carried is at the plant or at the central market if the plant is relatively inaccessible. If the needs for prompt delivery are not urgent and if the time required for production processes and for transportation is short, a single central stock may be satisfactory. The central stock is usually housed in an owned or rented building, less often in public warehouses.

Where it has become necessary to maintain warehouse stocks of finished goods in the field, the choice is more difficult to make. If field stocks are to be carried, the first question to be answered concerns the location of those stocks. Shall stocks be carried in all principal cities or only at a limited number of larger centers? A number of factors determines the policy and location with regard to warehouse stocks in the field. These may be briefly enumerated as service requirements of customers, volume of sales, size of orders, transportation costs, service competitive conditions, type of product, number of products in a line, and available warehousing facilities from which choice is to be made. Because of the fixed charges involved in owning and renting a warehouse, many firms whose goods do not require special facilities are utilizing public warehousing facilities, particularly so where demands are seasonal and the amount of warehouse accommodation needed varies considerably from period to period.

The choice between types of warehousing facilities is based upon the balancing of advantages in terms of service and additional business and economy against disadvantages of cost. It is easily possible to procure data which will determine costs and savings in utilizing different types of warehouse accommodation, but it is difficult to appraise the selling advantage of the establishment of warehouse stocks or the selling disadvantage from failure to provide the service which may necessitate maintenance of field stocks.

95. ELLIOTT COMPANY—MERCHANDISE CONTROL FOR A MEN'S CLOTHING ACCESSORIES MANUFACTURER

The Elliott Company, with a plant and sales office in Wilmington, Delaware, manufactured and sold an extensive line of neckwear, a line of webbed goods including garters, armbands, and suspenders, and a line of novelty belts; in addition the company sold tie clasps, collar clasps, belt buckles, and similar articles at wholesale. The sales of $3,000,000 a year were made direct to retailers throughout the United States. The 45 salesmen were paid a commission on sales, which was to cover their salaries and expenses, and were allowed a drawing account in advance of their commissions. All items which the company produced were subject to style influences, so that some sort of merchandise control system was especially necessary. There were three production departments, neckwear, suspenders etc., and belts, each of which kept its own merchandise records and performed its own merchandise function. The sales department, as well as performing the merchandise function for the lines which the company sold at wholesale, was responsible for the sale of items produced by the company.

The merchandise records, which were similar in each department, consisted of a perpetual inventory system. A card which showed production and sales up to date each day was kept for each color of every style the company produced. Two series of production figures appeared on the card: first, the amount of the product to be made from an order of material was entered on the cards when this material was ordered; second, the amount produced and put in stock was entered on the cards as the material was manufactured. Thus at any time the department manager could find for any item the amount in production. As orders were received from the salesmen each day, a summary was prepared showing the sales of each color of every style, which information was sent to the various production departments to be posted to the proper cards. Thus the total sales of each item were known to date, and the difference between the sales and the amount produced, giving the inventory on hand, was usually calculated by the manager of the department every day. A physical inventory was taken at fairly frequent intervals and was used to check the perpetual inventory figures shown on the cards.

The various departments used these records similarly in performing the merchandise functions of adding new items, coordinating production and sales, and eliminating unsalable items. The addition of items was accomplished in three ways, in each of which these records played a part. The most extensive addition to the lines, of course, was made at the regular seasonal change, which occurred two or three times a year,

depending on the item. Some items sold continually year after year, others sold continually for several years, while still others only sold during a certain season of one year. At the beginning of each new season the company replaced this seasonal portion of the line with items which would be appropriate for the coming season. In the selection of this new line some attention was given to these records of past sales; styles that had sold well during the same season in former years might be considered as a part of the line for this year. However, more attention was given to indications of the style trends which were found in clothing trade journals, department store trade journals, clothing color forecasts, style forecasts, and information from the concerns which supplied them with materials.

Second, as the season progressed, new items were often added to replace unsuccessful styles or colors. For each color of each style which the three production departments decided to produce a minimum order of material was bought, that is, the smallest amount the company could get at a reasonable price, from which the various items were made. Samples of the items were sent to the salesmen to be displayed to the trade. On the basis of the records, within a fairly short time after the line had been sent to the salesmen, the production managers could determine which of their new items were going to sell in substantial volume and which probably would not be successful. The records furnished sufficient basis for effective control in either case, because, even if a style proved to be unpopular, the amount initially purchased was so small that it usually was not difficult to dispose of it during the season. For successful styles the control was satisfactory, since additional material could be procured readily. The manufacturing process was short, and immediate delivery was not demanded by the retail outlets. The unpopular styles were brought to the attention of the sales manager, who attempted to move them by getting the salesforce to devote special effort to them. If this effort was unsuccessful, the items were discontinued, and often the manager of the department replaced them with items somewhat similar to the more popular styles.

Lastly, items were added to the line on the basis of suggestions from the salesforce. The salesmen were potentially a valuable source of new item suggestions, since they were often given ideas by their retail customers, and they would usually report any item in a competitor's line which was selling well. The sales manager turned these suggestions over to the production departments, where, before any action was taken, they were given careful consideration, both in the light of past and present sales records of any similar items which the company might have produced and in the light of the general experience of the production manager.

The merchandise record played an important part in the regulation of production and the purchase of raw materials. From a daily study of the total sales and the stocks on hand the production manager could determine both when to buy additional raw materials and when not to buy additional raw materials. If stocks of an item were low and most of the goods to be produced from the materials purchased had been made, the manager knew that it was time to consider buying more raw material. If sales on the item were good and gave promise of holding well, the manager would purchase more raw materials. However, if sales were falling off rapidly or if the season for the item was almost over, the manager would not purchase any more raw material for the item unless he thought the sales would continue more than long enough to use another minimum order of the material.

The records also were used in closing out the seasonal items and in discontinuing items. When the daily study of sales on the card record disclosed that a style was no longer attractive to the trade, the production manager would call the number to the attention of the sales manager, who was to attempt to close it out. Toward the end of each season these records were very useful in keeping stocks of the seasonal items low and in determining how much sales effort or how much price reduction would be necessary to clear out all items before the season ended.

During the year 1938 the officials of the company were concerned about the decrease in sales. They wondered whether the entire decrease was a part of general depressed business conditions or whether it was partly due to a lack of proper styling, the result of a lack of contact of those performing the styling operation with the market, or inadequacies of information procurable from their own records.

96. NORTHERN TIRE COMPANY—CONTROL OF INVENTORY

The Northern Tire Company, a manufacturer of tires, tubes, and related products, in addition to distributing through independent dealers, operated about 600 company-owned retail outlets. These company stores were located throughout the United States, which was divided into 4 sales divisions and 42 sales districts. In each district there were located about 15 outlets, stocked from a district warehouse. The company's sales volume approached $35,000,000 annually, of which approximately 50% represented tire and tube sales and the remainder sales of gas, oil, and accessories supplied by other vendors. Much of the accessory merchandise was of a highly seasonal nature, and this characteristic increased losses through depreciation and obsolescence on large inventories. In 1937 the director of the company's sales research department

was considering whether steps should be taken to provide for closer control over store inventories.

Company-owned stores varied considerably in size, from small outlets which handled only a limited line of products to super-service stations which sold a complete line of tires, tubes, accessories, gas, and oil, and serviced cars. The amount of merchandise carried also varied; inventories ranged from $5,000 to $45,000. The accessory merchandise, on which obsolescence was particularly high, was supplied by vendors located throughout the East and Middle West, and included about 300 items, the number stocked depending upon the size of the store. The turnover for this accessory merchandise for the company as a whole was about 2 times a year, as compared with about 4.5 times for tires and tubes. Store managers were paid a salary plus a bonus based on profits.

The retail outlets ordered stock from the district warehouses on the approval of the store manager. The district warehouses used a stock ledger control by units on all items costing $3 or more and a dollar control on all items under $3 in value. A physical inventory was taken quarterly on items over $3. It had generally been thought that owing to their small value and the work involved in accounting and bookkeeping for them, a dollar control at the district warehouse on less than $3 items was sufficient. The sales volume on these items averaged about $6,000,000 a year.

What improvements should be considered?

97. MILROY AND COMPANY—WAREHOUSES

Milroy and Company, which manufactured 35% staple and 65% style clothing for men, maintained 17 branch offices throughout the United States. Each branch was located in a center within 12 hours' distance by rail from the farthermost points in the district covered. The main office and the factory were situated in an important middle-western railroad center which was accessible by boat and rail. The management of Milroy and Company was considering the advisability of having these branches carry stock in order to render more prompt service on repeat orders.

Although Milroy and Company was primarily a manufacturer of style clothes made to order, a feature which was not conducive to branch distribution, it was the principal producer of staple[1] clothing in the United States. For this reason, it was in a better position than its competitors to have its branches carry stock, since it was likely that only

[1] Suits and overcoats of all sizes manufactured in standard colors and models and from standard materials.

staple clothing would be stocked in the branches. The additional expense necessary for rent and personnel would not jeopardize the proposed plan, because adequate stock could be carried in one or two storage rooms.

Style clothing was made up from orders solicited for the two selling seasons of spring and fall. Since style clothing was not for immediate delivery, there was no necessity for stocking it in branch warehouses.

The sales of other manufacturers in staple clothing amounted to only about 10% to 15% of their total volume of sales. On that account, their retail customers always had been accustomed to insure a supply by placing their stock orders for staple clothing further in advance than the customers of Milroy and Company in order not to restrict their sales during the dull season of style clothing.

Other manufacturers of men's clothing had never tried to carry stock in their sales branches, since they did not operate on a sufficiently large scale. Milroy and Company, as the first to adopt such a policy, might secure an advertising advantage. The existing sales branches might be enlarged and local prestige increased as a result of prompt service. Milroy and Company had to compete with the service and the product of local manufacturers in districts which were at a distance from the main office and factory. The most important advantage, therefore, was the prompt service that could be rendered.

Only a few of Milroy and Company's retail customers had requested that the sales branches carry stock, but all of them were likely to approve of such a step, since it enabled them to carry smaller stocks and to rely on the branch storerooms for their mail orders[1] on which they desired immediate delivery. Mail orders, which were only for staple clothing, were numerous directly after changes in weather which had stimulated buying. Stock had to be filled in promptly, because the sale of staple clothing was more nearly constant than that of style clothing throughout the year.

To effect a maximum improvement in service, warehouses would have to be established in all cities where there were branch offices so that the retailers might receive merchandise within 24 hours from the date of order. The branches in the southeastern part of the United States had but one selling season. Stock in those branches conceivably might have a slow rate of stock-turn. Thus, with the adoption of the proposed policy, the difficulties inherent in the problem of carrying stock at the branches were likely to increase.

Since the salesmen solicited orders from each retailer only twice a year, the manufacturer ordered his salesmen to render retailers advisory service in regard to their stocks. Salesmen studied the turnover of stock

[1] Unsolicited orders received through the mail from retailers and not from consumers.

in each store and offered suggestions on the number of different sizes to be carried. It was suggested that such a service obviated in part the need for Milroy and Company to carry stock in its branches.

Should Milroy and Company operate stock warehouses in conjunction with its branch offices?

QUESTIONS

1. The sales agent in San Francisco for Denis boilers proposed to the president of the Denis Boiler Company that a complete stock of boilers should be carried in a public warehouse in that city, in order to provide prompt delivery for customers on the Pacific Coast. The company's factory was located in New England, and sales branches and warehouse stocks were maintained in New York and Chicago. The annual sales volume was approximately $750,000. The boilers were designed to provide hot water for residences by attachment to coal ranges and gas heaters. The company sold to wholesalers of plumbing supplies, from whom boilers were purchased by contracting and repair plumbers for installation in newly constructed buildings and for replacement of worn-out boilers.

Sales on the Pacific Coast were approximately 15% of the total volume and consisted entirely of carload lots. The company was able to compete for orders from the Coast with manufacturers located in the Middle West because its shipments were made via the Panama Canal.

The prompt delivery of any quantity desired by customers, which would be possible under the proposed plan of having a complete stock of boilers in San Francisco, would enable the company to meet more effectively the competition of manufacturers located on the Coast. The wholesalers would benefit because they could operate with reduced inventories of boilers. Establishment of warehouse stocks involved an increased investment in inventory of about $5,000 which was an addition of 2½% to the total stocks of the factory and the branches.

Should stock be carried at San Francisco?

2. Should a manufacturer of women's silk hosiery retailing at prices up to $1.25 maintain a service stock department in order to make prompt deliveries direct to retailers? The policy would require the maintenance of a substantial amount of stock. About 30 styles were required by the retail trade, each of which was manufactured in a wide variety of colors. There were 25 colors for two-thirds of the styles. Five sizes were required for each style and color. Thus about 3,750 pairs of stockings were required for one unit of a complete line of stock. Inasmuch as the hosiery was dyed, there was serious risk of having losses from time to time when consumers' color demands changed rapidly. The cost of carrying a stock of this size also was an important factor. In order to lessen the risk, only the most active styles and most popular colors might be carried. But a retailer desired service whereby he could purchase what he wanted when he wanted it. If a complete line of stock was not carried, such service could not be given. Should the service department have been established?

3. A wholesale drug company sold patent medicines, drugs, chemicals, soda fountains and fixtures, druggists' sundries, candies and cigars, and did a small amount of manufacturing in its own laboratory. It used the entire fourth floor of its five-story warehouse and office building as a storeroom for reserve stocks of merchandise in original packages as received from manufacturers. No records of any kind were kept as to the stock stored on that floor. One man had the duty of delivering the packages on call to

other parts of the building. From eight years' experience in the stockroom the man had become expert at locating quickly any items wanted, although he depended entirely upon his memory. It was proposed that the company install card location records for the stockroom in order to organize the reserve stock in a more scientific manner and to facilitate training stockroom employees. A system of suspended signs to indicate designated locations and a master book or index to such locations were part of the proposed plan. Should the plan have been adopted? Was it adequate to provide satisfactory stock control?

4. A wholesale grocery firm never maintained inventory records, although the business had risen to a figure between three-quarters and one million dollars. The buyers were informed by stock men, who assembled orders for shipment to customers, when the stock of an article was low. Frequently stock men were lax in notifying the buyers to reorder. The buyers determined the quantity to order chiefly on the basis of previous experience. The necessity of improving control and of installing some system of stock record had become apparent. What records should be provided? How can executives of the company determine the cost of maintaining a stock control system?

5. Should the head of the in-stock department of a large shoe manufacturing company selling direct to retailers, from the factory located in New England, be responsible to the sales manager or to the production manager? Discuss briefly.

6. Should a New York company manufacturing nationally distributed inks and adhesives provide its own warehouse facilities at various points in order to fill orders from wholesalers in various parts of the United States?

7. Can a company selling a nationally known food product to wholesalers and large retailers in standard cases use public warehousing space exclusively so as to give 24-hour delivery service to 90% of the grocers in the territory east of the Mississippi River? In territory west of the Mississippi River? Within your state?

8. What considerations should influence the location of warehouse stocks of finished goods?

9. How does development of public warehousing affect the branch policies of national distributors of semiperishable merchandise?

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X

CONTROL OF SALES OPERATIONS

The management of any enterprise involves careful planning and satisfactory execution of the plan. But every sales manager knows that one cannot predict in minute detail how external conditions will change, nor can one determine in detail how members of the organization or customers will act. It is necessary, therefore, to provide in planning for greater or smaller changes to fit changing conditions. To determine whether or not planning has been good, to ascertain the extent to which plans have been and are being carried out, and to know what has been done so that errors may not be repeated in future planning and operations are the functions of the control devices and systems which have been developed by various agencies for use in sales and other departments of the business enterprise. Careful planning is not sufficient to secure results; unless the plan is carefully carried out, the results may be unsatisfactory. Without control, an organization tends to become lax in carrying out plans, but control does not mean merely checking up on individuals or on group operations. It is forward looking; it collects facts as to past performance in order to have them serve as a guide for the future.

A. PURPOSES AND SCOPE OF SALES CONTROL; BUDGETARY CONTROL IN RELATION TO SALES

A complete control system includes several phases:

1. Providing methods for collecting necessary information as to past performance, which includes determining what information is required.
2. Setting up standards as a basis for comparison.
3. Comparing results with standards.

The standards may be purely informal ones set up in the mind of the executive; on the other hand, they may be determined by careful planning.

All sales control is justified only in so far as it contributes to the improvement of sales volume, margins, and expense in their relations to each other. Net profit is the objective. While one may set up control as to net profit directly, customarily the information as to net profit comes only after it is too late to take any remedial action. The

net profit lost in a previous year is irrevocably gone. The objective of control is, therefore, to furnish information in sufficient detail about the factors which contribute to profit or loss in order to eliminate as far as possible adverse factors. One finds, therefore, that a logical approach to the control of sales operations may well be based upon the control of sales volume, of margins, and of operating expenses.

Budgetary control, usually considered with reference to the business as a whole, is closely related to sales. In the process of budgeting, plans are made for volume of sales of various classes of products and the expenses which are to be incurred in making those sales. Estimates are likewise made by some firms as to the margins which will be secured, so that a complete budget includes sales volume, margins, expense, and profit from sales. An estimate of future sales is the starting point for the development of budgetary control plans. Without an estimate of sales, the production department cannot gauge its requirements, nor can financial needs be forecast. Upon the accuracy of the sales budget and the other budgets relating to sales department operations depends the value of the whole budget control system.

The control of sales operations, therefore, includes the collection of information which bears upon merchandising decisions, that is, the acceptance and sale of particular products or lines; it furnishes information as to the actual working of distribution channels; it helps the sales manager to determine what selling programs have accomplished; it furnishes information and bases for judgment as to the accomplishment of the members of the sales organization.

The first problem which confronts the sales manager in developing accurate control of his sales operations is that concerning the amounts and types of information which will be needed in order that he may be able to direct the sales organization properly. He must have enough data to take action wisely, but he will soon find that it may be as disastrous to have too much information as to have too little. If he has too little information, the field within which he has to guess is much broadened, and the danger of error much greater; if he has too much, he may find that its value is more than offset by the costs of figuring it. As a consequence, wisdom in setting up control systems requires experience in anticipating needs for information for current purposes plus that needed occasionally to detect the failure or strength of particular elements of sales operations. Some information must be secured regularly in order that the progress toward the accomplishment of plans can be determined; some may be required only occasionally. Economy dictates the utmost care in preventing loss of energy, and many large firms collect information daily or weekly which is used only at infrequent intervals.

The first and most common source of control data is the accounting system; the modern developments in accounting have been due largely to the desire to secure more adequate control over business operations. It usually happens that the accounting books give only general data, which for the sales manager's purposes must be subjected to further refinement. But such data as those relating to sales by customers and by territories may be taken from the accounts and are available to every concern possessing an adequate accounting system.

The second chief means of control consists of statistical facts, to some extent drawn from accounting records, to some extent compiled independently. The recent development of statistical methods in comparing the records of the individual business with the general state of business and with conditions in the particular industry, the development of methods of budgetary control which are standing the test of actual operation in important business concerns, and the development of means whereby data may be collected without excessive cost and with a minimum of effort are all combining to give to statistical control a new status and new importance. The interpretation of accounting and statistical data frequently requires information which must be obtained from other sources, such as salesmen and special investigators. These sources of information are the principal ones for large enterprises.

For the small and simple enterprise, personal inspection may furnish adequate control. There is, however, considerable danger in relying upon memory to furnish the necessary continuous control and comparison which careful management requires.

98. DANVERS & TODD COMPANY—SALES CONTROL

The Danvers & Todd Company of Columbus, Ohio, manufactured a complete line of leather belting and leather products for industrial uses. The company's products were sold throughout the United States to many types of manufacturing companies that used leather belting for the transmission of power or that used leather products as fabricating materials. The products were distributed to these users in two ways: first, through selected or exclusive dealers, the majority of whom were mill supply dealers; and second, through the company's own salesforce of about 40 men. The salesforce covered the entire United States but only attempted to sell potential customers who were not being reached by dealers, except in cases where it seemed that the dealer was not obtaining so much business as he should from certain customers.

The company placed its dealers in one of three classes according to their position in the territory they covered and to the extent of their

cooperation. Dealers who were very strong in their territories were given the regular wholesale discount on their purchases and received in addition to this a discount on all sales made by company salesmen in their exclusive territories. Other dealers were given the regular wholesale discount on their purchases and the discount on sales made by company salesmen in certain parts of their territories, usually the city in which they were located and the part of the territory immediately surrounding the city. The remaining dealers received only the regular wholesale discount on their purchases.

The 40 salesmen worked out of 17 small branches, which were located in manufacturing centers throughout the country. Two or three salesmen made their headquarters at each branch, one of whom was designated as the branch manager. His authority was limited, however, since the main contact between the company and the salesforce was through three sales supervisors, who traveled from the main office in Columbus and who were a direct link between the sales manager and the salesmen. These supervisors traveled with the salesmen when their assistance was requested or, more often, when the sales manager felt their assistance was needed.

The compensation plan consisted of three parts. First, the salesmen received a commission on their sales and on all sales made by dealers in their territories; the rates of commission varied on the different items sold by the company according to their profitableness. Second, the salesmen were allowed a drawing account as an expense advance; at the end of each month they sent in an accounting for the money spent, and the company sent them as much money as they had spent during the month. Lastly, the salesmen were credited with a fixed percentage of their net sales, which was their expense allowance; the money sent to reimburse them for the money they spent was debited against these credits, and at the end of the year the salesmen received any surplus, while an excess of debits over credits was debited against their commission earnings.

In November of each year the salesmen were asked to estimate the potential sales for the coming year in their territory, which, when revised by the company, became quotas for the salesmen. The executives were not satisfied with this method of setting quotas, and so it was little emphasized in the sales control plan.

Under the direction of the sales manager a sales control system had been built up. In 1937 the sales manager was reviewing the system and studying the results achieved with the intention of making improvements where they seemed to be necessary.

Several years previous to this time a study of the salesmen's calls had shown that the salesmen were devoting too much of their time to smaller accounts whose possible sales volumes were not large. In addition to the

poor allocation of sales effort, the sales manager felt that the salesmen wasted considerable time and money because of inefficient routing. Finally, he felt that the salesmen were not contacting all the company's potential customers. He decided, therefore, to obtain additional information and inaugurate new sales control methods in an attempt to correct these difficulties.

He first wished to discover whether or not the salesmen were reaching all the company's potential customers and used the following plan in an attempt to obtain the information. From a study of the credit rating, the equipment, and the volume of production of representative companies in the various industries which used the company's product he was able to set what were termed rating factors for each industry. By comparing the credit rating, the equipment, and the volume of production of a company with those set up in the rating factor, he would have an indication whether or not the company would be a potential customer. Such information was obtained and compared for each company in all industries which the Danvers & Todd Company served, and a list was made of those who might be potential customers. A comparison of this list with the company's customer record indicated to the sales manager that the company's coverage was not complete.

A list was sent to each salesman of the potential customers in his territory who were not customers of the company with instructions to call on each one of them. After the salesmen had reported the results of these calls, the list was revised to exclude companies who were buying Danvers & Todd products from dealers, who were using some method of power transmission other than leather belting, or who were affiliated with a competitor of the company. The plotting of the company's customers and the revised list of potential customers on a map made it apparent that one cause for the lack of coverage was an inequality in the number of actual and potential customers in the salesmen's territories as they were arranged at that time. Accordingly, a revision of the territories was made considering geographical lines, transportation facilities, but more particularly the number of potential customers and the estimated potential of these customers. The salesmen were advised as to the change in territories and were given a complete list of all the potential customers in their territory.

To make sure that all these potential customers were actively called on, a list was compiled twice a year of customers who had not purchased from the company within a year. As will be noted, information concerning these "lost accounts" was entered on the quarterly summary of calls. In addition, a list of these so-called lost customers was sent to the salesmen in each territory. As a further means of maintaining the contact with its customers the company sent a questionnaire (Exhibit 1), which the sales-

man was to fill out for each of the lost customers. Thus the company was assured that the customers would be contacted.

The sales manager felt that considerably more information was necessary to correct the poor allocation of sales effort and so devised a system of reports and records which would obtain this information. The system was made up of a daily call report, a customer card record, a daily summary of calls, a salesman's book of customers, and a quarterly summary of calls.

EXHIBIT 1

DANVERS & TODD COMPANY, COLUMBUS, OHIO—LEATHER PRODUCTS
LEATHER AND RUBBER BELTING

January 13, 1931

We are attaching a list of accounts who purchased from us in 1935 but not in 1936. This list shows the name, address, potential, number of calls reported, sales in 1935 and the source of their purchases if we have it.

Naturally, we are anxious to know what is the status of these accounts today. We want this information because it is of vital importance that we hold our old accounts while adding new ones; otherwise we cannot make much progress.

We must have a complete written report on each account covering the following questions. This applies even if you have reported on any of these before.

1. Why didn't they buy in 1936? We want the answer even if they have purchased in 1937.
2. If lost, to whom? Why?
3. Did they adopt some other type of transmission? If so, what?
4. Are they buying through a Danvers & Todd Company distributor? If so, whom?
5. Is the potential correct? If not, what is it?
6. Are they part of a national company? If so, has their buying been transferred to some other point? Where?
7. In your opinion what must we do to get their account back?

We must have your *complete written report* at this office not later than *January 21st.*

GENERAL SALES MANAGER.

1. The daily call report (Exhibit 2) was made out for each customer the salesman called on and was sent to the office in Columbus. The report showed the customer's name, his address, and the name of the person interviewed. Under the heading "Remarks" the salesman was to report his sales or the items he attempted to sell and the reasons for his lack of success.

The remarks in cases where the salesmen were not able to sell were valuable in keeping the company's prices and policies up to date. However, the important sales control information was the customers who had been called on and the results accomplished.

2. The customer card record (Exhibit 3). This card first gave complete information about the customer.[1]

[1] See Exhibit 3 for complete list of information given.

The sales manager knew that to check the allocation of sales effort a differentiation would have to be made between the customers with small potential volumes and those with large potential volumes. To accomplish

COMPANY Exhibit 2

SALESMAN'S DAILY REPORT

DATE_____ ROUTE NO._____ SALESMAN_____

PROSPECT OR CUSTOMER Name and Location	PERSONS INTERVIEWED Name (in full) and Position	ANNUAL REQUIREMENTS by PRODUCT DIVISIONS (Be accurate)	KEY	BUY FROM
		A		
		B		
		C		
		D		
		A		
		B		
		C		
		D		
		A		
		B		
		C		
		D		
		A		
		B		
		C		
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		C		
		D		
		A		
		B		
		C		
		D		

IMPERATIVE that Report be filled out DAILY. See Special Price Book Pages for Product Divisions and Key.
Ask for Annual Requirements and report them on this form at least once each calendar year.

EXHIBIT 2.—Danvers & Todd Company. Salesman's daily call report.

this the potential purchases of each customer in each of the company's four divisions of products were estimated by the salesman and modified by the company. The total of these potentials was the gauge by which the company was to study the allocation of the salesmen's effort.

Exhibit 3 - front

3289-1-31-8000

COMMODITY CODE—SALES RECORD

1 Leather Belting (inc. 2nd hand)	6 Round Belting	11 Automotive Resale	16	21 Whole Leather	26
2 Rubber Belting	7 Lace Leather	12 Automotive Prod. Equip.	17	22 Scrap Leather	27
3 Rubber Specialties	8 Leather "V" Belting	13 Textile	18 Packings	23 Gold Spot Division	28
4 Belt Cement	9 Rubber "V" Belting	14 Strap Specialties	19	24 Tannery Sales	29
5 Belt Dressing	10 Misc. Belt Division	15	20	25	30

Branch

Salesmen

Industry

Buyers

Supt.

M. M.

Cont. with

expires

Cr. Rating

Instructions

Invoice Record			Invoice Record			Invoice Record		
Date	Code	Amount	Date	Code	Amount	Date	Code	Amount

Potentials | Total

Distributor

General Office

Buying Office

Branches, Sub's., Div., etc.

EXHIBIT 3.—Danvers & Todd Company. Customer card record.

Date	Com. No.	Description and Size	Price and Terms	Q or S	Salesman's Calls No.	Salesman's Calls Date	Salesman's Calls No.	Salesman's Calls Date	Date	Com. No.	Description and Size	Price and Terms	Q or S

The information from the daily call report was recorded on the back of the card. Space was provided for entering all sales or all quotations made by the salesman. Space also was provided for recording each call made. On the face of the card, in addition to the information about the customer, was entered each invoice of sales made to the company.

This record gave a complete summary of the salesman's transactions with each customer and the results of these transactions, which could be used to determine how he had allocated his effort.

3. The daily summary of calls. This report was a record of each salesman's daily calls showing the number made and the cities in which they were made.

A study of this record allowed the company to check the number of calls made by the salesmen. Its most important use, however, was to study the way the salesman was routing himself, and it therefore will be considered later.

4. The salesman's book of customers (Exhibit 4). This record was made up from information obtained from the customer cards. The record showed the name and address of each customer separated by cities, the men who were to be approached and their titles, the company's credit rating, the industry, and in the last column selling instructions which were to aid the salesman to maintain goodwill. Space was also provided for noting the number of calls made to the customer each quarter and for the entire year, for noting the potentials for each of the product divisions and in total, and for noting the sales during each quarter and in total.

There were two copies of this book, one was kept up to date in the office, and at the end of each quarter the salesman sent his book in to be brought up to date. Thus the salesman was given a summary each quarter of his efforts spent on each customer and the results obtained. He also was able to compare these factors with the potentials of his customers, and the company hoped that this information would show the salesman that he was wasting his time when he called too often on customers with small potential volumes and that he was not obtaining the volume he should from larger customers because he did not spend enough time with them. Thus executives hoped this book would be effective in correcting the poor allocation of sales effort.

5. The quarterly summary of calls (Exhibit 5). The sales manager devised a quarterly report which would check the allocation of sales effort and show whether or not the information given to the salesmen was having any effect. The company's customers were separated into five groups according to their estimated potential purchases. On the basis of this division, the sales manager had the following statistics on sales and on calls compiled. The statistics as to sales were divided into three groups: for all customers, for new customers, and for "lost customers." The same sort of information was gathered for the first two groups. Under "Number Customers"

appeared the number of customers of each potential group who had purchased from the company each quarter. In the upper half of the divided column headed

"$\frac{\text{Potential}}{\text{Amount Purchased}}$"

was noted the sum of the potentials of all the customers who had purchased during the

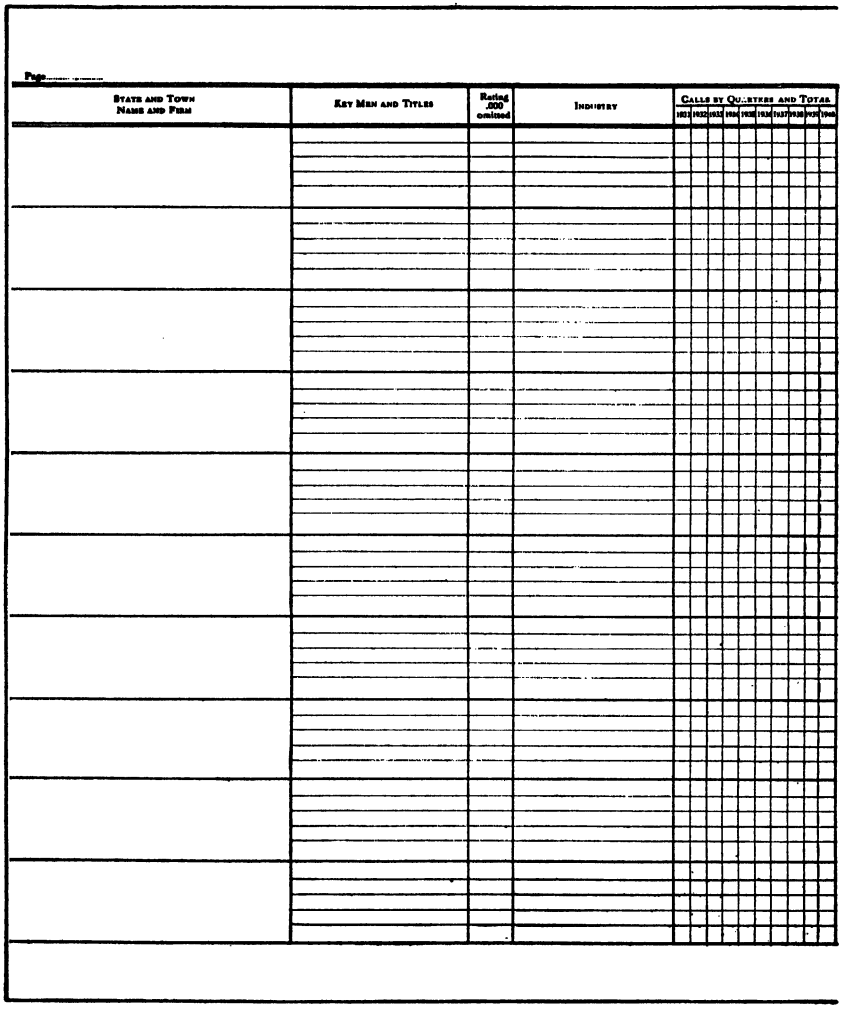

EXHIBIT 4.—Danvers and Todd Company. Salesman's book of customers.

quarter, and in the lower half was noted the sum of their purchases. The information in the "Customers Lost" section was only compiled twice a year. A customer was considered lost when he had not purchased from the company for more than a year.

The number of such customers was noted, and in the divided column the sum of the potential was noted in the upper half and the customers' purchases the year before they stopped purchasing in the lower half.

The second section of the report was to give the company information as to total calls and the average number of daily calls for each quarter and for the year as a whole.

Page .....

Potential Yearly Business by Commodities	Sales in Dollars by Quarters and Year Totals										Remarks { Present source of supply contracted? Where is buying done if not here? Reasons why we are not selling, etc.
	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	
A											Source:
B											
C											Buying Point:
D											
Totals											
A											Source:
B											
C											Buying Point:
D											
Totals											
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A											Source:
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C											Buying Point:
D											
Totals											

EXHIBIT 4.—(*Continued.*)

The third section gave the statistics concerning calls, and the division was once again on the basis of the five potential groups. In the first divided column headed "$\frac{\text{Potential}}{\text{Total Prospects}}$" the upper half was to show the potential of all the customers in the

Section I

QUARTERLY SALES RECORDS—YEARLY TOTALS—AVERAGE YEARLY POTENTIALS ESTIMATED

All Customers

New Customers

Customers Lost

Potential Group

Number Customers

Potential Annual Renewal

Yr.

Number Customers

Potential Purchasing Volume

1st Half

2nd Half

Year

1. Miscellaneous

2. $300 to $1000

3. $1000 to $2500

4. $2500 to $5000

5. $5000 and over

Totals

Section II Calls Jan. to Mar. Inc.

Total Calls

Days Reported

Average Daily Calls

Calls Apr. to June Inc.

Calls July to Sept. Inc.

Calls Oct. to Dec. Inc.

Calls Year

Section III

QUARTERLY AND CUMULATIVE CALL RECORD—DISTRIBUTION OF CALLS IN POTENTIAL GROUPINGS

Potential Group

Potential Total Possible

Jan.-Mar. Inc.

Apr.-June Inc.

July-Sept. Inc.

Oct.-Dec. Inc.

Year

Potential Called On

Calls

%

Potential Total Prospects

1. Miscellaneous

2. $300 to $1000

3. $1000 to $2500

4. $2500 to $5000

5. $5000 and over

Totals

EXHIBIT 5.—Danvers and Todd Company. Quarterly summary of calls.

group, and the lower half was to show the total number of prospective customers in each group. The information accumulated each quarter was the same. In the column labeled $\frac{\text{"Potential"}}{\text{Called On}}$ the upper half showed the sum of the potentials of all the customers called on, and the lower half the number of customers that had been called on. In the column headed "Calls" was entered the total number of calls made during the quarter. This would differ from the figure in the lower half of the preceding column by the number of repeat calls. In the last column for each quarter the percentage that calls to each potential group were to the total number of calls was shown. This entire quarterly summary was made for each salesman and for all the salesmen each quarter.

Certain data from the report were sent to the salesmen when the quarterly figures were obtained, and at the end of the year he received a photostatic copy of the complete report. Thus this report, as well as being used by the management to control the salesmen, was sent to the salesmen to show them wherein they needed correction.

The information obtained from this report at the end of the first year executives considered, was quite useful in showing them to what extent the salesmen's efforts had been misplaced. For example, the report showed that 22% of the sales had been made to customers in the first two classes (with potentials below $300 and between $300 and $1,000), while 55% of the calls had been made to these groups. The company, however, had only 2,800 customers in the last 3 groups, as compared with 12,300 in the second group and an even larger number in the first group, so that the salesmen called on customers in the last group (with potentials of $5,000 and above) 7.8 times a year and customers in the second group only 2.3 times a year. While this showed a tendency in the right direction, the executives felt even more effort should be placed on customers with large potentials and less on those with small potentials, since the sales volume obtained from the former was so much greater. Another interesting fact shown by the report was that for one-third of the number of new customers in group 5, as in group 2, the sales volume was 40% greater. Thus, the executives felt that time spent in attempting to get new customers with a greater potential purchasing power was worth much more than time spent on those with less. These facts were brought to the salesmen's attention when the reports were sent to them, and some beneficial results had been obtained. By dividing the total cost of the salesforce (salary and expenses) by the total number of calls made, the company obtained a cost per call figure. This figure was sent to the salesmen in the hope that the knowledge of the expense of each call would deter them from calling so often on accounts with small potentials. Finally, the sales manager required that each salesman call four times on all his customers in groups 4 and 5 during the year.

The sales manager hoped that the attempts to correct these two difficulties would rectify the inefficient routing. To determine just how unsatisfactory the routing was, the daily summary of calls (which has been described) had been obtained. A glance at this record would show any routing which was radically wrong, and if such a condition was found, the fact was to be pointed out to the salesman in the hope that he would correct it. By plotting the daily calls on a map, many wastes had been discovered which resulted from not planning the routes in advance. Perhaps the most important difficulty indicated was that the salesmen routed themselves on the basis of transportation facilities entirely, giving no consideration to the potential purchasing volume of the customers on whom they called.

The executives pointed out these facts to the salesmen in the hope that, having been informed as to their potential customers and having been supplied with complete information about each customer, they would give considerable thought to these data in planning their routing, so that all customers would be visited and so that their effort would be allocated more in accordance with the potential purchases of their customers. This hope, however, was not realized; while the coverage was practically complete and the allocation of effort improved somewhat, it did not improve so much as the company desired because the salesmen would not give their routing serious consideration. The executives believed that the failure to consider routing seriously was caused by the past habits of the salesmen, the method of paying expenses, and the fact that now and then the salesmen received special calls from customers which they felt were so frequent as to make routing impracticable.

The executives felt that, if routes were carefully planned, such special calls would not disrupt the salesmen's routes at all, but they were not able to convince the salesmen that this was the case. The salesmen had always planned their own routing, and the company was not prepared to take the step of prescribing their routes for them. However, the information obtained from the sales control system had shown a need for some sort of action.

What steps should the company take?

99. GORDON COMPANY—DETERMINATION OF MONTHLY NET PROFITS BY PRODUCT DEPARTMENTS

The Gordon Company manufactured flashlight cases and batteries, dry cells, radio batteries, radio tubes, miniature lamps, and an antifreeze solution for automobiles, all of which were distributed nationally through electrical, hardware, drug, and automotive wholesalers, as well as chain

stores. The field organization of the company was divided into four divisions, each under the control of a division manager. A division contained from two to six districts, each with a district manager, and from two to eight salesmen. Salesmen were assigned definite territories in which they called upon jobbers and did some missionary work among retailers. A few salesmen at each division office worked exclusively on one individual line, while others spent their full time in missionary work with dealers.

The system of sales control used by the Gordon Company to check the effectiveness of its nation-wide sales organization presented information both by geographical areas and by lines of products. Statements were prepared monthly for each sales district which showed actual, quota, and percentage attainment of quota for sales of each product department as well as for each major class of expense. A net profit was obtained for each sales district after the allocation of all division and central office overhead expenses.

EXHIBIT 1

GORDON COMPANY—ALLOCATION OF DIVISION EXPENSES TO PRODUCT DEPARTMENTS

Expense Account	Number of Adjustments	Average Allocation	Number of Orders	Number of Jobbers	Number of Dealers	Direct
Special Product Salesmen	...	.....	.....	...	...	100
Missionary Salesmen	...	.....	.....	...	100	
Jobber Salesmen	...	.....	.....	100		
Division Sales Executives	...	30	.....	70		
District Managers	...	.....	.....	100		
Sales Correspondents	...	.....	50	35	15	
Advertising	...	.....	.....	...	...	100
Lamp Sales Department	...	.....	.....	...	...	100
Multigraph	...	Where necessary	.....	...	...	Where possible
Service Control	...	Where necessary	.....	...	...	Where possible
Adjustments	100					
Cashier and Division Accounting	...	100				
Typing and Stenography	...	25	.....	50	25	
Filing and Mailing	...	.....	75	25		
Order and Billing	...	.....	100			
Warehousing	...	.....	Where necessary	...	...	Where possible
Traffic	...	.....	100			

For several years the company had also been securing a monthly net profit figure by divisions for each of the seven major lines of products. Until recently the expenses of the various operating departments were assigned to the product departments, either on the basis of sales volume or on the estimates of the heads of the various operating departments. The estimates at the divisions varied widely, and results attained under

the system were not very satisfactory; numerous complaints of unfairness were advanced by the product managers.

Recently new and more adequate bases were developed by the sales research department for the assignment of both the central office and division expenses to the production departments. Exhibit 1 shows the bases used in assigning to product departments all expenses which originated and were collected in the division accounts. In assigning expenses under the basis of average allocation, the same percentage of this group of expenses was given to each product department as the percentage of the total division expenses assigned to the department under all the other bases. The central office expenses assigned to each division under the territorial control setup were reassigned to the product departments on the bases shown in Exhibit 2. The expenses listed under division allocation were assigned to the product departments in the same ratio as all other expenses of the division were assigned to the department.

EXHIBIT 2

GORDON COMPANY—ALLOCATION OF GENERAL OFFICE EXPENSES TO PRODUCT DEPARTMENTS

Expense Account	Division Allocation	Number of Orders	Number of Jobbers	Direct
Postage and Printing	100			
Multigraph Department	100			
Research—Accounting and Statistics	100			
Share of Sales and Factory Management—Executive Salaries, Etc.	100			
Share of General Corporation Expenses	100			
Miscellaneous	100			
Accounts Receivable and Credit	...	50	50	
Lamp Sales Department	...	..	..	100
Advertising	...	..	..	100

About the twentieth of each month a statement was prepared at each division for the previous month for each of the seven product departments and contained the following information: by quantity, the amount of gross sales, returned sales, and net sales; by value, the gross sales, and the returned sales and net sales—all in dollars and as a percentage of gross sales; also by value, cash discounts, sales adjustments, quantity allowances, total discounts and allowances, net income from sales, cost of net sales, gross margin, general office expenses, advertising expense, delivered transportation, total division sales and delivery expense, and profit or loss—all in dollars and as a percentage of net sales.

The product managers were not entirely satisfied with all the bases of allocation under the new method. The manager of the lamp division believed that the allocation of jobber salesmen's salaries and expenses was not fair to his department because practically all the jobbers carrying some of the other lines also carried lamps, but the Gordon salesman generally spent little time promoting the sale of lamps. The members of the sales research department, however, believed that the bases of allocation were essentially fair and that they automatically effected the necessary adjustments as the various lines increased or decreased in relative importance.

Are the bases of allocation proposed such as to furnish the sales manager with more significant control data?

100. ALLENDALE MOTOR MARTS, INC. (B)—USE OF OUTSIDE CONSULTANTS IN ESTABLISHING SYSTEM OF RECORDS AND CONTROL

Late in the summer of 1937 R. C. McCormick, general manager of Allendale Motor Marts, Inc.,[1] and Allendale Oil Company, Inc., employed a group of consulting engineers to plan a complete set of records and management devices as a basis for controlling the operations of both businesses. Although certain data were always readily available, it was not known whether they were adequate for judging the effectiveness of each division of the organization. None of the executives had had business experience previous to his present employment, and they were therefore not familiar with the requisites for adequate control. Moreover, both businesses were not more than a few years old, and it was thought desirable to establish a complete system of records before a long-established procedure made a change burdensome.

So far as organization was concerned, both businesses were operated as one, divided into three operating divisions. The parking and automobile service station activities were controlled by the service department; sales of the Allendale Oil Company, Inc., to both stations and consumers were under the direction of the sales department; and the supply department attended to the procurement, storage, and delivery of goods, and supervised the various services usually performed by a supply division.

The following excerpts from the report of the management engineers relate to the control system proposed by them.

Budgets and Control

Recommendation No. 1. Standards of accomplishment be established for all units of the organization.

[1] Cf. Allendale Motor Marts (A), p. 325, for earlier additional facts.

The management seeks to expand the business, to promote sales and to maintain the proper relationship between income and expense. It has adopted the policy of making the business pay for its own development. In line with this policy, the probable return from each new project is estimated in terms of income and expense before action is taken. This is sound practice. The same type of appraisal should be used to control every unit of the business.

Each parking lot, service station or other sales unit should be envisaged as an independent enterprise and expected to produce a volume of sales and an operating profit equal to accepted company standards. Standards of sales (quotas), expense and income should be set up for each unit so that they may be readily and frequently compared with actual results. Whenever accomplishment cannot, after reasonable trial, be brought up to the standards set, the project should be recognized as an unsuccessful venture and appropriate action should be promptly taken.

Recommendation No. 2. Budgets be set up to control the operations of all units of the business.

Business conditions and unit sales and profits cannot be accurately forecast. The requirements of the business and the objectives of the management can, however, be established. The budget for each unit, or for the business as a whole, should be based upon what the unit, or the business, needs to accomplish. This information should be detailed for the units and summarized for all operations so that net results may be anticipated for several months in advance.

The fact that budgets must be prepared in advance for specified periods makes it possible for the management to adjust such factors as appear to be unfavorable. Comparison of actual results with the budget enables the management to measure performance against standards. Steps can then be taken to correct unsatisfactory conditions or to extend practices found to be responsible for super-standard achievement.

The budget should always be revised to conform to changes in practice or experience. Unanticipated factors which increase the pay roll, change prices or entail expensive maintenance schedules should be incorporated in the budget figures for the succeeding periods and for the year. This means that the budget must be flexible in use and in method of preparation, so that the management may be sure at all times that all known factors have been taken into account, and may depend upon the figures as a forecast of operating results.

The preparation and use of the budget will assist in developing a forward-looking attitude on the part of all responsible executives, and will emphasize the relationship between plans and programs and the results accomplished.

Recommendation No. 3. Accounting records be set up to conform to operating requirements.

In addition to meeting the regular financial requirements, the accounts and records of the company should conform to the operating requirements of the management. Account classification, account grouping and control accounts should be set up, so that information with respect to the various units of the operating organization is readily available for comparison with the budget. Since the budget is built up from certain groupings of income and expense items in both units and dollars, the accounts should reflect the same details and summaries.

Recommendation No. 4. Follow-up systems for appropriations, plans and schedules be inaugurated.

A number of the activities which are carried on must be checked by methods other than the regular accounting and operating practices. For example, appropriations may be made to carry out an advertising program or to rebuild a service station. The

cost of such work should be accumulated separately and, when the project has been completed, it should be checked against the appropriation.

If a program of sales promotion is to be initiated or a new idea is to be carried out by the organization, the work must be planned and scheduled and there must be a follow-up which will show whether decisions are being acted upon and whether performance and results are meeting the schedule and the estimate. There are several ways of keeping track of such activity. One method is to keep a tickler file of all decisions which must be acted upon by members of the organization. This file can be kept by the secretary and referred to the General Manager on follow-up dates. Another method is to keep a log book of proposed work with the date of discussion, the dates of action and the name of the person to whom the task has been assigned. Periodic conferences for reviewing the progress of such undertakings are often useful.

A third method of follow-up is to have a record of projects by departments and for the business as a whole. By using a rack similar to the Index Visible, with single-faced panels for each department and a separate card for each project, a visible record of all undertakings is established. Such projects as painting a sign, rebuilding a station or trying to sell a polish would be placed in the Service Department panel. An advertising program for fuel oil, a contest for salesmen or a quota date for sales would be placed in the Sales Department panel. When a project is completed or the need for follow-up ceases, the card may be destroyed.

The particular method chosen for following up such special activities of the organization is not of consequence; what is important is that some systematic way of checking their progress and accomplishment be adopted and adhered to.

Recommendation No. 5. Increased use be made of accounting and statistical information.

Operation of the business on a budget basis requires that the department heads be kept currently apprised of the accounting and statistical information relating to their activities. If the Manager of the Service Department is expected to realize a certain income from a parking lot for which pay roll, operating expense and maintenance expense have been definitely budgeted, he should at all times be acquainted with the figures pertaining to those items which are within his control. (Rent and overhead are not within his control; therefore, these factors do not concern him directly.) Similarly, with respect to service stations, data regarding sales in dollars, sales in gallons and units, and all controllable expense items should be available to the Manager of the Service Department.

The Managers of the Sales and Supply Departments and the Office Manager should also be kept informed of the results, both operating and financial, of the functions with which they are concerned. This is essential if they are to be impressed with the relation between plans, expenditure of effort and results produced.

As improved information is made available to the General Manager, he, in turn, will be in a better position to use the results of experience in directing the operations of the company and in planning for the future.

Recommendation No. 6. Every effort be made to adhere to the policies which have contributed to the success of the business.

In the development of the business, a number of more or less well defined policies and practices have been followed by the management. Because they represented the beliefs and methods of Mr. R. C. McCormick, they became the basis of his operations. There was a direct and easy translation from ideas to application.

Since the activities of the organization have expanded to an extent that has necessitated the delegation of performance to others, it has become more difficult to have an

idea or a plan carried out as originally formulated, or to have it done as rapidly as before. Instead of conceiving, developing and executing his plans himself, Mr. McCormick now finds it necessary to present his ideas to others in a form which they will regard as valuable and practicable. He then has to depend upon his associates to translate the ideas into practice. Failure of the organization to respond to the alert and aggressive leadership of the General Manager has been the cause of much of the confusion which has surrounded the operation of the business.

A portion of this difficulty will be eliminated by the adoption of a clearly defined organization plan. A greater part will disappear with the selection and appointment of personnel definitely fitted for the tasks assigned.

The most important factor in the situation is leadership. One of the tasks confronting the General Manager is the perpetuation of the sound and effective policies and practices which are the foundation of the business. This can be accomplished only by training the personnel to think and act from a company point of view. It is not an easy task, but a combination of men must be found who are not alone individually qualified to conduct the respective functions of the business, but will work in harmony to attain the larger objectives of the company.

A clear understanding on the part of all members of the organization of accepted policies and practices will be helpful in building a company spirit which will lead to cooperative action. The expression of company policies in the form of catch phrases is a good way of keeping them in the minds of the personnel. The constant repetition of such slogans as "Pay as you go," and "A thing well bought is half sold," cannot fail to impress on the organization the policies which underlie them.

Information required by the management for purposes of control falls into three classes: statistical information, showing the activity of the various divisions in terms of units of product or service; financial information, expressing activity in terms of income and expense; and, finally, budgetary information from which the plan of operation is constructed and against which operating results are measured.

Statistical information, showing transactions in units and dollars, will be collected daily and accumulated periodically for the various operations. The method of securing this information has been set up by the company's accountants. Data of this type serve two purposes; they are used in estimates of handling costs, storage requirements, etc., and as a basis for calculations in cases where price variations make it impossible to use dollar and cents values for comparative purposes.

Financial information is now available to the management and is periodically recorded. The methods of treating income and expense should be revised in order to secure a more equitable distribution of the items among the various departments and to show a clearer picture of the operation of each division of the company. Distribution of the gross income from gasoline and fuel oil between the Supply Department and the selling units is a matter of company policy, but the Supply Department should be credited with the customary wholesale margin on the products which it handles in quantity in order that economy of operation and profitableness may be measured directly.

The recommended classifications of income and expense are shown on the forms included below. A minimum number of classifications has been recommended, because the details of each account can be secured, if required, from the accounting records.

By budgetary information is meant the record of standards, plans, quotas, and needs of the business. The budget is the statement of anticipated results. The budget forms here included are designed to effect control over the operations of each department or unit through the establishment, in advance, of definite objectives.

STATISTICAL REPORT SERIES

1. *Weekly Report of Station Sales (by Items Sold)*

This report is prepared on Form P-2, as developed by the company's accountants.

Comment:

The information required for this report is identical with that recorded on Form P-2, which serves for the accumulation of sales data. The report for each station should be reviewed periodically by the Office Manager and compared with the budget. Wide variations between actual and budgeted amounts should be brought to the attention of both the General Manager and the Manager of the Service Department.

2. *Monthly Report of Service Department Sales*

This report is similar to Form P-2, but shows only the monthly total units and amounts for all stations.

Comment:

This is the only report of the Service Department which shows units and amounts by separate products for all stations.

3. *Weekly Report of Sales Department Sales (by Items and Total)*

Comment:

The information required for this report is taken from the statistical and accounting records. The report for each sales unit should be reviewed periodically by the Office Manager and compared with the budget. Wide variations between the actual and budgeted amounts should be brought to the attention of both the General Manager and the Sales Manager.

Note 1: This report shows sales by product, by sales division, and for all divisions. As long as this is practicable, an additional monthly summary (Statistical Report No. 4) is not necessary.

Note 2: Sales of fuel oil, etc., made at the bulk plant should be credited to the proper Sales Department account.

4. *Monthly Report of Sales Department Sales*

The form of this report cannot be anticipated. When instituted it should show the sales of the Sales Department in total units and amount, by product.

Comment:

The information required for this report is identical with the totals shown on Statistical Report No. 3. Therefore, this report should not be instituted until such time as the activities of the Sales Department increase in number and complexity to the point where Statistical Report No. 3 must be subdivided to give a separate report for each division of the Sales Department.

FINANCIAL REPORT SERIES

1. *Monthly Report of Individual Station Operations (Sales and Expenses)*

Comment:

This report of income and expense by stations shows the profitableness of operation of each station. It shows also, as separate items, the return from car service and from

parking, so that experience in each activity may be made a matter of record for comparison with the budget and for future planning purposes.

This report should be compared with the budget by the Office Manager; wide variations between actual and budgeted amounts should be brought to the attention of the General Manager and the Service Manager.

2. *Monthly Report of Service Department Operations*

The form of this report should be as follows:

Comment:

This report summarizes the profits made at service stations and at parking lots, and shows the overall Service Department Expenses to be charged to all stations. The compilation of the information should be done by the Office Manager as a part of his work in analyzing the differences between actual results and the budget for the various operations.

3. *Monthly Report of Individual Sales Division Operation*

Comment:

The units of the Sales Department should have separate financial reports showing sales, cost of goods sold and direct expenses. At present there are four divisions: fuel oil, oil burners, wholesale gasoline and oil, and solvents.

FINANCIAL REPORT NO. 4

4. *Monthly Report of Sales Department Operations*

Comment:

This report summarizes the profits made in each of the sales divisions and shows the overall Sales Department expenses to be charged to all Sales Department profit. The compilation of this information should be done by the Office Manager as a part of his work in analyzing the difference between actual results and the budget for the various operations.

5. *Monthly Report of Supply Department Operations (as a Whole)*

Comment:

The Supply Department is a single operating unit: therefore all income and expenses are charged directly to the department. The difference between the purchase price of products and the price at which those products are charged to the Service and Sales Departments is dependent upon trade practice and company policy.

6. *Monthly Report of All Operations*

Comment:

This report shows the profit or loss by operating departments and the indirect overhead expense (Office Department and Management). The difference is the net profit or loss from all operations. The compilation of this information should be done by the Office Manager as a part of his work in analyzing the differences between actual results and the budget for the various operations.

BUDGET REPORT SERIES

1. *Individual Station Budgets*

Comment:

The seasonal character of the business makes for wide variations in monthly operating results. The budget form should show the data for each of the twelve months, as well as an annual total. Periodically, when revised estimates are submitted by the department managers, it will be necessary to revise the figures for succeeding periods and the totals. These changes must be made if the budget is to be a live and useful record.

2. *Service Department Budget (by Months)*

Comment:

The operations of the Service Department should produce a profit sufficiently large to cover a fair portion of overhead expense and to give a fair return to the owners.

3. *Individual Sales Division Budgets (by Months)*

Comment:

The monthly operations of the sales divisions must be measured by indices which will show the accomplishment of the division at all seasons of the year. Fuel oil sales may be negligible in the summer, but the number and size of contracts secured bear a direct relation to the yearly business. Therefore, in the fuel oil budget, data on contracts must be used to measure performance.

4. *Sales Department Budget (by Months)*

5. *Supply Department Budget (by Months)*

Comment:

The income and expenses of the Supply Department are directly dependent upon the requirements of the Service and Sales Departments. Most of the Supply Department activities are directly related to the gallons of product handled. The best index of activity is the total number of gallons of product delivered to customers or to stations. This figure can be taken from the statistical reports of sales.

6. *All Operations Budget (by Months)*

Comment:

The All Operations budget is the summary of expectations for the various units of the business. Each change in plans and each revision in estimates should be noted and given to the Office Manager, so that the budget for the whole business can be brought up to date every two or three months. It may prove necessary in practice to make revisions at shorter intervals. The budget must show, as closely as possible, the expected results for the succeeding periods and to the end of the year.

Is the system of records and control recommended by the consultants adequate? Flexible? Economical? What information is needed by an executive in order to judge fairly the effectiveness of the various divisions of an organization?

QUESTIONS

1. The Hebron Findings Company manufactured a limited line of metal supplies, such as tacks, heel nails, eyelets, and arch braces, for use by shoe manufacturers. Demand for the company's products such as eyelets varied with conditions in the shoe manufacturing industry and with changes in style. These changes were more marked in women's than in men's shoes. Because of repeated accumulations of inventories resulting from unexpected style changes, the sales manager became interested in evolving a method of forecasting demand for articles affected by style changes as a basis for budgeting sales and production. How should he have proceeded to develop forecasts? Under what conditions would reliable forecasts be secured?

2. The sales of the Sinissippi Wholesale Drug Company, located in a large middle-western city, were over $2,000,000. In addition to that city, the company covered the territory within about a 200-mile radius therefrom. Net profits were unsatisfactory, and executives believed that a more effective system of control should be instituted.

The company classified its merchandise into eight departments: sundries; patent medicines; liquors; general merchandise, including chemicals, drugs, and compounds; shaving cream; cold cream; hair tonic; and miscellaneous pharmaceuticals and preparations. The last four groups were sold under the company's private brand. All sales orders, returns and allowances were analyzed, and a net sales figure was obtained for each of the eight classifications. Net purchases were handled in the same way. Physical inventories were taken twice each year, but inventories were estimated quarterly for each department by the estimated gross margin method. Expenses were adequately classified, but no attempt had ever been made to allocate expenses to departments.

The president suggested that a sales quota for each of the departments be established, based upon the average sales of the department for the three preceding years, modified by the increase or decrease which might be expected from the general growth or decline of that department, the advertising which it was expected would be done, general business conditions, the number of salesmen the company planned to employ, and the amount of sales which the department should have in order to show a net profit. These departmental quotas would then be distributed on a monthly basis.

After sales were estimated, an approximate expense budget for the whole company would be made, within which the actual expenditures might be kept. This would give total net profit, but it would not indicate the relative profitableness of the various lines. The company was, therefore, interested in some method of expense allocation as well as in constructing a budget.

Outline a budget plan. Discuss possible methods of expense allocation.

3. A specialty food manufacturer, with a traveling missionary salesforce of 100 men, required each salesman to make out a detailed call report for each call, a weekly summary of calls, a sales and weekly expense account, and a route sheet. Salesmen working in congested areas made from 30 to 60 calls per day. They found that it required from four to six hours each evening to complete the detailed report requirements. The sales manager, who had designed the system, believed that salesmen through writing up these reports reviewed their work and underwent a process of self-study and improvement which was worth the extra effort. Complaints had been frequent and difficulty was encountered in securing prompt and up-to-date return of the reports. How should these difficulties have been met?

4. A prominent sales manager says: "Of the various kinds of data that come to my desk I find the most effective are those summarizing the happenings of a week or a

month. Of course, I see all sorts of daily reports but they pass over my desk and leave not much of an impression, but we have other reports summing up the events of a week and a month. I study these, so the point I want to make is this: whatever a sales manager has come to his desk he ought to have some sort of periodical data serving as an index of the business. Of course, daily reports are an index but what you can derive from them does not give you a sufficiently detached viewpoint to enable you to interpret them." Do you agree with the point of view? Enumerate the types of summaries which would satisfy these requirements (*a*) for the Beaumont Hardware Company; (*b*) for the Sinissippi Company.

5. Should a manufacturer of shock absorbers for automobiles require daily reports from a salesman who is working in Detroit to induce automobile manufacturers to adopt the product as standard equipment?

6. What are the requisites of a satisfactory system of control of sales operations? Is there necessity for a system of control besides that furnished by accounting systems?

7. What are the sources of the following records? How and why should they be used in controlling sales? (*a*) Records relating to customers; (*b*) prospect records; (*c*) records of sales classified according to products, territories, classes of buyers; (*d*) records relating to the performance of salesmen and other members of the salesforce; (*e*) records dealing with advertising showing expenditures, results; (*f*) records of orders, deliveries and shipments; (*g*) statements of budget estimates; (*h*) records of personnel.

8. What reports should a chief sales executive prepare for general administrative officers?

9. Is the adoption of a budgetary control system dependent upon the ability of a company to set accurate quotas for salesmen?

10. In view of the rapid changes in market conditions during the past few years, is it possible to devise sales and sales expense budgets which are helpful rather than misleading? How may flexibility be introduced into sales and sales expense budgets?

11. Is the point of view sound that net profit should first be budgeted and that all adjustments of expense figures during the year should be made when necessary so that the net profit figures be untouched? Profit, under this plan, is not to be regarded as a residual sum but as a first charge upon business operations.

B. SALES CONTROL; SALES VOLUME AND MARGINS

Information as to the volume of sales is usually collected from the books of account or from the statistical or other records maintained by the company to show sales by salesmen, sales by products, or sales by territories. The data as to sales by products furnish information as to the relative success or failure of particular products to meet the demands of the market or the failure of the organization to present those products adequately to the market. Data as to sales by salesmen furnish basic information as to the progress of the salesmen in achieving the volume goals which may be impliedly or expressly set up. Analysis of volume figures by salesmen may show whether salesmen are pushing all products in the line adequately.

By territories, data may show if a salesman is accomplishing the work equally in different parts of his territory or if there are differences in the territory to be explained.

Sales Volume. Information as to volume of sales is almost universally used in studying sales performance. Its limitations are due primarily to the fact that sales volume is not necessarily closely correlated with net profit. There is no necessary correspondence between the volume of sales and the volume of profit. Nevertheless, other factors remaining equal, volume of sales furnishes one important index to the performance of the company and to the performance of the operations of the company's organization. Volume of sales to customers is considered useful in determining both the relative value of customers and the performance of the organization with relation to particular customers.

Standards concerning the volume of sales are peculiarly difficult to determine. Whether he realizes it or not, every sales manager sets up a standard of sales volume by which he judges his salesmen. That standard may be based upon the average of experience of the company over a period of years; it may be based upon a figure which is set up by the sales manager as constituting a good sales volume; it may be varied by the sales manager according to crude or careful appraisals of the territory in which the salesman is working. Standards for total sales volume of an area or for the company may be based upon past experience, upon more or less accurate information as to the sales of competitors, or upon the accumulated estimates of various members of the organization who are engaged in selling in the field, or by taking a total estimate and assigning portions of it to territories or to products. When estimates of sales are carefully made and embodied in the budgets, they become vital to the sales organization. To secure greatest value from planned sales volumes, standards should be set up so that each member of the organization knows his assignment.

The accuracy of volume standards will, of course, depend upon the amount of experience which a company has on record, upon knowledge of trends of development of sales volume, and upon external conditions which may affect sales volume more or less importantly. For businesses which fluctuate greatly, it may be difficult to set up a standard. Because expenses must be adjusted as far as possible to volume, the volume requirements are sometimes set up as a multiple of sales expense figures.

It must be understood, however, that the volume standard which may be set up is usually not the maximum volume which could be secured. It is usually a figure between maximum and minimum volumes; therefore, a goal which may be reached even though external conditions may compel more intensive effort or permit relaxation of effort as the year progresses. There are no authoritative volume standards which can be said to repre-

sent the desirable or possible sales per salesperson or the sales per branch or unit of an organization. Standards must in each case be set up for the specific enterprise, although in highly competitive industries in which there are a good many units of small size, ideas will gradually develop as to what constitutes good and average performance, against which the performance of specific persons is measured.

Control of Sales Margins. Information as to margins likewise may be an objective in getting information from the books of account. But here again statistical and other information may be required to determine facts of value from the viewpoint of the management. A study of price-cutting by territories may reveal the fact that, as a rule, weak salesmen sell throughout their territories at lower margins than others. A study of margin by product may reveal the fact that some products are sold usually at little or no profit. A study of margins by customers may show that customers who secure extensive price concessions may yield little in terms of net profit.

The maintenance of margin standards is essential to net profits. Extensively developed budgetary control systems will make provision for determination of margins to be secured. Margin standards are difficult to attain, particularly in periods of declining prices, because of factors outside the control of the enterprise. This does not diminish either the importance of knowing what margins should be secured or the importance of knowing at all times the relation between price quotation and gross margin. It is entirely possible for a firm without such knowledge to cut prices in such a way as to reduce total gross margin much below previous total margins without any corresponding increase in volume of sales. On the other hand, under other circumstances, judicious reduction in price may expand volume of sales to such an extent that the total gross margin from which net profits are secured will be greater than before without a corresponding increase in operating expenses. Much work needs to be done in the study of the relations between margins and prices. It needs only to be pointed out that, if a firm sacrifices its margin continuously, it is doomed to failure.

101. BRENNAN COMPANY—CHANGES IN METHODS OF SALES CONTROL

The Brennan Company of Chicago, Illinois, manufactured and sold belts, garters, suspenders, and a complete line of neckwear. The company advertised its products nationally and sold $2,500,000 in merchandise directly to retailers throughout the country through a salesforce of 45 men, a few of whom were side-line men. The company operated six branch offices, four of which, in Boston, Denver, San Francisco, and Los

Angeles, carried inventories, maintained an office force, and were under the control of branch managers. The other two, in New York and New Orleans, were merely headquarters for the salesmen in the territory and usually had an assistant salesman in attendance at the office. In 1935 the company had inaugurated a new method of sales control and had changed the method of compensation. Late in 1936 circumstances arose which caused the company to consider reinstalling the plan of control and compensation it had formerly used.

Before the new plan had been put into effect, the salesmen had been paid a straight commission on all sales, from which they were to pay their salaries and expenses. The full-time salesmen were allowed drawing accounts which were set to equal the commissions on the minimum amount of business the officials thought the salesmen should do in their territory. Thus the drawing account was, in effect, a straight salary, and actually if a salesman's commission did not equal his drawing account, the difference was written off at the end of the year. However, if this happened, the sales manager studied the salesman and his territory frequently during the year and made suggestions in an effort to help him earn his drawing account. Then, if the commission still remained below the drawing account, the salesman was usually replaced.

The incentive of this form of compensation was augmented, whenever the sales manager thought it was necessary, by means of sales contests. For instance, if the company was introducing a new line, or felt that certain items in its line needed greater sales effort, or wanted a drive for new accounts, it devised a sales contest which would direct the efforts of the salesforce to the accomplishment of these objectives. Moderate cash prizes were always the reward to the winners of these contests. In spite of the commission incentive and the direction of effort gained through these sales contests, the company felt that it did not have sufficient control over its salesmen. A study was made which disclosed that the salesmen were calling too often on a few of their customers, not often enough on the majority, and not at all on some. Furthermore, a decrease in sales volume due to depressed business conditions was causing dissatisfaction among the officials of the company with the method of control.

Therefore in 1935, to control more closely the activities of the salesforce, the company installed a "standard-route" selling plan. A study was made of each salesman's territory and of each town in the territory, in which past sales, population, the number of outlets for the product, and other general factors were considered. On the basis of this information and its experience, the company decided how often the salesmen should visit each town. Some towns were to be visited once a week; others, only once every two months. A route was planned that directed the salesman,

with the least expense possible, to the towns as frequently as was desired. In addition, using customer records and prospective customer lists gathered from various sources, the company decided which outlets in each town the salesman should solicit and routed him to these outlets. In this way the company attempted to get complete coverage in each territory most economically.

The company planned to make no change in the compensation plan, thus making no allowances for possible increases in expenses, since the sales manager believed that any increase in expense would be at least fully compensated for by an increase in sales. However, to meet certain minor objections from some of the salesforce, the company guaranteed the drawing accounts, and as before the salesmen were to receive all commissions which amounted to more than the guaranteed drawing account at the end of each month, plus a bonus if earned. The sales manager believed this would satisfy the salesmen and thought that he could safely guarantee the drawing accounts, because, if the standard-route plan was successful, it would bring the salesmen's commissions above their drawing accounts.

Such a plan required constant supervision of the operations of the salesforce, preparation of routes, and a continual check to see that the salesmen had followed the prescribed routes. It was difficult to draw up the list of customers to be called on and to determine how many of these customers the salesmen should call on each day. Furthermore, such a list needed continual revision, so that complete and up-to-date records of the visits and sales to each customer had to be kept and used continually to keep the lists from getting out of date. To accomplish this, the Brennan Company had installed a customer card record, consisting of a card for each of the company's 20,000 customers, on which was entered each visit the salesmen made and the results of the visit. The number of entries required each day greatly increased the amount of clerical work; the card record required four more clerks to keep the sales records than had the old system. The officials estimated that the expense of these clerks and the additional expenses of the card system increased the sales control costs about $3,500 each year.

Late in 1936 the company had developed and patented a new type of necktie which was believed so superior to anything on the market at its price that the company determined to devote the bulk of the sales effort to it. This new product, however, was of higher quality and was priced higher than any of the items in the company's line at that time. The sales manager believed that the introduction of this new product would result in substantial changes in customer lists and in customer relations. In the first place, the new product would be more of a specialty good than a

convenience good and should not be handled by all available outlets in a town, as were the present products. Second, the new product would be attractive to many stores which had not handled the lower-price items; the sales manager estimated that 3,000 such accounts would be added. Third, since the company was intending to put the major part of its sales effort on the new product, it desired a quick return and thus wished to sell only to outlets which were good credit risks and would pay promptly.

These changes in customer relations would necessitate important changes in the present card system. In the first place, a store or stores in each vicinity would have to be selected as the outlet for the new type of tie. The control system would have to be revised to show this distinction and to enable the company to instruct the salesmen as to the products each customer was to be sold. The card system would have to be enlarged to take care of the additional accounts. Finally, some sort of provision would have to be made to show the credit standing of the customer on the card and some means devised of keeping this rating up to date. Thus the control system would become considerably more involved, and the expense of keeping the records would increase. In addition, the slowing down of the sales process, as a result of the introduction of a new product and the solicitation of new customers, would make the continuation of the standard-route system impractical during the introductory period. A period of from six months to a year would be necessary to revise the standard route to meet the new conditions with any degree of accuracy. Thus during this period the company would be faced with the expense of the system and the additional expense of the changes necessary, and could not use the system to direct the efforts of the salesforce.

However, the addition of the new line made control of the salesmen more important than ever; first, because of the necessity of limiting outlets for the new tie, and second, because of the desire to stop selling through outlets that were poor credit risks. If the control system was given up, sales to poor credit risks could be controlled by means of a credit list, but the limiting of outlets would have to be left with the salesmen.

Should the company attempt to revise and continue the standard route plan? Should the company continue keeping the records with the expectation of returning to a standard-route system, or should it revert to the plan used before 1935?

102. WATKINS CANDY COMPANY—PROPOSAL TO ABOLISH AN ANALYSIS OF SALESMEN'S SALES BY ITEMS

The Watkins Candy Company of Chicago, Illinois, prepared a wide line of plain packaged goods, bulk confectionery, and penny goods. The line was made up of low- and medium-price candies which were sold, mainly to children, through many types of retail outlets. The salesforce of 15 men sold $2,000,000 worth of candy each year to 3,500 wholesalers located in 35 central and southern states. Since the candy was not perishable, the officials of the company had found it satisfactory and cheaper to sell to wholesalers only. Each salesman's territory was arranged so that he could call on all wholesalers about once every five weeks. Salesmen were allowed a monthly drawing account and all expenses, subject to the company's approval. At the end of each month a commission of 6% on the net sales of each salesman was calculated; and if, at the end of the year, this figure exceeded the sum of his drawing account and expenses, he received the difference as a bonus. If a salesman's drawing account and expenses exceeded his commissions, the sales manager studied his salary,

EXHIBIT 1

WATKINS CANDY COMPANY—CUSTOMER CARD

Customer_____ Salesman_____

Rating_____ City_____ State_____

Business	Year		Year		Year		Year		Year	
January										
February										
Total										
March										
Total										
April										
Total										
May										
Total										
June										
Forward Total										

his expenses, and his territory to determine and correct the difficulty. The sales manager in Chicago was in direct control of the entire salesforce. Early in 1931, as a part of the information he ordered compiled to enable him to watch and guide the activities of the salesforce, he requested a monthly summary of the sales of each salesman by items; late in 1931 he was considering the abandonment of this study.

By 1931 the sales manager had set up a complete system of gathering information about the salesmen's activities and of compiling this information in such ways as to be of value to himself and to the salesforce. The first step had been to compile a complete list of wholesalers in each salesman's territory. Each salesman was sent a copy of this list with instructions to visit everyone named thereon. A customer card (Exhibit 1) was made for each wholesaler on the list, and a customer card file was established.

Each salesman sent in a daily report of his activities (Exhibit 2) which showed the wholesalers called on, the buyer's name, whether or not a sale had been made, and if not, reasons for the failure to sell.

This report was extremely valuable to the sales manager. It showed how actively the salesman was covering his territory and what sort of success he was having. Furthermore, since price competition in the indus-

EXHIBIT 2

WATKINS CANDY COMPANY—SALESMAN'S DAILY REPORT

Salesman_____ City_____ Date_____

Customer_____ Sold_____

Buyer's Name_____

Customer_____ Sold_____

Buyer's Name_____

Customer_____ Sold_____

Buyer's Name_____

Customer_____ Sold_____

Buyer's Name_____

Customer_____ Sold_____

Buyer's Name_____

(If answer to "sold" is no, give reasons why.)

try was important and price changes were frequent, it was important for the company to know when it was losing sales because its prices were out of line. The sales manager considered each customer mentioned on the reports and wrote to any important customer whom the salesman had not been able to sell.

The salesmen's reports were given to the clerk in charge of the customer record files who posted them to the customer cards. These cards showed the sales for each month and the total sales to date at the end of each month. Referring to these cards, the clerk during the month sent each salesman a record of the sales he had made to each of his customers during the next month of the preceding year. As the clerk made the entries to the cards, he compared the sales for the year with those of the preceding year and each day reported any large decreases to the sales manager. The sales manager either wrote the salesman in the territory or wrote the customer to discover the reason for the decrease and attempted to correct any difficulties.

The clerk also compared the salesmen's calls with the list of customers the sales manager had instructed them to call on and reported the names of customers that the salesmen had neglected to visit. The sales manager wrote the salesmen to find out why these customers had not been visited. At the end of each month the clerk prepared a report for each salesman's territory, comparing the sales during that month to each customer with the sales during the same month of the previous year. One more report was compiled from the customer cards on special request from the sales manager. When sales in a certain locality were lower than he believed they should be, he had the clerk prepare a report of sales to all customers in that locality, as compared with sales for the previous year, giving the known reasons for any large decrease in sales. From this report the sales manager could usually determine the trouble in the locality, whether it was a loss of one or of several important customers, the result of an increase in competition in the territory, or a result of depressed business conditions in the locality.

Each week every salesman turned in an expense account which was carefully checked and compared with his previous accounts and with those of other salesmen.

At the end of each month the sales manager had a report made up for each salesman balancing his salary and expenses against 6% of his net sales, so that he would know how the salesman's earnings were comparing with his costs. Owing to seasonal variations in sales, the salesman might earn far more than his expenses in one month and considerably less in another, so that this information was not an accurate means of judging the salesman's efforts during any one month. However, it would show the

sales manager if certain salesmen's earnings were further below or further above their total costs than those of the average salesman.

The executives of the company in 1931 decided that it would be of value to learn how much of each item each salesman was selling. In this way they believed they would discover that some salesmen were not putting enough emphasis on some items and that other salesmen were putting too much emphasis on other items. They believed such information would enable them to aid the salesmen by suggesting a better allocation of their sales effort. Another use of the data would be to watch the sales trends of the various items and to aid in the merchandising functions of selecting new items, adjusting production, and discontinuing items. They thought such data could be used to compare a salesman's sales at the time with future sales, if the salesman encountered difficulties, and perhaps the comparison would uncover the cause of such troubles.

In order to get this information, the invoices had to be separated according to salesmen and the amount of each item sold recorded. Since the company sold approximately 350 items, this task involved a considerable amount of the time of one man each day. There were so many items that differences were found between all salesmen, yet none of the differences seemed large enough to account for the success of some salesmen or the lack of success of others. The company did not attempt to obtain, in its study of salesmen's sales by items, any information as to the profitableness of the sales of the various salesmen. The manufacturing process was so short that for the majority of the items an order received in the morning could be produced and shipped out in the afternoon, so that this information was of little benefit in merchandising. The control of production and the discontinuance of lines, therefore, could be handled easily by the inventory and by the production departments. Since the comparison of the various salesmen had yielded such meager results, the executives wondered if the comparison of present and future sales would be of any benefit.

Should the company have discontinued the compilation of this report?

103. BEAUMONT HARDWARE COMPANY (B)—COMPILATION AND USE OF SALES CONTROL STATISTICS

The Beaumont Hardware Company, which distributed a full line of hardware at wholesale, was located in a middle-western city. The line, consisting of about 35,000 items, was sold to selected hardware stores, general stores, department stores, drug stores, and other types of retail outlets throughout most of the United States. The company had estab-

lished three warehouse branches which carried complete stocks and used separate traveling salesforces. Each branch warehouse compiled and used its own sales control statistics for the salesmen working from the branch and sent summaries of this information to the general sales manager at the home office who supervised the entire salesforce of 200 men. Each branch salesforce was subdivided into groups of from 8 to 15 men, each of which was under a group manager. In 1930 the executives were not satisfied with the type or the extent of sales data obtained and were considering the adoption of a sales control program which they believed would give them more adequate and more up-to-date information.

Until 1930 not much attention had been paid to the compilation of sales information or customer records. The branch manager or the group managers, through their knowledge of the various territories, could determine when a salesman was not obtaining a satisfactory sales volume and would make a study of the salesman, his customers, and his territory to determine the difficulty. Such a study was often unsatisfactory, since the information had to be obtained from the salesman's invoices and the ledger sheets for the salesman's customers. The information obtainable from both these sources was very meager, and the executives did not believe it was sufficient to discover and correct the salesmen's difficulties. They believed that, if they had more complete information at hand at all times, they could send this information to the salesman, thus aiding him to correct any difficulties which he was encountering. Therefore complete customer records would be a valuable source of information not only to study the salesmen, but to help them. The executives thought that the more complete, the more detailed, these customer records were, the more valuable they would be. Finally, the salesmen to a large extent had been left to devise their own methods of reaching all their prospective customers; the executives felt that, in conjunction with the customer information, they should make sure the salesmen covered their territories completely.

To accomplish these results, the executives first drew up a plan to insure complete coverage of all customers and then drew up a form on which they could compile complete customer sales data. The plan consisted of a list of all towns in which the company had customers for each salesman's territory. The salesmen were to visit each town on an average of once every three weeks, were to report their calls, and were to inform the company whether or not they had completed a sale. The list of towns was kept in a book which provided spaces for daily entry, and each day as the salesmen reported the towns they had visited, a red check was placed in the proper daily space if no sale had been made, and a black check when the salesman had completed a sale. The clerks who made these entries were continually looking for towns which had not been visited, or for towns

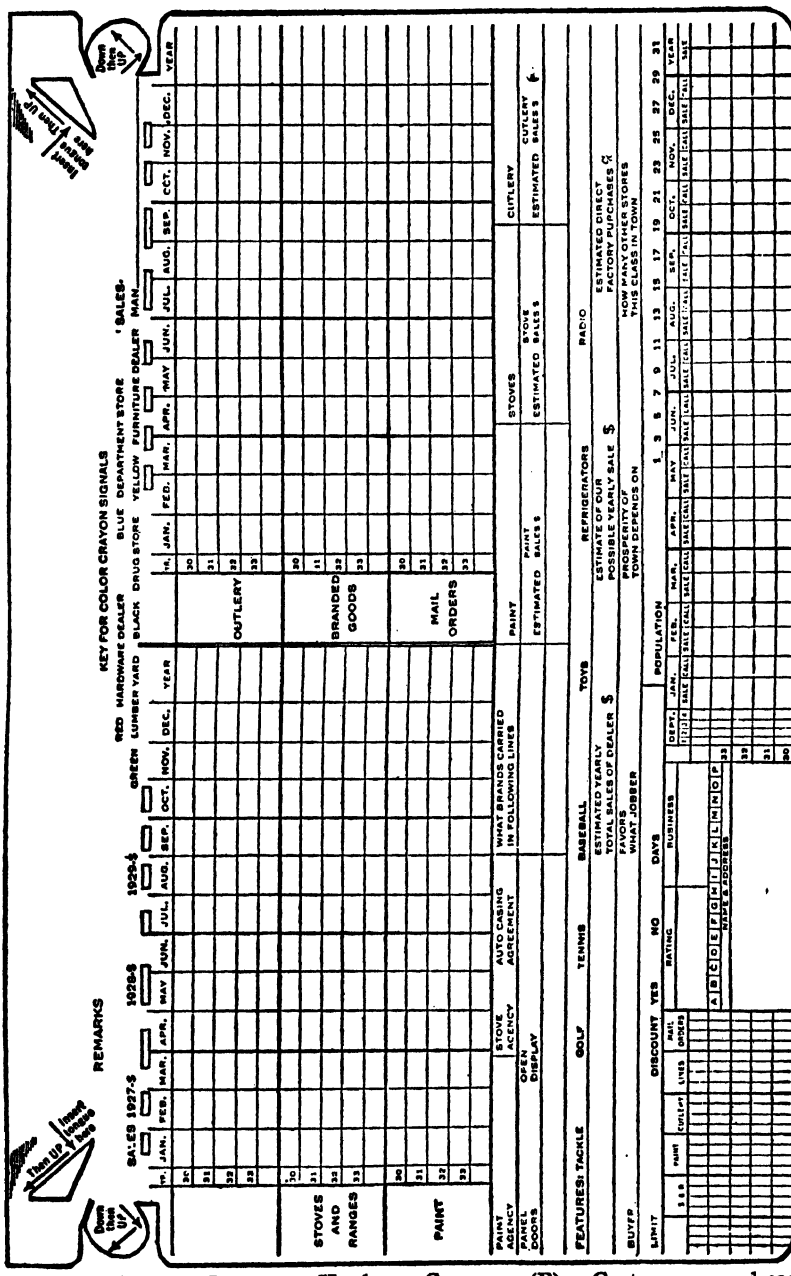

EXHIBIT 1. (Front).—Beaumont Hardware Company (B). Customer record card.

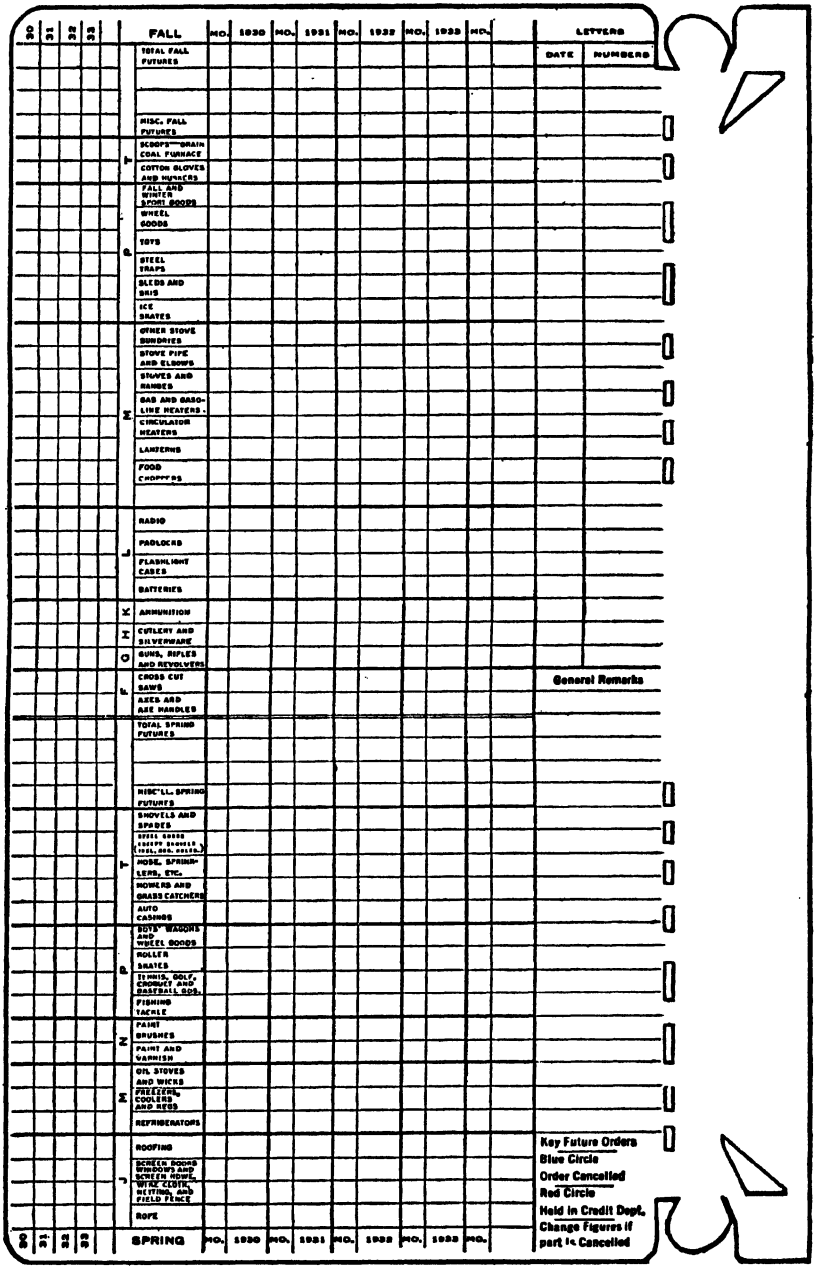

EXHIBIT 1. (Back).—Beaumont Hardware Company (B). Customer record card.

in which the salesman had not been able to complete sales within a month or so. These towns were listed and reported to the manager in charge of the salesman. The manager was to determine the reason for the salesman's failure to sell and attempt to correct the cause. The executives believed this system would assure complete coverage.

The customer record shown in Exhibit 1 (front) was devised to give complete sales information for each of the company's 20,000 customers. These cards were to be kept in folders, 20 to a folder, and were to be arranged alphabetically by states, by cities, and by customers.

At the top of the form were to be entered the total sales to the customer for the last three years. In the six spaces the company's sales in dollars to the customer in six different categories were to be entered each month. Below these, space was provided for the notation of the company's relations with the customer, and general information about the customer. The items entered as "features" in this section of the card were to be the ones which the company wished the salesman to feature when he attempted to sell the customer. In the lower right-hand section were to be shown the monthly sales and call information. Calls were to be indicated by a line drawn across the column labeled "Call," a red line when no sale was made and a black line when a sale was made. In the column labeled "Sale" the total dollar sales for the month were to be entered. In the left-hand side of the section space was provided in which a check mark was to be placed each quarter if the customer had purchased items in the category.

The cards were to be of a visible record type in which the last three lines of every card were always to be visible, so that it would be possible to see at a glance the sales made to the customers, the calls made on the customer, and the category or categories in which the customer was making purchases. By showing three columns it would be possible in 1932 not only to see such information for that year but to compare it with similar information for the past two years.

On the back of the card (Exhibit 1, back) space was provided for gathering sales statistics on future orders for the company's seasonal items. In the column headed "Mo." was to be entered the month in which the customer ordered the seasonal item and in the column headed with the year was to be entered the amount of the sale. In the lower right-hand corner appeared the key which enabled the person who studied this part of the record to determine whether the customer's future order had been canceled or had been held up in the credit department. The columns at the extreme left-hand or top of the page labeled with abbreviated yearly headings were to be checked for the year or years in which the customer had purchased these items. This afforded the company a check on the success of the salesmen in selling these lines. In the right-hand column headed "Letters" the customer relations department, whenever it sent a form letter to the customer, was to enter the date and the number of the form letter. Under the heading "General Remarks" any important or interesting information about the customer was to be entered.

The information gathered on these cards was to be used to help the salesmen. Each month the sales statistics department was to let the

salesmen know how often they had called on and how much they had sold each customer in their territory during the following month of the preceding year. The statistical department was also to tell the salesmen how these sales were divided among the six categories. Additional information was to be sent the salesmen concerning the purchases of seasonal items by their customers, when they bought them and whether or not the order had been accepted. In making out such a report, the clerks could notice whether or not the salesmen were selling their customers the types of goods which had been noted on the cards as the items the salesmen were to feature to them. A study of the calls as compared with sales would show both the clerk and the salesman when he was wasting time on a small account and not giving enough time to more important accounts. Such a customer record gave the executives access at any time to complete information concerning every customer. Each branch was to keep its own customer records and was to keep the salesmen supplied with the information available from them.

The customer relation department was to make further use of these cards. Once each quarter this department was to go through the records and send form letters to any customer whose purchases had decreased substantially or stopped entirely. As has been seen, space was provided on the card where the number of the form letter and the date it was sent were to be noted.

The executives decided to put the two control devices into effect in 1930. Late in 1931 the statistical department was not gathering information as to the sales in the six categories or as to the future orders for the various seasonal items since, in the opinion of the officials, the need did not justify the expense of obtaining such information.

Several questions arose as a result of the decision not to collect this information. Should the company continue using the form with the expectation of gathering complete information later? Should the company adopt a new form which would show only the information it was obtaining and which would be smaller, easier to handle, and more economical? Should the company change the arrangement of the present card and use the space given to the six categories and future orders to obtain some other useful information which would not be so expensive to gather?

QUESTIONS

1. Each month the Life Insurance Sales Bureau of Hartford, Connecticut, publishes figures of total sales of life insurance compiled upon the basis of reports from over 50 companies representing 85% of new ordinary life insurance written in the United States. These figures show volume in thousands of dollars for the month and cumulative to date, together with ratios to the previous year, both for geographic sections and

by states. Do such data furnish an adequate basis for determining whether or not a particular company's total sales volume is satisfactory in relation to the industry?

2. A wholesale grocery firm in a middle-western city did not allocate the expense of lines of merchandise sold, believing that it was impossible to do so accurately. Consequently, the company did not know the net profits earned on the various lines and calculated it could increase the percentage of net profit best by increasing the sales volume of items with high percentages of gross margin. Accordingly, it classified its merchandise by percentage of gross margin obtained and instructed its salesmen to emphasize the items with high gross margin. Those items ordinarily showed low rates of stock-turn. Was the instruction to salesmen sound?

3. The Baker Wholesale Grocery Company found in computing its stock-turn for the fiscal year just closed that it was the lowest in the history of the company. The president believed this figure furnished one standard by which the operation of his company could be judged. Therefore, he thought it essential that steps be taken to increase the rate of stock-turn during the current year. What measures may be taken to increase the rate of stock-turn for a wholesale grocery firm?

4. Is there an optimum, or most desirable, volume of sales for each enterprise? Is this optimum volume the most efficient from a production standpoint? What consequences would follow if production and marketing optima did not involve the same volume?

5. How may a firm determine its most desirable volume of sales? Is the optimum volume of sales for a specific company necessarily consistent with public welfare if the enterprise takes a long-run point of view?

6. How may a seller determine whether cutting prices and margins to meet a competitive quotation may be helpful or harmful to his net profit showing?

7. Why should a firm incur the expense of detailed breakdown of sales volume by customers, commodities, and areas? If total sales are satisfactory, is not such analytical expense unwarranted?

8. Does high sales volume in relation to average inventory signify high profit? Why or why not?

9. If a wholesale grocer allows salesmen to vary prices, what records should he maintain in order to appraise use or abuse of the privilege?

C. CONTROL OF SALES EXPENSE; SALES COSTING

Expense information may be procured in general terms from the books of account. However, books of account are too frequently not set up so as to furnish the sales manager with the detailed expense information required to measure the effectiveness of particular policies, methods, or men. For instance, expenses of advertising in national publications may be frequently combined in one or very few accounts. The specific cost of a campaign for one product to be set up against results may not be available except by the provision of special statistical records. Many other details of costs of selling operations will be obscured in the books of account

as usually kept, so that from the viewpoint of the sales manager the figures are not useful without analysis and study to relate portions of the expense to specific activities and results. Wholesale establishments, to a much greater extent than manufacturing establishments, find it possible to standardize and set up accounting figures which permit comparison with the standards of other enterprises. The wide variety of functions and methods of manufacturers, even of those in the same line, tends to minimize the possibility of effective comparisons between companies and to increase the need for careful establishment of standards of performance of each company.

Standards need to be set up for sales expenses so that the sales manager may judge his operations and his organization not only from the viewpoint of volume and margin results but with relation to the costs of securing those results. Firms vary widely in the care with which standards are set up. Some firms utilize no formal standards, the guess of executives or the experience of the sales manager serving as a more or less dependable guide as to whether particular expenses are unduly high or satisfactorily low. More useful as a basis of standards are common figures based upon the experience of similar companies, particularly if such common figures have been compiled and interpreted by competent persons. Common figures which are reasonably dependable are available for a number of different wholesale trades—grocery, hardware, drug, plumbing, wallpaper. Retailers are more fortunate in the availability of common figures which will furnish a guide for the judgment of operating expense ratios. For manufacturers, however, we are compelled to depend upon standards based upon careful study of past experience, coupled with studies of possible performance from an expense viewpoint. These constructed standards may be, and frequently are, embodied in sales expense budgets. It is interesting to note that, during the recent depression period, the stress of necessity placed standards of expense much below those which would have been considered possible in the period prior to 1929. This change was brought about primarily through the necessity of testing the essential nature of particular types of expenditures and ruthlessly eliminating nonessentials.

Sales management has not profited so fully as has production management from the use of unit costs as a basis for direction and control. Yet beginnings have been made. So-called distribution accounting, which is a combination of statistics and accounting data with reference to costs, has been the subject of a considerable amount of study by the Department of Commerce and by a few companies and individuals. However, few, if any, of the problems of distribution cost accounting have been solved. The possibility seems remote that cost accounting data will in the

very near future furnish as useful a basis for the direction of sales activities as they have furnished for manufacturing. We are far from the point where the relation between distribution cost accounting data and ordinary accounting records can be determined. It is probable that we can never fully satisfy those who desire absolute accuracy in the allocation of accounting costs to marketing operations. Nevertheless, it is not impossible that distribution cost accounting may perform substantial services for operating officials of marketing departments and may contribute in important measure to lowering the cost of distribution.

104. FURBUSH COMPANY—ANALYSIS OF CUSTOMER PROFITABILITY IN A SALESMAN'S TERRITORY

The Furbush Company, located in Newark, New Jersey, manufactured a complete line of men's, women's, and children's hosiery which was sold in medium- and high-price ranges. Approximately 40 salesmen, operating out of branch offices located in important cities throughout the United States, sold these products to department, dry goods, and clothing stores. The annual sales volume of the company was slightly in excess of $15,000,000. In 1939 the sales manager believed that Mr. Warren, a salesman located in the middle-western section of the country, was spending an excessive amount of time in selling to small accounts. In order to secure more definite information on this subject, he asked the statistician to analyze the profitability of the customers within Mr. Warren's territory.

The company had for many years used tabulating equipment in the preparation of sales control information, and the sales and gross profit figures for each customer were easily available. In order to determine net profit, it was necessary for the manager to devise reasonable methods of assigning all selling expenses to each customer. There were four major types of expenditures involved in sales activity: the salary of the salesman, his hotel charges and meals, his automobile expense, and a certain share of branch and home office overhead expense. The manager pointed out that unless this last division was included, a true picture of the profitability of any customer or group of customers would not be secured.

As the first step in the allocation of salary expense, a working day of eight hours was assumed. From this it was possible to compute a cost per hour which could be applied to any customer or aggregation of customers within a town once the amount of time involved was known. Since there was no immediate way to secure accurate information as to the time consumed, the statistician decided to estimate this figure from a study of

Mr. Warren's daily call reports and of the route which he followed. By consulting a road map, it was possible to ascertain the distances between the towns in which stops were made. Then, by assuming that this mileage was covered at an average rate of 25 miles per hour, the time consumed in traveling, as well as the time spent in calling on customers within the town or towns, could be estimated. For example, if on a particular day stops were made at three towns, one of which was 25 miles distant from the lodging place of the previous night, the second 50 miles beyond this point, and the third another 25 miles farther, the total time occupied in traveling was estimated at four hours. Approximately four hours were left for productive selling work, which were split between the towns according to the number of calls made in each. This meant that the salary expense represented by the four hours of the productive work was assigned equally to customers. Since salesmen had never reported the time spent with individual customers and since the statistician did not believe that such information could be secured without arousing resentment at the extra work involved, he stated that an equal division between customers was the fairest basis available for expense distribution. The salary cost per hour for the time spent in traveling between towns was charged to towns in proportion to the mileage necessary to reach them and within towns equally among customers. Thus in the example cited above, the first town would bear a one-hour salary charge for traveling, the second town a two-hour salary charge, and the third town a one-hour charge. By cumulating for each customer the total productive hour salary charge and the total traveling hour salary charge during 1939, this element of sales expense was completely distributed.

A somewhat similar arrangement was followed in charging automobile expense. Mr. Warren mailed in daily a report of his expenditures for gasoline, oil, and repairs, and by relating this expense to the miles covered, a cost per mile was secured which was charged against each town according to the distance which was covered in reaching it. Within the town this automobile expense was divided equally among customers.

The third element of selling expense consisted in the salesman's lodging and meals. The manager decided to relate this figure also to the mileage covered during any one day and to charge the towns involved accordingly. The final distribution to customers, as in the two cases cited above, was on an equal basis.

The last selling expense to be allocated consisted in a share of branch and home office overhead expense. The 1939 cost of the Newark sales office was first prorated to the several branches of the company according to the sales volume produced by each. This figure was then added to the overhead expenses of the middle-western branch office, and a port-

EXHIBIT 1

FURBUSH COMPANY—COMPARATIVE PROFIT AND LOSS SUMMARY FOR MR. WARREN IN 1939, SHOWING CLASSIFICATION OF PROFIT AND LOSSES BY PROFIT CLASSES

Percentage of Profit or Loss	Number of Customers and Prospects	Number of Calls	Average Number of Calls per Store	1939 Net Sales	1939 Gross Profit	1939 Total Expense	1939 Net Profit or Loss	Percentage Gross Profit to Net Sales	Percentage Net Profit to Net Sales
Over 10%	53	338	6.4	$28,501.86	$ 9,804.71	$3,711.32	$6,093.39	34.4	21.4
5.0% to 9.9%	12	57	4.8	1,949.58	600.22	457.75	142.47	30.3	7.3
0.0% to 4.9%	6	26	4.3	701.18	222.14	201.79	20.35	31.7	2.9
Below 0.0%:									
Customers	53	287	5.4	2,695.58	821.74	1,696.75	875.01*	30.4	32.8*
Prospects	277	720	2.6			3,553.42	3,553.42*		
Total	401	1,428		$33,848.20	$11,448.81	$9,621.03	$1,827.78	33.4	5.4

*Loss.

of the total was assigned to Mr. Warren on the basis of the relation of his sales to the sales of all the other salesmen operating under the direction of that particular branch. The final step necessary to provide a redistribution of this expense to individual customers was again accomplished on a sales volume basis. Although the statistician admitted that the use of sales volume as the basis of distribution of overhead expense was open to objection, he pointed out that it was easy to use and that the proportion of the expense so allocated to the other three elements of expense involved, namely, salesmen's salary, board, and traveling expense, was so small that any great inaccuracy in the final results was not likely.

After these four types of sales expense for each customer for the year were assembled, the total expense involved was computed and, when related to gross profit, yielded a figure for net profit. The final results of the study were summarized in the table shown in Exhibit 1. In the presentation of this tabulation to the sales manager the following points were listed as being important:

1. An aggregate net profit of $1,827.78 was earned. Fifty-three profitable customers produced a net profit of $6,093.39, but all remaining accounts and prospects (most of these accounts below $150 in sales) required such high selling cost that the overall net profit was reduced to $1,827.78.

2. Of the total selling cost of $9,621.03, only $3,711.32, or 39.6%, was expended in dealing with 53 highly profitable accounts, which represented 84.3% of sales volume. The remaining $5,909.71, or 60.4%, was consumed in developing the remaining accounts and prospects, which represented 15.7% of the sales volume.

3. Out of 1,428 calls 338, or 23.7%, were made upon 53 highly profitable accounts; 83, or 5.8%, upon moderately profitable accounts; and the balance, 1,007, or 70.5%, upon 53 unprofitable accounts and upon 277 prospects who purchased nothing.

4. As a rule accounts in Mr. Warren's territory were unprofitable wherever the sales volume was less than $150 to $250 a year.

The statistician believed that this study had been worth while, especially in indicating within limits the annual sales volume below which an account became unprofitable. He stated that although some of the estimates were necessarily based on incomplete information, the general situation disclosed was probably reasonably near the truth.

105. DWYER PEN COMPANY (B)—DETERMINATION OF NET PROFITS BY SALESMEN'S TERRITORIES

The Dwyer Pen Company, located in St. Louis, Missouri, manufactured fountain pens which were sold under the company's name. Total sales were about $1,000,000 annually. Attempting to maintain dense distribution, the company sold directly to retailers in most areas; jobbers were used in sparsely settled areas which could not support direct sales

EXHIBIT 1

DWYER PEN COMPANY—TERRITORIAL PROFIT AND LOSS STATEMENT
DISTRICT 1—1929

Salesman	A	B	C	D	E
Territory	Part of Illinois and Iowa	Louisiana, Arkansas	Part of Indiana, Illinois and Missouri	South Dakota, Nebraska and part of Iowa	North Dakota, Minnesota
Net Sales	$50,287	$46,468	$87,249	$45,413	$47,349
Cost of Net Sales	21,891	21,610	41,693	20,038	21,673
Gross Profit	28,396	24,858	45,556	25,375	25,676
Expenses:					
Direct Selling	10,399	11,570	9,993	9,883	9,381
Indirect Selling	3,450	3,029	5,833	3,026	3,236
Advertising	11,146	8,465	16,176	10,177	10,843
Administrative	1,693	1,481	2,857	1,482	1,588
Returned Goods	519	951	1,297	461	404
Total Expenses	27,207	25,496	36,156	25,029	25,452
Operating Profits	1,189	638*	9,400	346	224
Salesman's Bonus	144.81	9.75	689.22	.....	27.07

*On sales of entire district.

effort. For purposes of sales administration, the selling area was divided into four districts each in the charge of a manager who supervised the salesmen and solicited the jobber accounts. A force of 20 salesmen called on the retail trade on an average of four times a year. Salesmen were paid salaries and expenses while out on their territories, plus a 4% commission on all sales above an annual volume quota set by the sales manager. District managers received a 2% commission on all sales above the volume quota set for the district. The company advertised in magazines and newspapers to the extent generally of 15% of net sales.

For several years the Dwyer Pen Company attempted to determine semiannually the net profit (or loss) earned in each district and sales territory after the allocation of practically all marketing expenses to those areas. The sales manager believed that this information gave a much more satisfactory basis for the control and direction of the salesforce as well as of the other elements in the sales plan. The method employed in determining the net profit for the year 1929 in a major district containing eight sales territories will be outlined in the following paragraphs. Exhibit 1 shows the actual results obtained for each territory as well as for the district, while Exhibit 2 shows in tabular form the bases of allocation used for the various expenses.

Net sales were obtained for each sales territory as well as for the district from the sales and accounting records of the company. Cost of net sales varied with the class of merchandise sold, ranging from 35% to 80%. Sales by salesmen were recorded according to price class of pens so that

EXHIBIT 1.—(*Continued*)

Salesman	F	G	H	District Manager (Jobber Sales), Selected Areas	Total
Territory	Part of Missouri, Iowa and Kansas	Oklahoma and part of Kansas	Texas		
Net Sales	$53,384	$48,053	$54,929	$62,145	$405,277
Cost of Net Sales	23,708	21,885	25,501	33,031	231,630
Gross Profit	29,676	26,168	29,428	28,514	263,647
Expenses:					
Direct Selling	9,474	9,990	10,845	2,248	83,783
Indirect Selling	3,495	3,239	3,674	4,318	33,300
Advertising	11,171	8,729	9,373	12,517	98,597
Administrative	1,693	1,587	1,799	2,116	16,296
Returned Goods	778	519	951	346	6,226
Total Expenses	26,611	24,064	26,642	21,545	238,202
Operating Profit	3,065	2,104	2,786	6,969	25,445
Salesman's Bonus	82.51	55.44	1,152.78	923.23*	3,084.81

* On sales of entire district.

the actual manufacturing cost of total sales could be obtained accurately by applying the known percentage costs to the various classes of sales. The gross profit for the territory, of course, was the difference between the two figures.

EXHIBIT 2

DWYER PEN COMPANY—BASES OF EXPENSE ALLOCATION TO SALES DISTRICTS AND TERRITORIES

	Basis of Allocation
Direct Selling Expenses:	
Salesmen's Salary, Expenses, and Bonuses	Direct
District Manager's Salary, Expenses, and Bonuses	Equally among Salesmen*
Sales Convention	Equally among Salesmen
Indirect Selling Expenses:	
Salaries of Sales Executives	Sales Volume
Sales Control	Sales Volume
Sales Statistics	Sales Volume
Billing Department	Sales Volume
Order and Shipping Department	Sales Volume
Credit Department	Sales Volume
Miscellaneous	Sales Volume
Advertising:	
Magazine	Magazine Circulation
Newspaper	Direct
Radio	Direct
Display and Direct-mail	Sales Volume
Overhead of Department	Sales Volume
Administrative:	
Salaries of Executives	Sales Volume
General Accounting	Sales Volume
Returned Goods:	
Losses and Expenses	Value of Returned Merchandise

* Part of the district manager's salary and expenses was charged against jobber sales.

The total costs of distributing in each sales territory were divided among five classes of expenses, namely, direct selling, indirect selling, advertising, administrative, and returned goods expense.

Direct selling expenses included salesmen's salaries, expenses, and bonuses, salaries and expenses of district managers, and the costs of the annual sales convention. The major item in this group, salesmen's salaries, expenses, and bonuses, was assigned directly to salesmen. Since the district managers spent part of their time soliciting jobbers, part of their salaries and expenses was assigned directly against their sales and the rest was divided equally among the salesmen in the district. If a district manager sold 10% of the total sales in a district, he was personally assigned 10% of his salary and expenses, while the other 90% was divided equally among the salesmen in the district. The expenses of the annual sales convention, including the traveling expenses of the salesmen, were divided equally among all of the company's salesmen.

The indirect selling expenses listed in Exhibit 2 were all assigned to salesmen on a sales volume basis.

Magazine advertising expenses were assigned to salesmen strictly on the basis of circulation of the media used. Newspaper advertising was assigned directly to those sales territories receiving the benefits. The balance of the advertising expenses, including the costs of preparing display and direct-mail material, as well as the general overhead of the department, were assigned to salesmen on a sales volume basis.

Administrative expenses, which included the share of the salaries and expenses of the general executives and of the general accounting expenses reasonably assigned to the sales department, were allocated to salesmen on a sales volume basis.

Expenses or losses sustained on returned goods were allocated to salesmen according to the value of the goods returned from each salesman's territory during the period.

The service department usually made enough on service charges to cover its expenses; consequently, salesmen received no charge for this department.

A net profit on the jobber sales of the district manager was determined in exactly the same manner as for any salesman, except that only part of the district manager's salary and expenses were charged against these sales, as previously explained.

In January, 1930, the complete profit and loss statements for all of the districts and territories for the year 1929 were placed in the hands of the sales manager.

What conclusions may be drawn from the statements? What action should have been taken? What further study should be undertaken?

106. CLEANSER COMPANIES—COMPARISON OF OPERATING EXPENSE

Company A and Company B manufactured essentially similar lines of soaps and related cleansers. Both sold nationally; both sold packaged products.

The total marketing expense for Company A was 47.76%, which consisted of the following:

Salesforce and Brokerage	6.75%
Sales Promotion and Advertising	30.07
Shipping, Transportation, Warehousing, and Delivery	7.97
Credit and Collection	0.20
Marketing Administration	2.77

Company B showed a total of 21.95%:

Salesforce and Brokerage	2.90%
Sales Promotion and Advertising	1.04
Shipping, Transportation, Warehousing, and Delivery	16.19
Credit and Collection	0.04
Marketing Administration	1.78

Exhibit 1 shows the marketing expense percentages reported by ten manufacturers and packers of soaps and cleansers.

EXHIBIT 1

MARKETING EXPENSE PERCENTAGES REPORTED BY MANUFACTURERS AND PACKERS OF SOAPS AND CLEANSERS

Number of Firms Reporting for 1928—10

(Net Sales = 100%)

Total Marketing Expense	Marketing Expense by Functional Divisions				
	Salesforce and Brokerage	Sales Promotion and Advertising	Shipping Transportation, Warehousing and Delivery	Credit and Collection	Marketing Administration
16.79%	2.05%	1.04%	5.18%	0.00%	0.71%
21.95	2.90	7.74	6.57	0.04	1.78
33.00	3.04	9.38	7.30	0.04	2.77
33.10	3.85	14.32	7.97	0.05	3.02
34.24	3.99	19.12	7.98	0.09	4.15
41.75	6.49	20.01	8.09	0.15	4.63
44.02	6.75	25.61	9.41	0.20	7.41
47.76	9.47	30.07	13.04	0.33	7.74
51.01	10.32	36.85	16.19	0.35	9.82
56.26	12.19	.....	16.64	.....	13.04

NOTE. The percentages in each column are arranged in order of size and hence the percentages in each horizontal row are not figures for the same firms and should not be added. The differences in the number of items included in the various columns are caused by the fact that data are given for only the firms reporting comparable figures.

How should Company A approach the problem of reducing its operating expenses? What conclusions, if any, may be drawn with respect to the operating expenses of Company B?

QUESTIONS

1. The Milton Pen Company manufactured fountain pens, which were sold under the company's name directly to retailers in most areas. Jobbers were used in sparsely settled areas which could not support direct sales effort. For purposes of sales administration the selling area was divided into four districts, each under the control of a manager, who supervised the salesmen and solicited jobber accounts. Salesmen were paid salaries and expenses, plus a 4% commission on sales above quota.

The sales manager desired to install a system for allocating selling expenses among districts, salesmen, and accounts, and needed to determine the bases for proper allocation. The following expenses had to be considered in each district: (1) salesmen's salary, expenses, and bonuses, (2) district manager's salary and expenses, (3) cost of sales convention, (4) salaries of sales executives, (5) sales control, (6) sales statistics, (7) billing department, (8) order and shipping department, (9) credit department, (10) miscellaneous indirect selling expenses, (11) magazine advertising, (12) national newspaper advertising, (13) local newspaper advertising, (14) radio advertising, (15) display and direct mail, (16) salaries of administrative executives, (17) general office accounting, (18) losses and expenses on returned goods.

On what basis should the sales manager have allocated each of the above expenses to determine profit or loss for each district? How should these expenses have been allocated in order to determine the profitability of individual salesmen's operations in a district? How should these expenses have been allocated in order to determine the profitability of the accounts in a district? Would any additional facts be required in order to determine the profitability of salesmen or accounts?

2. Should a company manufacturing industrial supplies sold through mill supply houses in various parts of the United States ask its accounting department to make out monthly operating statements for each of its 50 salesmen?

3. Discuss the following quotations with reference to the practical use of distribution cost accounting as a tool of the sales manager:

Cost of production and cost of selling are analogous in this respect in that they are naturally divisible into two types: (1) cost of operations, (2) cost by products.

Cost of operations is what the term implies, that is, the cost of operating the various offices and departments subdivided into their functional costs and the costs of such nature as advertising, fixed charges, etc. The cost by products represents the cost of operations prorated by some method to the various products.

Both types of costs are necessary for a complete and comprehensive control of selling activities.—N.A.C.A. Bulletin.

Distribution cost accounting, when it is fully developed, will doubtless be based on the same fundamental principles as factory cost accounting but the point of emphasis, I think, will be changed. Factory cost accounting has been built around and has always been strongest in the use of direct merchandise costs. The application of joint indirect costs has always been its weakest link. Distribution costs, on the other hand, are almost entirely joint indirect costs. The way to study and control indirect costs is to study them as direct costs of the operation or function for which they are expended, rather than after the cost of such function has been distributed to other accounts. Hence, I believe that distribution cost accounting should lay its greatest emphasis on the study of costs by operations or functions rather than upon the study of costs by goods. The way to understand and control joint costs is to recognize them as such, and to attempt to draw a cost and profit picture of the business with and without each marginal factor. Hence, I believe that distribution cost accounting should lay less

emphasis on comparing complete costs with the complete sales and more emphasis on comparing marginal costs with marginal sales.—N.A.C.A. Bulletin.

The function of all merchandising is to connect useful commodities with customers desiring them, and the most basic business decisions continue to be in terms of commodities and customers. The distribution costs studies therefore have sought to identify costs and profits to the portion of sales volume obtained on each commodity sold and to the portion of volume furnished by each customer. Two parallel steps have been set up, in the first of which all costs of operation are assigned to the various commodities handled, and in the second of which all costs of operation are assigned to the various customers served.—Department of Commerce Bulletin.

4. How may a sales manager for a company manufacturing a grocery specialty secure or develop adequate standards for operating expenses? How may a company engaged in the wholesale drug business secure or develop adequate standards for its operating expenses?

5. A manufacturer's records showed that the percentage relationship for missionary salesmen between salary and expenses and sales ranged from ½ of 1% to 1% in Chicago territory to over 40% in Oklahoma. What types of standards may be set up to cover such a variety of conditions and performance?

6. What constitute the operating expenses of a sales department? Do the classes of sales operating expenses vary materially between wholesale establishments and manufacturers' sales departments? What items should be included in selling and distribution expenses?

7. Are the classifications of sales operating expenses into natural and functional types of expenses significant?

8. When is it necessary to apportion selling and distributing costs to sales districts and branches?

9. When should consideration be given to the apportionment of selling and distributing costs to customers or classes of customers?

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Nos. 50, 46: Drug—Wholesale.
No. 45: Dry Goods—Wholesale (Southern).
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