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Market Analysis and Sales Planning

Analyse du Marché et Projets des Ventes

Markt-Analyse und Vertriebsplanung

Analisi del Mercato e Progetti di Vendita

Distribution—Market Analysis and Sales Planning

A Critique Prepared by
ROBERT F. ELDER,* *Rapporteur*

The market-place is probably the most democratic institution on earth. With only a few exceptions, the humblest individual as well as the mightiest can exercise his free choice to buy or not to buy, to buy this or that commodity, to buy from one seller or another. The higher the standard of living, the wider is the realm of untrammelled choice. Yet a high standard of living requires the added productivity that comes from mass production, and mass production requires standardization of products.

Mr. P. T. Cherington's paper brings out the all-important point that mass production and distribution depend on individual consumption. Fortunately for our standard of living, individual wants tend to form certain general patterns, so that the bulk of consumer demand can be satisfied within a range of choices which permits a considerable degree of standardization of production and distribution. The influence of mass advertising has been a potent factor in bringing this about.

The interests of intelligent management and the general welfare coincide. There is demonstrably more profit in the long run in giving people what they want. There is waste and dissipation of resources in trying to force on people things they do not want. In theory this is today universally accepted. However, does management today by its actions recognize this as a practical concept? Does it thoroughly and scientifically assay the factors affecting consumer demand? Does it plan its operations to mesh without friction with consumer demand? How many business organizations can answer this question in the affirmative?

There is no excuse for failure to make an earnest effort to keep sensitive to the details of consumer demand. If products are not kept in tune with the changing tastes of consumers, neither quality manufacture nor strong advertising and sales efforts will permit maintenance of adequate profits. If sales methods and advertising themes attempt to run counter to people's buying habits or thought patterns, operating efficiency will not stem the inroads of more alert competitors. It is safe to say that far too little concrete action results from such work of this sort as is done.

Mr. Cherington brings out four major steps in research work: (1) the formulation of the problem; (2) the execution of the field work; (3) the interpretation of the results; (4) the translation of the results into operating practices. The second and third are dependent on the professional competence of the man handling the research work; the first and last require close and sympathetic coöperation

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between the research man and the executives charged with the responsibility for operating decisions. In the attainment of this coöperation lies a major challenge to management today.

The paper by Messrs. N. Baliol-Scott and R. Robson provides a study in the practical operation of a marketing research problem. Rather than attempt to increase sales by a general increase in promotional expenditures, guessing at the channels through which the added funds could best be poured, there was a realization that a dollar spent in one way will yield greater returns than the same dollar spent in another direction, and a determination to get the maximum yield from the amount spent. Management has followed this basic concept in other fields for a long time. Has it not been much slower and less energetic, as a rule, in applying it in the field of sales and advertising?

In gathering the data, problems of classification and sampling were immediately encountered. They arise in every properly conducted study of the market. The basic principles involved are old. Management has long made use of them in testing raw materials, and somewhat more recently in inspection of finished products and in cost analysis. Proper handling of these problems is what permits us to approach certainty in our results. Their neglect or mishandling is the most frequent cause of unreliable results. There is little excuse for inadequate handling of this part of the general problem, since for the most part it is reducible to a tangible mathematical basis.

The analytical phase of the project disclosed opportunities in various directions. The final step (in too many cases not carried through) was to determine how best to capitalize these opportunities. Here the procedure of testing, or controlled experiment, came into play. This is another principle widely used in science, which management long ago began to use in manufacturing, and has only recently adopted (and as a rule to a very limited extent and often in unsystematic fashion) in solving sales and advertising problems. Its applications are very wide, and expansion of its use bids fair to accomplish much in elimination of the waste in distribution of which management today stands indicted.

One of the principles which Mr. Baliol-Scott's paper brings out is the advisability of a selective approach to the marketing problem. Mr. W. Alderson develops this point at greater length in his paper. He cites three theories of the marketing process, involving a "random" market, a "mass" market, and a "selective" market. He develops the thought that the selective aspect is of paramount importance. As a matter of fact, every manufac-

turer or distributor who has carefully analyzed his market will probably agree that he depends on all three of these types of markets for his customers. It is true that the soundest foundation for a business is to have a nucleus of "selective" customers, who have a definite reasoned preference for a specific brand, even to the extent of paying a differential in price to get it. In many cases, however, this group of customers is not large enough to support mass production on the most economical basis. The manufacturer of goods in great quantity usually finds it expedient to depend for a certain, often substantial, part of his volume on people who have no distinct and permanent preference between brands, but who can by sales and advertising pressure or by direct or indirect price concessions be induced to become temporary users of his brand. The degree to which a manufacturer or distributor finds it expedient to rely on each of the three types of markets mentioned by Mr. Alderson depends on a number of factors, such as the nature and price range of his product, the number of competitors in the industry, the degree of similarity between competitive products, and many others.

With this one qualification of what is possibly an oversimplification of the problem, it is possible to accept Mr. Alderson's general thesis. Certainly it is sound to concentrate marketing efforts on those segments of the market which yield the maximum return for a given investment. Certainly it is desirable to spend sales and advertising funds through those channels which lead to the maximum return per dollar. We must not, however, let blind pursuit of the idea of selectivity lead us to superficial thinking. Sound selectivity does not always mean concentration on the big customer or the wealthy customer. The problem of selective selling is not to be solved on the basis of any formula; rather each enterprise must work out its own solution based on the circumstances under which it must operate.

Mr. Alderson touches on the question of selection of advertising media. This is one of the most vital problems of the manufacturer of branded merchandise, and it is the area in which there is probably the least scientific knowledge. As he points out, we now know a great deal about circulation of the various media available. How much do we know about the degree of attention which advertisements in various media get? How much do we know about the relative selling effectiveness of different advertising appeals or of different media? When it comes to the problem of balancing an advertising appropriation to get the maximum results from each dollar, we are decidedly outside the bounds of what present-day marketing research can answer on the basis of scientifically demonstrable fact. In this area lies one of the greatest challenges to research.

Both advertising and sales effort are partly wasted unless they are balanced in accordance with the potentialities of various segments of the market. Basic to any plan is a sound knowledge of these potentialities. Dr. L. D. H. Weld's paper discusses the general problem of their determination. He points out clearly the lack of soundness in the arbitrary or empirical setting up of estimates of potential markets. Such methods are the antithesis of the Scientific Spirit. The correlation method which he describes has been used in a number of cases with marked

success. It is not a method to be carelessly handled, as is true of most of the more advanced methods in marketing research. This point is raised because constructive use of the statistical approach is often hampered by the too-common faith of business men in the mechanical use of a magic formula. Statistics are useful only to those who season them with the spice of reason.

It would not be fitting to leave the discussion of Dr. Weld's paper without comment on the very sound and useful "Regional Trade Barometers" which he has developed after a great deal of effort. These charts are extremely useful in adjusting the distribution of promotional effort to meet regional shifts in purchasing power.

Sales planning involves not only the elimination of waste due to improper apportionment of effort, but also the provision insofar as possible against loss of efficiency due to seasonal and cyclical fluctuations, which prevent the utilization of full capacity for short or long periods. The problem of seasonal fluctuations is discussed in two papers. Dr. A. Schär traces the effects of seasonality in the operations of a retail establishment and shows how various measures succeeded to a greater or lesser extent in reducing these fluctuations. Here, as in the problem cited by Mr. Baliol-Scott, is an opportunity for thorough analysis followed by a series of controlled experiments to determine the most effective means of compensating for the inevitable fluctuations in the nature and extent of consumer demand.

Dr. J. G. Stridiron's paper discusses the impact of seasonality on operating costs from the standpoint of the manufacturer and introduces a number of examples of means of compensating for seasonal fluctuations in such a way as to avoid impairment of profits. In addition to the means he mentions much has been done by the use of seasonal price concessions. We have the case of a maker of boxes, a considerable part of whose business was the production of Christmas boxes imprinted with jewelers' names. These could not be produced to stock, yet economical manufacture could not be attained if all orders were deferred until the normal buying season. The granting of a substantial discount on orders placed early in the year, with delivery and billing at the normal date, was quite successful in stabilizing operations. With consumer goods, "free deals," such as 1 free with 10, are often used to induce advance stocking by distributors so that factory operations may be conducted more normally, and consequently at lower cost. Another interesting stabilizing device is the use of seasonal advertising appeals, whereby consumers may sometimes be induced to become year-round users of a commodity ordinarily used mainly at certain seasons.

Detailed discussion of the subject of sales planning could profitably be continued over many days. With limited time available, we must perforce keep to the broad fundamentals. Mr. L. B. Whit, in his paper, outlines four fundamental principles of sales planning which summarize our discussion in excellent fashion. To paraphrase them briefly, the first essential is a broad and comprehensive picture of the entire market, on the basis of which the most promising general strategy can be developed. Having mapped out certain broad avenues of

approach, the next step is a detailed evaluation of individual sectors of the market, determining what customers are most worth while, and in what order they should logically be tackled. Here the principle of selectivity comes into play. The next point is the development of the most efficient selling methods, so as to avoid waste of salesmen's time and expense. Finally, there is the process of adjusting the entire sales program to bear on the customer's own interests and point of view.

The papers presented at this session have touched upon various fundamental concepts essential to scientific sales planning. To check its own efficiency, Management must ask these questions:

1. *Information.* Have we full and detailed information about market potentials, about customers, their actions and their ideas, about the various means of reaching them? If so, is this information always up-to-date?

2. *Selectivity.* Are we cultivating sectors of our markets in proportion to their potential yields?

3. *Balance.* Are we keeping our marketing activities

in balance so that in actual practice, as well as in our plans, one type reinforces another?

4. *Timing.* Are we so planning and executing the timing of our various promotional activities that the maximum cumulative effect is secured?

It is no simple task to formulate an effective sales plan, and it is still more difficult to carry such a plan through with maximum effectiveness.

One of the most promising activities in stimulating accurate thinking about markets and sound sales planning is the work of the International Chamber of Commerce which is outlined in the final paper of this session. The improvement of the distribution system is of paramount importance to the internal economy of every nation, and in the long run, to the general welfare of all the peoples of the world. We all have much to learn from each other. Occasional meetings like this one, plus the continuous exchange of information through mechanisms like those set up by the International Chamber, contribute greatly to the efforts of management on an international basis to improve the standard of living of the human race.

Consumer Wants and Product Acceptance

PAUL T. CHERINGTON*

SUMMARY

Mass production and mass distribution are dependent on individual demand, and this is an intangible which does not conform to standard specifications. And yet, there are patterns of uniformity to be deciphered in demand which may be of utmost importance in adequately planning production or distribution of goods.

Illustrations of this interdependence between production, distribution, and consumption make the point that, at times, it is essential to restore the sensitive contact between production and consumption which may have been lost in the building up of mass operations.

Some main features of the more modern type of technique used in studying consumer wants and product acceptance are outlined.

THERE is one important contrast between the management problems involved in mass production and mass distribution on one hand, and mass consumption on the other. Most of the elements of the former are tangible and conform to standards; but consumption is performed by individuals and shows individual variations. Only in a thoroughly regimented society could all individuals be counted on to conform to standard specifications. Hence, mass production and mass distribution depend on individual consumption almost as much as individual production and distribution do.

And yet, in consumer demand there often is a general pattern to be deciphered, and it is in the job of doing this that mass production is most often wrecked. The mass producer probably has met defeat, more often than through all other causes put together, through his failure to keep sensitive to changes in the ideas of his individual customers—a task which is performed almost automatically by the small producer.

This job of preserving reliable contact between producers and consumers formerly was well enough done by what was called "aggressive" selling. The producer, in effect, made up the minds of his individual customers for them. But in this country in recent years three things have happened which have made a new technique necessary. In the first place, the consumer has got the idea that he need not heed the pressure brought on him by the interested mass-producer or distributor; in the second place, he has become conscious of the power of his own refusal to buy; and, in the third place, demand, in many lines, has been democratized so that it takes on many of the qualities of mass demand. Hence, a new problem in management has arisen—the gauging of consumers' wants and the attainment of product acceptance. This is a field of management so new that it cannot even yet be given the handy term of a "movement"; while, at the same time, it is so old that it would seem commonplace and hardly noteworthy, if it were not so often ignored.

An international conference may be an appropriate place in which to ask the question: "What is the purpose of business?"

Elaborate mechanisms have been set up for getting goods from place to place, for grading them, storing them,

and for grouping them into larger groups or dividing them into smaller units. Money is advanced, values are insured, corporations are created, risks are shifted, shops are built, and organizations are set up and manned and operated. And all for what?

Fundamentally, all business exists for one purpose—to facilitate human living. And in most of the more advanced parts of the world this is accomplished by permitting this sort of undertaking to yield a profit to him who attempts it. For filling consumers' wants, consumers permit profits. This, I realize, is not the customary way of stating the case. As a matter of fact, it is a relatively new conception of the purposes of business and it has not yet come into general acceptance. But at least it is realistic and free from limiting bias.

I venture the assertion that the social aspects of business, considered in the light of human living conditions, need a careful restatement by some competent and alert social philosopher. Somebody ought to do thoroughly and impartially for modern society and modern business what Karl Marx did inadequately and with disturbing prejudice and bias, but with vigor, for the society and business he knew a hundred years ago.

To keep sensitive to changing ideas, shifts in demand, modifications of taste, new concepts about products is not merely a desirable feature of the modern business. It is essentially the most important task which business now has. The new conditions of society impose on business the necessity for developing an effective technique for keeping itself more intelligently responsive to consumption and its variations. If this can be done, it will be more effective than the interposition of governmental activity ever could be.

Our contention is that no form of planned economy can be successful in making life more agreeable if it does not keep production sensitive to changes in demand, and that this sensitiveness can be preserved better by swift individual action than by a slow and ponderous means such as superimposed bureaucratized planning.

This means that an essential feature of a properly operated business supplying human wants is the deliberate and painstaking cultivation of a technique for keeping sensitive to the public will.

When human attitudes toward things become recognized at anything like their real importance, then business concerns are forced to learn that the most important single

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factor in human affairs today is sensitiveness to changes in the popular will. In other words, it is not merely a fine trick to be able to anticipate public taste; the development of ability to do this is the only way to stay in business. And, in a sense, this is true of all producers and distributors. Raw materials, machinery, capital goods and consumer goods—all, in the long run, have their saleability dependent on their conformity to public will.

The engineer, whose main dealings are with materials, forces, and laws, has been a little slow to realize that in this field of consumer demand there is also a really pressing problem for management in which he ought to have a part. To make clear the close relationship between the concrete tasks of the engineer and the more intangible job of keeping sensitive to consumer demand, it may serve to cite one or two illustrative cases.

Case 1. A refiner of petroleum motor products had perfected his sources of supply, his transportation and pipe-line systems, his refining processes, and his sales and distributing machinery. And then one day he was confronted with the question whether this business of putting motor oil into cans was a fad or an expression of a change in public demand. It was too important and too expensive a matter to guess at, and his own sales organization was in complete disagreement about it. Some of the wisest heads said the demand for canned oil was only local and sporadic and not likely to spread. And besides, to can the oil meant radical changes in distribution and expensive canning equipment. Better, they argued, to stick to the oil business carried on as it was in the habit of being carried on. Others, quite as able but more radical, said that canning the oil protected the consumer, preserved the product from contamination and waste, and—more than anything else—made of it a modern product, put up in a modern way, and as the final individual user of it wanted it. Which side was right?

It became apparent that no answer could be got from inside the walls, so it was decided to go to the one place where real knowledge existed on how the final user felt about it; namely, the final user himself. The answer was clear. By the use of a carefully worked out statistical sampling technique and the employment of skill in preparing and asking questions and tabulating results, it was established that in certain portions of the market one side of the dispute was correct—canned oil had not any call—, while in other portions the demand was real. Moreover, it became clear that the trend was definitely toward canned oil. The results were borne out by subsequent developments as definitely as if the survey had involved the gift of prophecy, or as if the aggregations of individual demand were possessed of measurable physical properties.

Case 2. As another instance of this interrelation between demand and supply problems, a maker of toilet paper was confronted by Japanese competition at low prices. At the same time, he had costly inventory and stock problems, due to many types of paper and packaging; and to crown all his troubles, he began to get from his salesmen and others a demand for tinted papers to match bathroom colors. His organization was divided. Some favored going into tinted papers to keep up with public demand, as they interpreted it; others hesitated to add a "style problem" to those with which they were already beset.

Here again was a case for real facts to be dug out of the one place where they existed. A careful sampling of consumers and an approach to them based on sound principles brought out the facts that the devotees of color in this product were few, that there was a real demand for high quality at a low price, and that the ordinary perforated roll was not only an acceptable pack, but was the one most likely to be generally agreeable if only one were to be available. The result was a complete change in production and selling policies which restored profit to the business, gave the public a better product for less money, and made the gruelling problems of competition relatively simple.

Cases of this kind could be multiplied almost indefinitely; but these two may serve to bring out some of the essential features of this phase of management. It is not only desirable that the engineer should know that such problems are being worked out, supplementing his work in the field of "tangibles," but he ought to be more familiar with some of the principles which underly its successful conduct and employment. For this reason, there may be value in trying to point out some of these briefly.

There are four steps in this work of getting at consumer wants and incorporating the knowledge acquired into operating plans, which experience has indicated as being of a critical character.

The first critical step is the *formulation of the problem*. One firm, for example, carefully worked out a questionnaire and specifications for a survey and submitted them to market research firms for competitive bidding. It was stipulated that the specified questions were to be asked of 4,000 business concerns. One of the bidding market surveyors pointed out to the sponsor of the survey the fact that there were not 4,000 business people in the cities specified for coverage who could give an intelligent answer to his questions. In fact, he expressed grave doubts whether there were even as many as 400. The result of this recognition of a fact was that the real answer to the problem in hand was developed by interviewing less than 300 people. Similarly, all other phases of the formulation of the problem call for the application in an unfamiliar field of principles which the engineer has come to have as his subconscious reactions with respect to materials.

The second step in getting at consumer reactions is the *execution of the field work* of a consumer survey. This is the most dramatic part of the work and often is thought of as only a matter of accumulating responses. By simply asking questions of a large number of people, or merely counting of heads, impressive figures may be built up; but the real truth seldom can be deduced from a mere accumulation of responses. It is necessary to make sure that they are individually truthful and significant, and that they are statistically "representative."

This matter of getting out of people what they think about specific subjects or things is a complex and diverse one, but the key is relatively simple. Fundamentally, it is interest—the interest of the respondent. This seems axiomatic, but in a surprising number of cases it is lost sight of, both in the work of collecting the information and in the use of it after it is collected.

In the collection of the information "in the field" the rigid adherence to this idea that the respondent's answers must be got at through his interest marks the difference

between getting a significant picture of the most powerful influence in business—the people's will—or getting merely a count of heads. This reflection of the consumer's own interest is the foundation on which all successful market survey work is based. If it is followed rigidly in all stages of the work, there will be in the answers something more than a vote; and the number of answers given for the purpose of getting rid of the questioner, or for "kidding" him, or for making a favorable impression on him, will be reduced to a minimum. The ways of arousing this interest are numerous, and they can hardly be formulated into a rigid pattern. The essential thing is to find or train enumerators who can arouse in a maximum number of respondents an appropriate type of interest.

Less spectacular than the actual interviewing, but in many ways more important, is a phase of this "execution" step which may be called "direction." This is the part of the work which made it possible to get an accurate forecast of the Presidential election of 1936 with a sampling of 5,000, while another survey covering several million respondents was wide of the mark.

Statistical practice, whether developed in pure mathematics, or in biology, or in other sciences, can be drawn on in such matters as defining the market, drawing the sample for testing, tabulating or cross-tabulating the returns, or correlating one factor with another. In the same way, as has been pointed out, psychology contributes to the question-asking technique. Geography, geology, chemistry, physics, and a curious array of sciences and arts may all be made use of before the picture of the people's views or wants is complete and solid.

In the third critical stage—*interpretation*—there is a wide range of possibility either for error or for constructive suggestion. This is the phase of the work in which there is closest analogy to creative skills. Just as two artists with the same equipment will get widely contrasting results, so two interpreters of a completed survey will come out with wholly different conclusions. And one of them, at least, will be wrong.

And fourth, there comes the most important step of all, and the one in which failure most often occurs—the step

of *translating the findings into operating practices*. In fact, it is one of the most difficult phases of this sort of work to "follow through" and keep the report out of the files—at least till it has done its main job. A properly conceived market survey is made, not for the purpose of satisfying personal vanity, nor for the development of scientific data, but for the purpose of making sales contacts more effective. In most instances this is done most satisfactorily by adjusting sales operations to meet these discovered interests. And, hence, the statements of these interests are useful and safe only if they are real.

After all the pertinent facts about consumer wants and product acceptance have been turned up and the tables have been prepared and a logical report written, the attempt to get at consumer reactions still may be a waste of money, no matter what its intrinsic merits, unless it can be translated into some practical form of sales action. With real facts in hand as to the trade and the consumers, the clarification of the internal problems becomes reasonably simple. But no market survey is really complete until this actually has been done. Usually there will prove to be an important group of problems, largely human, concerned with getting something really accomplished about what has been found; and if these are not worked out, the whole effect is largely wasted.

If demand has been democratized, what can be a more promising economic system than one based on a recognition of this central fact in the social order? In such a system there would be intelligently adjusted production and distribution based on knowledge of current facts about that democratized demand.

This idea of democratized demand conveys something of the significance of the burden that modern concepts of consumer wants impose on the producer and distributor of consumer goods. Demand changes much more swiftly than production can be adjusted to it. Goods made to satisfy a demand which has died while production was going on are not only depreciated, they are worthless. Not even the raw materials can be salvaged, and, of course, the labor and other costs are entirely lost.

Customer Research For Department Stores

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SUMMARY

Market Research as a basis for increasing sales, presents a different problem for the Department Store than for the manufacturer of a single line of products. For the Department Store the steps involved are:

1. Statistical description of the existing market
 2. Determination of the potential market
 3. Development of the potential market by:
 - a. Increasing sales to existing customers
 - b. Obtaining new customers
 4. Organising the recording of customers' purchases as required by No. 3 above.
1. The Statistical Description of the Market includes:
- a. The type of customer and her habits in general, e.g., where she lives, what her income is, what part of her income she spends at the Store and elsewhere.
 - b. Buying habits of the customer, e.g., how often and how regularly she buys, does she come into the Store or does she purchase by post or telephone, etc.
 - c. The merchandise requirements of the customer, i.e., what goods does she actually buy.

Answers to all the above questions have been obtained without direct contact with the customer at all by the application to existing Store records of the branch of statistics called "Sampling."

2. The comparison between the existing market and general statistics shows what the Potential Market may be.

3. From the analysis of the existing market certain methods of publicity suggest themselves; "Controlled Experiments" made in such a way as to yield a definite measure of the value of the methods extending them to the whole potential market.

4. Once the publicity and advertising methods have been determined it becomes an Office Management job to arrange for the proper customer records and the most economical methods of compiling them.

The chief contribution of this paper from the point of view of method is the application of "Sampling" and "Controlled Experiment" techniques to increase Department Store sales.

The Problem

THE marketing problem of a Department Store is different from that of most other retailers and of all manufacturers, in that the Department Store is endeavouring to sell, not a given article to as many people as possible, but to a given group of consumers almost all the merchandise and also part of the services they require.

The distributor of a specific article may be content to know how many people can afford to buy his product and, at the most, whether customers' expenditure can be deflected from one item to another, say from cigarettes to candy, or from electric washers to refrigerators. The problem is not made more difficult whether repeat sales are expected or not. The Department Store however is endeavouring to provide most of the material requirements and some of the services demanded by its customers. It therefore has to study much more closely the effect of the sales of one type of merchandise on that of competing, associated, or quite different merchandise.

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The potential market of the Department Store is determined, not by its customers' ability to buy one product, but ultimately, for each variety of merchandise, by the family budget of the consumer. This involves considerations of customers' income and its apportionment in the family budget. The promotion of an occasional customer to a regular customer is even more important for a Department Store, than for the promoter of a single product, because of the possibilities of sales of other merchandise. To enable the Department Store to sell scientifically, i.e., through knowledge and not through guess, it would be necessary to discover a much wider range of data about the consumer than has usually been attempted in the past. This paper describes briefly an attempt to secure and utilise some of this information. The Store in question sells a complete range of exceptionally high grade merchandise to the upper income classes over a nation-wide area. A very high proportion of the business consists of "Charge Account" and "Send" transactions.

The Objective

The objective of the study was to determine ultimately how best to increase the sales of a Department Store. The intermediate steps which it was necessary to take

before the final objective could be realised are grouped as follows:

1. Describe the existing market statistically.
2. Determine the potential market.
3. Determine the best methods of developing the potential market by:
 - a. Increasing sales to existing customers
 - b. Obtaining new customers
4. Organise the recording of customers' purchases to provide, in the most economical way, the information as required by the results of 3 above.

SELECTING METHODS OF WORK

Two main methods of collecting facts were available: the questionnaire method and house-to-house enquiry, i.e., direct contact with customer, or the analysis of the internal records of the business, which were in fact the resultant of the customer's habits.

It was found that detailed records existed in the Accounting and Despatch Departments of all purchases of over 100,000 customers per year. It was therefore decided to determine the existing market through the analysis of these figures rather than from any external field study. The problem immediately arose how to handle such a vast amount of material; this was further complicated by the fact that the uselessness of average figures had already been proved. The average customer might spend a certain amount a year divided up in a certain proportion between different merchandise groups, but this was a purely statistical person, and there was strong reason to suppose that there were few of these statistically average customers. In fact for every general figure the variations from the mean were so considerable that no plan of action could be based on the average customer. It therefore appeared necessary to group customers according to their different behaviours, and this implied a detailed study of all the material.

It was decided to apply the most up-to-date sampling methods, and for this purpose a statistician was engaged with a special knowledge of sampling.

It was early realised that certain information, notably the determination of customers' income and the calculation of the potential new customers, could best be obtained through a detailed survey of a small geographical area, and therefore the picture of the existing market was gradually filled in through two concurrent lines of investigation: The first, the general habits of customers, taken from a sample of all customers' accounts, deliveries, etc., and the second, the particular habits of all customers in a specially selected area. It did not matter that the area selected was not in every way representative of the hundreds of other similar sized areas comprising the Store's complete market, because the habits of the various income classes of customers (which was one object of the selected area investigation) were not likely to vary appreciably from district to district.

An indication of the sampling problems appears from the analysis of Ledger Accounts. In the first place a sufficient number of accounts had to be selected so that when they were classified into various groups there should be enough in each group to ensure a fairly high precision. It is important to realise that an adequate sample is not a certain percentage of the total, but consists in the size of the sample itself, in view of the analysis to which the

sample is to be subjected. It appeared that in this case 1,000 accounts would provide an adequate sample; how could it be made a fair one? The Ledger Cards were kept alphabetically in trays of about 1,200 customers each. Each tray divided into about 60 alphabetical sub-divisions of about 20 customers each, but these 20 were arranged not alphabetically, but the oldest customers in front and the newest behind.

If the accounts of the 1,200 customers in one tray had been taken as a sample, this would have given all customers whose names occurred in that part of the alphabet. The distribution of names is far from random in England; had we for instance chosen the "Davies" tray, the geographical sample would have been much too heavily weighted with customers from Wales. Again if the first 10 accounts in each tray had been selected so as to cover a higher proportion of the alphabet, the sample would have contained all the old accounts and none of the newer ones. The second error was avoided by taking a ledger subdivision including therefore all old and new accounts as a unit and the first error by taking a predetermined proportion of these subdivisions throughout our accounts. Each part of the alphabet had then an equal chance of being included in the sample.

Once the sample was selected the analysis was made on punched cards and provided part of the information for the statistical description of the existing market.

Statistical Description of Existing Market

The statistical description of the market was first of all defined to include the following:

- a. The types of customers and their habits in general.
- b. The buying habits of customers, i.e., how and when they buy.
- c. The merchandise requirements of customers, i.e., what they actually buy.

The question of why customers buy was not considered, as this involved profound psychological studies right beyond the scope of the present inquiry; the practical utility to which the investigations must lead was always kept well in the foreground. The following were some of the points on which definite and measurable information was obtained:

A. GENERAL HABITS

1. *The geographical extent of the market*, e.g., what percentage of customers and trade came from Town, Suburban, and Country districts?

2. *The trading groups of customers*: what proportion of customers spent over £20, over £50, over £100 a year at the Store? This showed where the business mainly came from; was it from a relatively small number of people who spent a great deal at the Store, or from a large number of people each spending a little? General habits 1 and 2 indicated what was the backbone of the business, both in number of customers and in trade, and therefore in what directions further detailed study would be most profitable.

3. *The susceptibility of customers to competition*: what percentage of income customers spent at the Store and how far this accounted for all of their expenditure on certain items, and how far they must be buying elsewhere when they might quite well buy at the Store (this was deter-

mined through a comparison with other studies on family budgets). The percentage of incomes spent at the Store proved to be 5 per cent for each income class except the very richest where this was 2½ per cent.

4. *The relation of purchases to income, i.e., how far did the annual expenditure at the Store depend on income?* The average purchase for each income class proved to be in exact proportion to the average income of that class. However there were very considerable divergencies within each class, customers individually by no means spending in accordance with their income, and therefore this indicated various groups of sub-standard customers.

B. BUYING HABITS

1. *The stability of purchasing, i.e., did a customer spend about the same year after year, or were her annual purchases liable to considerable fluctuations?* A relatively high degree of stability was discovered, i.e., in the course of four years it is 8 to 1 that a customer will not spend in any year more than double, or less than half, her annual purchase over the four year period. This was demonstrated graphically on a dispersion chart plotted on a logarithmic scale.

2. *Frequency of purchase, e.g., how many customers bought just one month in the year, and how many made a purchase in every month of the year?* This was an important discovery and immediately suggested a revision of direct publicity methods. Previously every customer had been sent a weekly News Bulletin, whereas when it was known exactly how frequently customers bought, it was seen that the return on a weekly News Bulletin was inadequate in about 30 per cent of the cases. This frequency of purchase figure gave a far more exact meaning to "inactivity" than in the past. Previously a customer was considered inactive, and therefore to be followed up, who had not purchased for six months. This period was clearly too long for customers who habitually purchased at least once a month; these could be followed up if they failed to purchase even for one month. Customers who normally purchased only in two different months in the year could not be said to require a special follow up until much later. It was thus possible to develop an automatic follow up system for every customer, based on her normal frequency of purchase.

3. *Spread of purchases, e.g., did customers tend to purchase a wide range of articles in the Store, or were most of their purchases confined to certain groups only?* The Store's merchandise was divided into nine groups and it was found that customers tended to spread their purchases widely, e.g., of all those who spent at least £20 a year, over 90 per cent purchased in at least half of the different merchandise groups. A more detailed investigation however showed that although a customer might purchase in any given number of groups she did not spread her purchases equally over all these groups. If a customer purchased in seven groups she would spend 50 per cent of her annual purchases in her preferred group, 20 per cent in her second preferred group, and the remaining 30 per cent would be spread over the other five groups. This was always true, namely that the number of groups purchased in was relatively large, but a great proportion of the purchases was always made in one or two groups.

4. *Method of purchase and method of settlement.* Analysis was also made of customers' habits under these

two groups, i.e., did the customer come into the Store to order, or did she write or telephone; did she pay cash or C.O.D. or run a deposit or credit account? All these points were analysed by the various general habits determined above.

C. MERCHANDISE REQUIREMENTS OF CUSTOMERS

Finally, of course, the habits of customers as shown by actual merchandise purchased were analysed, but as there is nothing new to report in method about this line of investigation no further details are given.

In the main, sampling has been used under two different conditions:

1. When the available material is so large it is impossible to use all of it.
2. When the information required is so difficult to obtain that it is desired to take as few cases as possible.

The value of sampling methods has been most fully demonstrated because it has enabled many useful facts about customers' habits to be unearthed rapidly, and with a known degree of exactitude.

Many of the facts providing the statistical description of the market were obtained from a sample of less than 1 per cent, but the possible error when converting this sample to the whole Store clientele was in no case large enough to affect the conclusions drawn. It is not too much to say that until the sampling method was employed most of the information had been considered unobtainable, except at prohibitive expense.

Determining the Potential Market

The potential market was divided under two heads represented by:

1. The existing sub-standard customers, i.e., those who were purchasing less than their income appeared to warrant.
2. People who were not customers of the Store but appeared to be statistically identical with existing customers.

The determination of the total potential market of the Store was achieved partly by the previous geographical analysis of accounts which suggested certain areas where the potential market appeared the greatest. Secondly the original sample inquiry was extended in simplified form to other parts of the trading area of the Store.

Developing the Potential Market

The analysis of purchasing habits suggested many possible methods of approach to increase sales to present customers, and to gain new customers from among those inhabitants that had the same general characteristics. The existing customers' present habits were a guide as to the kind of approach most likely to yield results; if a customer purchased in certain departments very intermittently it seemed reasonable to attempt to secure more frequent repeat purchases; if she purchased in certain departments only, sales of associated merchandise became possible (shoes, stockings, gloves, handbags); if (as has been shown to be normally the case) she purchased in certain merchandise groups mainly, there was an opening for developing sales in groups in which she rarely purchased, or in quite unrelated merchandise.

For unknown customers certain general indications are available from the income class habits. For instance the highest income class showed a strong preference over other income classes for the "Service" departments, and therefore in developing the new market among this class of customer an approach from the service rather than the merchandise angle was clearly indicated.

CONTROLLED EXPERIMENTS

Having in this way determined from the statistical analyses the possible methods of developing the potential market, the next step was to test out the best methods of making this approach and it was decided to carry out a series of "Controlled Experiments." The method was to take a certain group of persons with the same characteristics, to divide them into two halves, to experiment with certain publicity on one half and then measure the results by following closely the trade of each section, using one half of the group as a control over the other. These "Controlled Experiments" required as much careful thought in the planning, preparation, and execution as had been required in the statistical work in determining what was a sufficient and unbiased sample. The experiments were designed so as to provide a test of the significance of the observed differences between customers who had been treated in different ways. Evidently purely random differences could be expected so that at the same time as a control was provided, it was also necessary to provide a basis for estimating these random variations in order to see whether the difference between the treatment and the control was significant. The experiment was always carried out on a small scale, for it was clearly unwise to operate on a large scale until the facts had been discovered which would prove what would be the result of a certain line of procedure.

In the main the "Controlled Experiment" technique was found to be applicable to three different types of problem:

- a. To settle questions which apparently could not be solved by internal analysis, e.g., to what extent does food purchasing increase non-food purchasing?
- b. To determine the results to be obtained from certain sales promotional approaches which suggested themselves from the statistical analysis, e.g., what would be the result of selling to sub-standard customers in each income class the goods or services especially favoured by that class?
- c. To determine the optimum method for a certain sales promotional approach, e.g., newspaper versus direct mail advertising.

A particular example of the controlled experiment technique is the following: It was required to measure the result of sending catalogues to persons who were not customers. Certain streets were selected each representing a different income class of inhabitant. All known customers were struck out, and of the remainder half the

inhabitants in each selected street were circularised and half were not circularised. Subsequent purchases of both these halves were then recorded and analysed, and the extra sales recorded by those who had been circularised over those who had not been circularised were taken as the measure of the return to be expected from this type of direct mail approach to potential customers. By this method the concurrent effect of other factors such as general store advertising had been removed.

Compilation of Sales Records

While the present studies which form the basis of this report are not yet complete and therefore the final stage of developing the most economical method of recording sales has not been determined, some indication of this final stage is necessary so as to show the scope of the problem and the developments which will follow the solution. Once all the necessary "Controlled Experiments" have been completed it can be determined what forms of publicity are to be used and hence what records of customers' purchases are required to provide the necessary information for the Advertising Department. In so far as advertising is to be general, e.g., newspaper, no records of individual customer's purchases are required; the problems involved in direct mail advertising are much more difficult. In the main they can be reduced to this:

To what extent does increasing directness lead to better returns? A letter selling, for instance, an 8 guinea light overcoat to men could be sent:

- a. To all men customers of the Store
- b. As a. but whose known habits indicate that they would buy a coat at that price
- c. As b. but who are known not to have bought an overcoat at the Store for two years
- d. As c. but who have not bought a light overcoat for two years.

The returns on the same letter obviously would be least for a. and greatest for d. as the selectivity becomes greater. However the increased returns from d. have to be balanced against the difficulty and cost of obtaining the information. The balance point will be decided for different types of merchandise in the course of the "Controlled Experiments," and it will be known to what extent a selective record of merchandise sold to each customer will have to be kept, and whether by merchandise groups, or by department, or even by type of merchandise bought. With this information settled, the Office Manager can determine the best and most economical methods of recording and selecting the required information, i.e., whether this should be done centrally or departmentally, on addressing stencils, or on a visible card index, or on punched cards. Up to the present, records of customers' purchases for publicity purposes have been empirical and sometimes provide information which cannot be used, and at other times fail to provide the exact information required for a particular direct mail campaign.

The Merits of Selective Selling

WROE ALDERSON*

SUMMARY

The term selective selling denotes an approach to marketing which reflects a special viewpoint concerning the nature of the marketing process. The theory of the selective market differs from other views in emphasizing the gradations in the several marketing factors which call for selective adaptation between segments of supply and segments of demand. It takes account of selective factors in products which determine the nature of the demand for each product; the selective factors in demand which determine the responsiveness to products and sales appeal in general; and the selective factors in alternative selling methods which predetermine their suitability for various sales tasks.

Among leading views of the nature of the marketing process, the selective view is the only one which offers substantial justification for aggressive sales promotion, including advertising. Under this view the selling function is fully justified both from the standpoint of individual management and of the total economic welfare. In so far as management can improve the profit showing of an enterprise by analysis and planning, its opportunity lies chiefly in the application of the principles of selective selling.

A knowledge of the natural market for a product, of the degree of responsiveness of that market to various factors of sales appeal such as price and advertising, and the relative effectiveness of alternative sales methods and tools as applied to the task at hand are essentials for any sound marketing program. By taking account of such facts, the given enterprise concentrates its efforts against that part of the potential volume which it can handle profitably, leaving to others that part of the business for which they may be better equipped. This reasoning applies to the extent of a sales territory, the range of products handled, and the type of customers served.

The total economic welfare is promoted by selective selling because it tends to keep each enterprise at work on the tasks to which it is best adapted. It reveals the inner consistency between the ideals of orderly marketing and the maintenance of competition in the type of markets in which business is actually conducted today.

THE body of principles known as selective selling are based upon one of the three fundamental ways of looking at a market. These three viewpoints merit the designation of theories of marketing. They may be distinguished by the nature of the market as their proponents see it. The three types of markets contemplated by the three versions of marketing theory are:

- The Random Market
- The Mass Market
- The Selective Market

THE THEORY OF THE RANDOM MARKET

The market as seen by economic theory in its simplest and most abstract form may be described as the random market. Under this view, price is the principal consideration controlling the movement of goods. The theory assumes a great number of sellers making the same identical product and a great number of buyers manifesting an identical type of demand for this product. Price reduction will stimulate an increased demand and price increases will restrict demand. Whatever the price level there is no theoretical reason to assume that a seller will prefer one set of prospective customers against an-

other or that buyers will show any preference for particular suppliers.

Each seller who sells at the market price will automatically secure his share of the market but without establishing permanent connections with any segment of the market. He may sell to one group of customers one day, and to another group another day on a purely random basis. Truly, the selection of customers might well be left to chance if there were indeed no rational basis for choice.

In such a theory of marketing there is little justification either socially or from the standpoint of management for any expenditure of money or effort in sales promotion. From the management standpoint such expenditures are unnecessary since the firm merely needs to meet the going price to get its share of the business. From the standpoint of the total economic welfare, sales promotion represents an additional and unnecessary cost which merely places a burden on the free exchange of goods which would otherwise take place.

This is a brief outline of the theoretical basis on which some economists question the economic function and value of advertising or any form of sales promotion.

THE THEORY OF THE MASS MARKET

The concept of the mass market is in many respects similar to the concept of the random market which has just been discussed. The proponents of the mass

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market minimize any elements of selectivity as concerns either buyers or sellers which might occasion one segment of supply to be paired off regularly against a given segment of demand.

The theory of the mass market yields little social justification for aggressive sales effort. The claim that it aggregates sales volume to the point which makes possible mass production will not stand up if all competitors follow the same plan and thus mutually nullify the drive for greater volume. The mass market group, however, does seek to justify sales promotion from the standpoint of management. They contend that it is possible for a firm to establish a consumer preference for its particular products by carrying on a continuous and general sales pressure against the market. The objective which they picture is to overwhelm competition by the sheer volume of advertising and other types of sales promotion directed against all classes of people who could conceivably purchase the product.

Some of the proponents of the mass market idea are continually repeating the statement *Markets are People*. Judging by the marketing programs which they advocate, they appear to interpret this statement to mean that one person or family is just as good a market as another, at least for the great majority of products, regardless of such selective factors as differences in income.

THE THEORY OF THE SELECTIVE MARKET

The theory of the selective market is directly opposed to the principal contentions of those who are proponents of either the random market or the mass market. It starts from the assumption that there are significant factors of selectivity on both the supply side and the demand side. That is to say, there are selective factors among products which render them suitable for particular classes of people and there are selective factors among consumers that make them better prospects for commodities in general.

Thus, there is a natural and regular pairing of a particular segment of supply against a corresponding segment of demand. The process of facilitating the most suitable pairings of products and people is what is known as selective selling. The principle of selectivity is as fundamental to marketing theory as the principle of price equilibrium is to economic theory. This principle is the very foundation of the faith of the marketing specialist that he can contribute to orderly marketing by careful analysis of the marketing process.

The principles of selective selling cover the proper choice of selling methods, of distribution channels and of advertising media for the purpose of bringing the right product into the hands of the right consumer at the lowest possible cost. Through the application of these principles the theory of the selective market offers ample justification for the function of advertising and sales promotion from the standpoint both of management and of the total economic welfare.

The Selectivity of Products

Products in their very nature have characteristics that select out part of the broader potential market as their regular customers. Among the principal selective factors in products are price, quality, and special product

features. The element of selectivity residing in the retail price for a product is perhaps the one which is most generally recognized and admitted.

The question concerning selectivity is seldom raised with regard to a high-priced automobile or expensive jewelry and clothing. The restriction of the market for such products chiefly to persons of some means is readily granted. It is generally overlooked, however, that a difference of a few cents in price may become a very potent selective factor in the case of packaged drugs and grocery products. This principle was well illustrated by a recent study made by The Curtis Publishing Company which revealed a fixed market pattern for such products, varying greatly between items in the same class even when the price differential was as little as two cents per package.

Either high or low quality in a product operates as a selective factor. The quality of the product may be so high that only buyers at the upper end of the scale have sufficient experience and discrimination to appreciate it and to be willing to pay the differential in price which high quality may carry with it. A product of inferior quality will similarly select out a market toward the lower end of the scale where the buyers are less conscious of its defects and less able to pay for superior products of established merit.

Finally, a product may have special utility features which make it particularly acceptable to consumers with one set of requirements but quite unacceptable to others demanding the same general class of product but differing considerably in its detailed specifications. Thus, ease of handling might offer a special appeal in selling an automobile to women while other classes of buyers might be more interested in reserve power or other mechanical features.

The Curtis study referred to above indicates that it might be possible to describe in advance the pattern of the market open to a new product on the basis of its selective factors of price, quality, and special features.

Selectivity of the Market

Various sections of the market are as clearly differentiated and distinguished as are competing products. The selectivity of the market means that one section of the market may offer a more favorable opportunity for products in general. The principal selective factors in the market are income level, present ownership of durable goods, and special consuming requirements. A vast body of evidence has been gathered to show the selective influence of income level. The most recent contributions are the reports of the Consumer Purchase Survey which has been carried on under the auspices of the Federal government. These studies show that there is a distinctive consumption pattern characteristic of families at each income level. It is apparent that income level is by far the most important factor in determining consumption pattern. Tabulations which have been made on the basis of other factors such as occupation show that such factors have a relatively unimportant effect upon the pattern of expenditures. The study confirms previous findings that magazine reading habits offer one of the best indexes to the selective levels of income and discrimination which determine expenditure patterns.

Ownership of durable goods operates as a selective

factor in a number of ways in determining the purchase of other goods. Ownership of an automobile, for example, calls for the purchase of gas, oil and tires. Home ownership leads to the purchase of paint, air conditioning equipment, oil burners and other types of appliances and furnishings which would not usually be purchased by families living in rented quarters.

The purchase of a new item of the durable type may be determined by the question of whether it fits in with products that are already owned. Thus, the owner of an electric washing machine might be more inclined to buy an electric ironer than one who did not own the washing machine. A woman's coat or a pair of shoes tends to be selected with reference to how well it fits in with the rest of her wardrobe. Purchase of a given type of article for one child in the family may determine the purchase of a similar item for another child. Draperies, rugs, and articles of furniture are purchased to harmonize with each other whether the items are purchased all at once or one at a time.

Ownership of a durable item is also a selective factor in that it divides prospective customers into replacement prospects and new prospects. The market possibilities and appropriate sales methods may be of quite a different order for these two classes in selling some types of products.

The special consuming requirements of the user are a selective factor parallel to the special utility features of the products discussed above. Individual requirements will vary according to size, color preferences and style consciousness in clothing, with size of family and the character of living quarters in the case of furniture and household appliances. Even the purchasers of a packaged product like toothpaste divide up into those who have special interest in such varied problems as film on the teeth, acid mouth, etc., just as producers divide up according to ways in which they stress these special needs in their product formulas and their promotion.

The Function of Selective Selling

It has been said that the function of selective selling is to bring together that segment of supply and that segment of demand which are best adapted to each other. It takes full account of such elements as quality which predetermine the market for a product and such elements as income levels which predetermine the acceptance of consumers for products in general. It offers a full justification for the function of advertising and selling as the means of bringing about the most satisfactory working adjustment between supply and demand.

Seen from the viewpoint of supply, selective selling is a means of bringing about the most suitable utilization of productive resources by finding for each plant the job which it is best equipped to do and enabling management to plan its operations efficiently in doing that particular job.

Seen from the standpoint of demand, selective selling helps the consumer to achieve the greatest degree of satisfaction by finding the right product at the right price. As the marketing process is now organized the consumer's opportunity for efficient buying lies chiefly in the choice of the products which are offered to him. Under the policy of selective selling, advertising and sales promotion

perform the function of putting before the consumer the varying claims of all the products which are likely to merit his attention. Thus, buying choices can be made with a minimum of effort and a maximum of satisfaction in the goods purchased. Selective selling naturally apportions sales effort to the range of choice which each group of customers has an opportunity to exercise. The range of choice is much narrower, for example, in some of the low income groups reported upon in the Consumer Purchase Survey, where one hundred and one per cent expended must be spent for the two items of food and housing than in the case of higher income groups where these two classes of expenditure absorb only one-fifth of the total annual income.

From the standpoint of management, selective selling is fully justified on the basis of profit results. Since selective selling means the adaptation of supply and demand to each other, those who perform this adaptation effectively are entitled to the profits of adaptation. The term "profits of adaptation" includes but is broader than the profits of efficiency. It implies picking out the right job for the firm to do and picking the right people for it to serve in addition to performing those tasks efficiently once they are settled upon.

The Selection of Selling Methods

Selective selling undertakes to find the most effective and most economical means of bringing the right product and the right customer together. While the sales function must be performed, it can be performed in a variety of ways.

There are many tools of selling which are being used in varying degrees by different kinds of industries and business enterprises. National advertising is one of the few inventions in the selling field which is similar in its consequences to such inventions as the steam engine and electric motor in the production field. It is a device for large scale selling wherein many industries have found a means of performing the sales job which is more effective and more economical than by relying solely on the handicraft stage of selling represented by personal salesmanship.

There are a number of instruments of selling and most firms use two or more of these sales tools in varying proportions. Among these are personal salesmen calling regularly on customers of the firm, missionary salesmen calling on the customer's customers and turning over orders to him, demonstrators seeking to arouse interest on the part of consumers and the trade, display material and various kinds of point-of-sale devices for assisting in the merchandising of the product, and—of particular interest recently—price maintenance contracts or other means of insuring satisfactory profits for dealers and distributors and thus enlisting their full coöperation.

Where two or more of these means of selling are in use, one of which is advertising, there are two admonitions concerning sales policy which ordinarily will be valid.

First, perform as much of the sales function as possible by means of advertising, since it is the only available sales tool which offers large-scale economies in selling similar to the economies of mass production.

Secondly, coördinate all other forms of selling effort with advertising and with each other to achieve the maximum effectiveness for the total sales expenditure.

The Selection of Distribution Channels

The selection of retailers and wholesalers for handling a product is a major aspect of the problem of selective selling. Suitability of dealers and distributors may be judged by the kinds of goods they are now carrying, their geographic location, the volume of business they now do and the volume of purchases which can be anticipated from them in the future, their credit standing, their requirements for special services which may increase the cost of selling to them, and the elements of sales power which may make them particularly valuable for the manufacturer in developing the market for his products.

Many studies of this aspect of selective selling have been made by a number of public and private agencies. Among these are the distribution cost Studies conducted by the United States Department of Commerce on such varied lines as drugs, groceries, paints, hardware, dry goods, electrical goods, confectionery, etc. An increasing number of private enterprises are carrying on similar analyses, in some instances to facilitate compliance with such new laws as the Robinson-Patman Act, but in others, out of the more fundamental desire for a reasoned basis for sales policy. The purpose of such studies is to locate the point of diminishing or disappearing returns in sales promotion. It shows the wholesaler the profitable point at which to stop in extending his sales territory, the retailer where to stop in increasing the size and variety of his inventory, the manufacturer where to stop in taking on new kinds of distributors or new types of advertising or promotional expenditures.

Many other factors such as the size of the order, the rate of turnover, the relative ease of selling well-known and unknown products have been investigated in studies of this type, and the results have offered growing substantiation for the selective selling viewpoint.

The Selection of Advertising Media

One of the more difficult elements in a selective selling program is the selection of advertising media, because of the problem which sellers face in evaluating the relative merits of media. There are a great many aspects of this problem, but three of major importance may be singled out. These involve the kind of people reached by a medium, its advertising effectiveness with the people it reaches, and the cost of reaching these people.

Circulation facts are now pretty generally available for most types of media. Even in such a new field as radio there has been some recent progress. Possibly the most comprehensive and continuous analysis of the character of circulation is that which has been carried on for years by leading magazine publishers.

The advertising effectiveness of a medium covers a number of factors including the degree of faith which readers place in its editorial columns, whether or not the advertising intrudes upon their attention in such a way as to annoy or antagonize them and whether it fits in with their established shopping and buying habits. In this latter connection the major magazines undoubtedly offer an important advantage in giving the reader a chance to "shop" the ads on a comparative basis before shopping the stores where this type of merchandise is carried. Thus, when the new models of automobiles are brought

out each year, the prospective purchaser may find most of the makes pictured and described within one or a few issues of *The Saturday Evening Post*.

The cost of reaching prospects can be rather definitely calculated in the case of magazines on the basis of page rates and circulation figures plus a knowledge of the character of the circulation on which to base an estimate of the percentage of readers who are likely to be prospects for the particular product.

Trends Affecting Selective Selling

There are basic changes going on in the nature of markets which affect selective selling and its merits as a basic program for a typical producer and seller. The most basic of these trends is one which has moved at an accelerating pace ever since the Industrial Revolution. It is the trend away from a raw material economy toward one based on finished and fabricated products. At the time when Adam Smith was setting down his analysis of the market mechanism, raw materials were the chief items bought and sold, and the concept of the random market had much more validity than it has today.

In a constantly increasing degree, modern markets are dominated by highly fabricated goods designed to offer the consumer some specific type of satisfaction. These types of goods need to be explained and demonstrated to the consumer and kept constantly before the attention of the buying public if each product is to find the place it deserves in the market and if all products together are to stimulate consumers to strive toward a constantly improving standard of living.

Evidences have been accumulating that as our economic life becomes more complex it also becomes more unstable. The instability of purchasing power which has marked the history of the past ten years indicates that more than ever the seller should consider the merits of tying his product and his brand name to those elements of the population enjoying the greatest economic security and stability of income.

The organized consumer movement has been making very important strides in recent years. To the extent that sellers are obliged to sell against the criticism and objection of such organized groups, sound selective methods are becoming more and more imperative. Increased critical awareness on the part of the consumer may oblige advertisers to tell more comprehensive and fundamental stories about their products and to seek media wherein the newer type of message might be heeded and understood.

In the same way, organized pressure of retailers and wholesalers, particularly in lines like drugs and groceries, is placing restrictions upon the advertising and promotional methods open to the advertiser. In the long run he is likely to be obliged to secure an increased advertising effectiveness with the same or a somewhat smaller advertising budget because of the guarantees against operating losses on his products which he is being called upon to give to the wholesaler and the retailer. Apparently the only answer to this problem will lie in a much greater selectiveness in the choice of sales methods and advertising media.

Thus, all the elements of the questions of selective

selling are being affected by change. New product possibilities, new attitudes in the minds of people, new conditions in the distribution channels through which people and products are brought together move in upon us swiftly. Increasing complexity of marketing conditions and the increasing rate of change render the selective

principle more difficult of application, but at the same time render it more imperative. Selective selling offers the only sure guide to the marketing executive for making the day to day adjustments to changing needs. Rational selection is the principle of order underlying all prospects for change in a progressive direction.

Scientific Determination of Regional Sales Potentials

L. D. H. WELD*

SUMMARY

The two principal objects of measuring sales potentials are as follows: First, to determine where sales are strong or weak in comparison with total sales possibilities, and second, to furnish a basis for the establishment of sales quotas. Collateral objectives are to permit the proper allocation of sales and advertising effort in each section of the country and to aid in the laying out of sales districts and salesmen's territories.

It is obvious that sales potentials should be measured with as high a degree of accuracy as possible to accomplish these purposes. Experience with many companies convinces the writer that very few companies use really scientific methods. Many of the methods in use are based on guess-work and are decidedly crude.

A scientific approach to this problem is found by applying the statistical method known as "correlation." By means of this method, various factors are found which correlate with the sales of the product being studied. These are combined by multiple correlation, and experience over the past eight years has proved that this method yields sufficiently accurate results for all practical purposes.

The results can not be applied with mathematical exactness because there are such things as competition and current changes in business conditions which must be taken into account. So far as business conditions are concerned, the regional trade barometers, developed by the writer and published in *Dun's Review*, are helpful.

EVERY distributor of goods attempts to appraise either consciously or unconsciously the possible sale of his products in different parts of his market. The distributor may be an exporter, in which case he is concerned with the possible consumption of his goods in different countries; or he may be concerned principally with distribution within his own country, in which case he is interested in the sales potentials of different sections or sales territories within his country; or he may be a distributor of commodities within a large city, in which case he divides the city into small districts and tries to evaluate the potential market in each.

As for the international distributor, the writer is not aware of any scientific methods that have been developed in measuring the potential market in different countries, although this can and has been done to a certain extent by gathering figures on population, national income, income per capita, and other measures of consumer buying power, such as automobile registrations, number of radio sets, etc. The market for industrial goods can be measured by the volume of output in various industries where such statistics are available. Necessarily, import duties, import quotas, competition of other countries, freight rates, etc. have to be taken into consideration.

The most important application of scientifically determining sales potentials is within a single country, where a manufacturer wants to develop each part of his market as intensively as sales opportunities permit. To accomplish this rationally, it is necessary for him to measure sales potentials in different sections of his country as accurately as possible. The two principal objects of measuring sales potentials may be stated as follows: First, to determine where his sales are strong or weak in comparison with total sales possibilities, and second, to furnish a

basis for the establishment of sales quotas. Collateral advantages of measuring sales potentials are that they enable him to allocate the proper amount of sales and advertising effort in each section of the country, and that they help him in laying out sales districts and salesmen's territories.

A good illustration of the practical value of sales potentials was furnished recently by a company that distributes goods in all parts of the United States. It seems that the district manager on the Pacific Coast was particularly successful in building up a large volume of sales. The executives in the East were so impressed that they brought the district manager to the home office to become general sales manager. Shortly afterwards, the writer had occasion to make a scientific study of the potential market for the products sold by this company, and it was found that the sales possibilities were much higher on the Pacific Coast than in other sections. It was also found that the district manager's accomplishments on the Coast were no better than those of certain other district managers in other parts of the country, when accomplishment was measured against sales possibilities. This particular man did not turn out to be a success as national sales manager and was relieved of his position within a year.

In spite of the importance of measuring sales potentials with a fair degree of accuracy, it is really surprising how few business houses have developed sound and scientific methods for this purpose. A few months ago the advertising magazine, *Printers' Ink*, made a little study of the methods used by various companies in measuring territorial sales potentials. Only 35 "leading national advertisers" were covered in this study, but there were 13 who were measuring their potentials and quotas either wholly or largely on past sales. The weakness of this method will be pointed out below. Many of the others used some single index of general buying power, and only a few had made any effort to discover and to combine

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factors which really measure the markets for their particular products.

Although this was a very small sample, the writer believes that the answers are fairly typical of business houses in general. In these days when there is so much emphasis on distribution and when so many companies are striving to improve their selling methods, it is a surprising fact that so many of them cling to crude methods of measuring sales possibilities in different parts of the

several that have been in use, such as magazine circulation, income tax returns, total retail sales, and various special indexes that have been made up by individual companies. The trouble with this method is that it fails to recognize that in the case of most commodities there are special factors, such as climate, percentage of foreign-born, and many others, that affect the sale of a particular product. For example, buying power alone does not measure the market in the United States for snow shoes or for woolen

COMBINED SALES OF FIVE REPRESENTATIVE COMPANIES AND POSTAL RECEIPTS

(PER CAPITA BASIS EXPRESSED AS PERCENT OF U.S. AVERAGE)

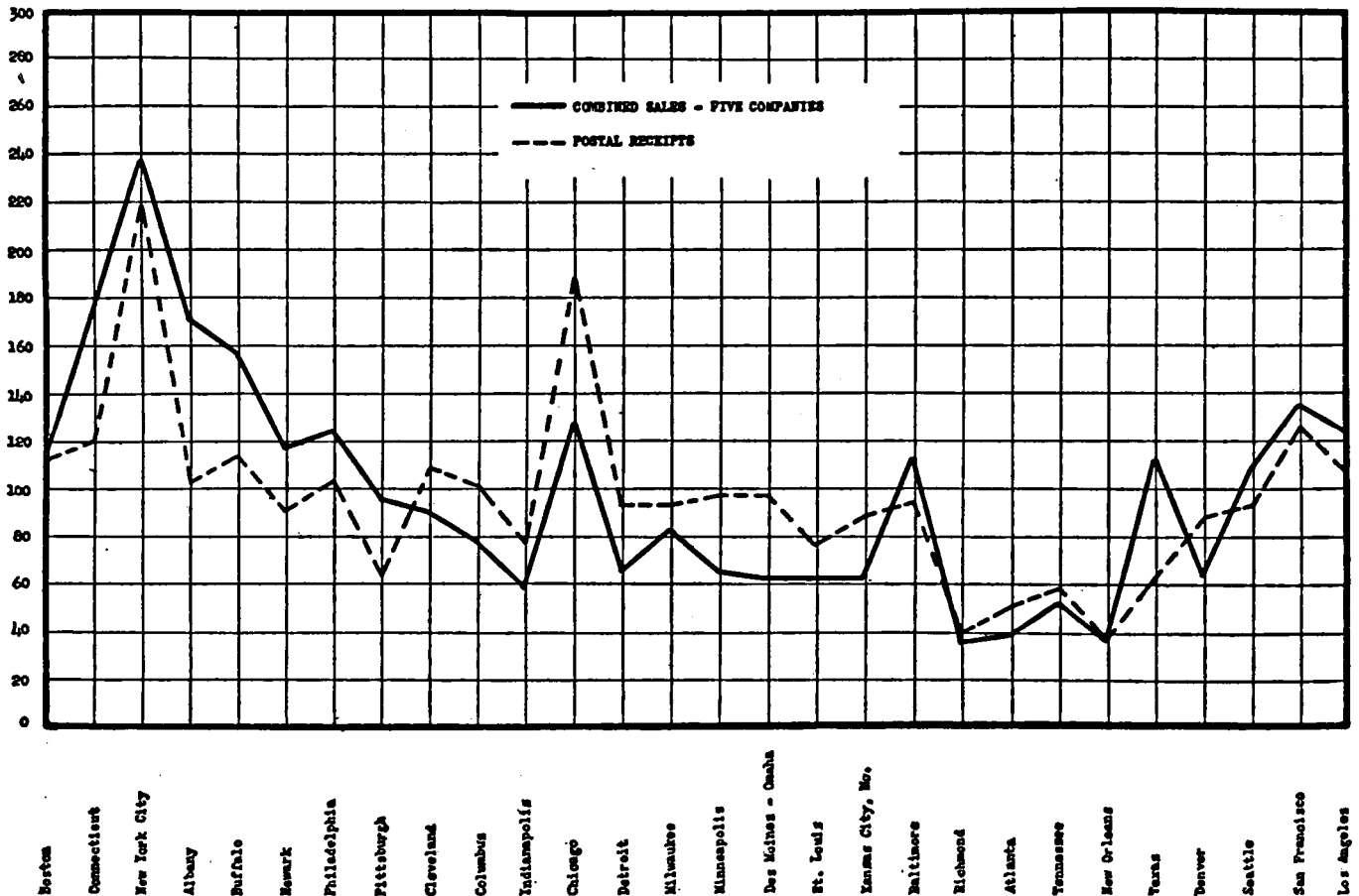


CHART 1

country. The commonest methods in use, all of which have their shortcomings, are as follows:

Past sales

A single index of general buying power

Combination of factors, obtained by guess-work, which are supposed to measure the market for the particular product studied.

As for using past sales (the commonest method in use), it is obvious that these indicate only what sales have been and not what they ought to be. It is very common for a company to be strong in certain sections of the country and to be weak in others. Comparison with past sales does not bring this out. There must be some yardstick of sales possibilities with which to compare past sales in order to find out whether sales are really strong or weak.

As for a single index of general buying power, there are

underwear. Climate is an all-important factor in these cases.

A few companies have realized this difficulty and have tried to select factors which would measure the market for their particular commodities. But they have guessed at these factors rather than determining them scientifically. They guess, for example, that number of automobile registrations, percentage of people living in cities under 100,000 population, and number of income tax returns, ought to furnish a good measure of their market. They proceed to figure the per cent of United States total in each territory for each of these factors and then average these percentages. Sometimes they arbitrarily assign weights to the different factors.

The trouble with this method is that by guessing at the factors they are likely to include some which really do not measure the market for their products. By arbitrarily

assigning weights they are giving some factors too much importance, and others too little. By averaging percentages they are giving too much importance to the mere fact of population, which is present in all factors. This difficulty can be overcome by using a technique wherein per capita figures are employed.

In order to overcome these difficulties, the writer developed many years ago the correlation method for the measurement of sales potentials. The object was to take the guess-work out of the selection of factors and out of the weights to be given to the various factors in combining them. The word "correlation" simply refers to the degree of correspondence between two sets of data. As a statistical device the correlation method

so as to get rid of the population factor. Various individual factors are then tried out against this basic series. This is a matter of exploration. When three or four factors have been discovered, which show a close enough correlation with the basic series, these are then combined by multiple correlation so as to give a measure of the potential market in different sections of the country.

A specific example will make clear the operation of this method. Certain manufacturers of office equipment wanted an index by counties for the United States, so that they could determine potentials and quotas for their own individual sales districts. In the first place, we obtained from five representative companies their sales broken down into 30 major districts into which the

COMBINED SALES OF FIVE REPRESENTATIVE COMPANIES
AND OFFICE EQUIPMENT BUYING POWER INDEX
EXPRESSED AS PERCENT OF U.S. TOTAL

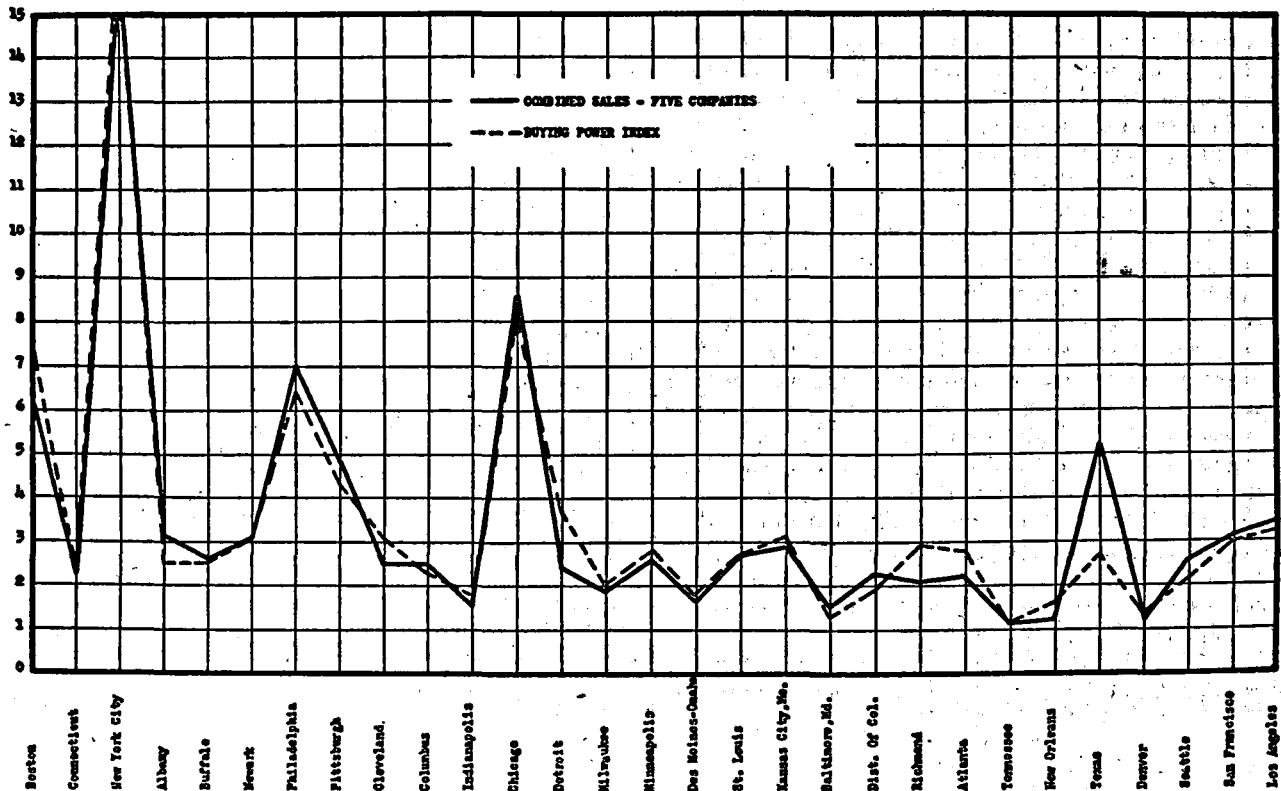


CHART 2

furnishes a formula that measures the degree of correspondence between two variables and also furnishes a method for combining factors so that each automatically is given its proper weight in the final result. This method which was developed by statisticians many years ago, is treated in all standard books on statistics, and has been used successfully in studying economic, educational, biological, and other data.

The procedure consists first of setting up a basic series by geographical areas made up of total industry sales (if they are available), or the past sales of the individual company being studied. If such a company has national distribution and has been in business for some years, these sales furnish a sufficiently accurate basis for selection of factors. All data are reduced to a per capita basis,

United States was divided. These were set up on a per capita basis, and then tests were made of various factors that we thought would most nearly correlate with this basic sales series. We tried out 10 or 12 different factors. Four were retained and the others were discarded. Chart 1 shows one of these factors,—postal receipts compared with combined sales of the five large companies. It will be seen that there is a high degree of correlation between the two curves. The other three factors that were selected by manufacture (from the Census of Manufactures). Each of these factors showed a high degree of correlation with the basic series.

These four factors were then combined by the multiple correlation process and chart 2 shows the results. It will

be seen that the combination of these four factors so closely parallels sales that it could be used in estimating what the total sales ought to be in any district in the United States. The equation developed in this process was then applied to county figures and the final job was turned over to the office equipment manufacturers in the form of a percentage of United States total for each of the 3,000 counties in the country, worked out to four decimal places. Many of the best-known manufacturers of typewriters, adding machines, and other office equipment have been using these figures as a basis for their quotas for several years.

There has been a different combination of factors found and used in connection with every commodity that the writer has studied. For example, for a certain toilet article, it was found that per capita buying power and factors measuring the dryness of climate gave an accurate picture of the potential market. In the case of a kitchen product, buying power, hardness of water, percentage of owned homes, and temperature, were combined to give a geographical market picture, which has been used with great success as a basis for sales quotas by the company for whom this work was done.

It must be explained that no method of measuring sales potentials, such as that described above, can be applied to a specific situation with mathematical accuracy. The method herein described merely furnishes a basic measure of sales potentials. It is necessary to use data that are at least one or two years old in setting up such a basic yardstick. In actually setting up quotas by districts, it is necessary to take other things into consideration, such as changes in business conditions, competition, and the amount of advertising and sales effort that is to be put into each section. There are also such things as floods, droughts, strikes, etc. that may affect sales in a given section over a considerable period.

As for the effect of changes in business conditions, they vary substantially in one part of the country as compared with another. This has been especially true since the low point of the depression in 1933, and during the "recession" of 1937-38.

There has never been an adequate measurement of these changes in different parts of the country until the

writer developed the system of regional trade barometers which are published from month to month by Dun and Bradstreet in Dun's Review. The country has been divided into 29 separate regions, in each of which economic conditions are fairly homogeneous. The monthly index for each region is made up of bank debits, department store sales, new car sales, and life insurance sales. A similar index is constructed for the United States as a whole. Each series is corrected for seasonal variation and for number of working days in the month.

These regional indexes are shown in Dun's Review in the form of 29 separate charts in each of which local business conditions are compared with business conditions in the United States as a whole. These regional barometers are not measures of industrial production, but measure the flow of trade into consumptive channels and hence furnish a good index of the changes in consumer buying power in each part of the country.

Any single company by matching its own sales districts against the regional barometers described above, can determine how its sales have been progressing as compared with business conditions in each part of the country. Such a company may, for example, find that in the Chicago district its sales have decreased 10 per cent, while business conditions in that district have improved by 10 per cent. Something is wrong. Investigation can usually develop the reasons. A basis is furnished for determining new sales and advertising policies and for revising sales quotas.

As for taking account of competition, this generally has to be done more or less arbitrarily, although it is sometimes possible to determine a statistical measurement of the degree of competition in each part of the country and to include it in the basic formula as determined by multiple correlation.

Although it is not possible to obtain mathematical accuracy by the method described in this paper, the writer submits that this approach to the problem eliminates guess work to a very large extent and furnishes results that have a high enough degree of accuracy for all practical purposes. Experience with many companies bears out this claim.

Die Saisonschwankungen des Güterbedarfes im Dienste der wissenschaftlichen Betriebsführung

Dr. Oec. Publ. ARNOLD SCHÄR *

SUMMARY

More useful solutions of social and economic problems have resulted with a change that has taken place in our thinking with regard to the individual factors which, in combination, go to make up such a problem. Formerly, the factors were regarded and treated as though they were in a state of equilibrium. We now regard the factors as variables—constantly in motion. Scientific Management has applied this principle in its analysis of the business cycle.

When one is looking at a business cycle as a whole, the so-called seasonal fluctuations must be eliminated if the true course of the trend line is not to be obscured. On the other hand, it is precisely those fluctuations in the monthly figures of sales and production that have particular value for Management. These seasonal fluctuations determine in large measure what deviations shall be made from the normal course of procedure.

If the head of an enterprise is efficient, he will try to limit the effects of these seasonal fluctuations, or so shape the conduct of the enterprise as to permit it to derive the greatest amount of benefit and least amount of harm. To be in a position to do this, it is necessary to observe and interpret these seasonal fluctuations.

In the first diagram are shown, for a distributive business, fluctuations in articles of daily use and those of a seasonal character. This diagram represents the experience of the most important consumer coöperative society in Switzerland—The Co-operative of Basle. Another graph compares seasonal fluctuations in the different branches of the Co-operative department-store. The seasonal fluctuations are represented for one year *with*, and for another year *without*, special occasions. By "special occasions" we mean unusual values, special discounts, or added measure, given, for example, during a clearance sale.

Through the example cited, one sees that special sales were regularly organized, and that they were successful in increasing the volume of business during the dull season, especially during the month of January. Likewise, one can see that throughout the year fuller use was made of equipment and man-power.

Die Wirtschaft als Bewegungsbild

VIELE Fortschritte auf dem Gebiete der Wissenschaft stehen mit der Änderung in der Methode der Betrachtung in Verbindung. Einst ging man vom Gleichgewichtszustand, vom Feststehenden, aus. Jetzt steht die Bewegung im Mittelpunkt. Naturwissenschaft und Technik können in dieser Hinsicht von gewaltigen Erfolgen berichten. Von dieser Entwicklung wurde auch die Wirtschaftswissenschaft befruchtet. Sie war lange Zeit fast ausschliesslich die Lehre vom Gleichgewicht in der Wirtschaft. Man spricht von der statischen Betrachtungsweise. Wir wissen heute, dass viele Fehlschlüsse hierauf beruhen, denn die Wirtschaft ist nicht im Gleichgewicht, sondern in ständiger Bewegung. Das Bewegungsbild ergibt sich aus dem Wachstum der Bevölkerung, dem Fortschritt der Technik, den Wandlungen der Mode, der Eroberung und dem Verlust auswärtiger Märkte. Ein wirtschaftlicher Vorgang löst den andern ab. Der Verbrauch, die Umsätze, die Preise ändern sich von Monat zu Monat, von Woche zu Woche und sogar täglich und

stündlich. Die Produktion und der Beschäftigungsgrad verändern sich in kurzen Zeiträumen.

Im Ablauf aller wirtschaftlichen Ereignisse werden Bewegungen von einer gewissen Regelmässigkeit festgestellt. Die Konjunkturforschung hat den Begriff des Wirtschaftszyklus mit der Periode von Aufschwung, Krise, Abstieg und Depression gebildet. Man spricht von kurzen und langen Wellen. Die "Saisonschwankungen," nämlich die Veränderungen im Verlaufe eines Jahres, werden als störend empfunden. Die bekannteste und wohl regelmässige Saisonschwankung ist die in den letzten Jahren bei allen Völkern verhängnisvolle Kurve der Arbeitslosigkeit, nämlich die Zunahme der Stellensuchenden im Herbst, die im Januar den Höhepunkt erreicht, um dann gegen den Sommer zunehmend abzufallen. Solche Saisonschwankungen werden bei der Konjunkturbeobachtung nach den verschiedenen Berechnungsmethoden ausgeschaltet. Gerade das, was hier als lästig betrachtet und ausgeschaltet wurde, erweist sich als wichtiges Untersuchungsobjekt der wissenschaftlichen Betriebsführung. Es ist dies ähnlich wie auf manchen Gebieten der Technik, wo bei neuen Arbeitsprozessen Nebenprodukte zuerst als wertlos weggeworfen wurden, die sich später—wie beispielsweise die Thomasschlacke

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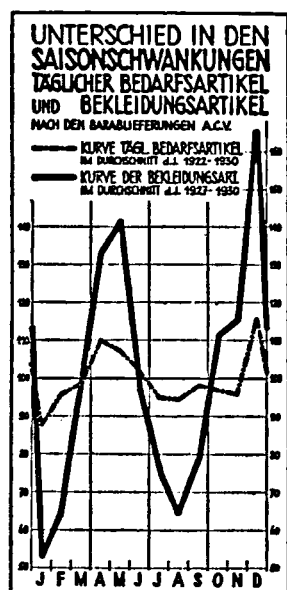
bei der Eisenverhüttung—als besonders wertvoll erweisen. Für die wissenschaftliche Betriebsführung bildet die Erfassung und Auswertung der Saisonschwankungen ein wertvolles Arbeitsgebiet.¹ Wir zeigen dies am Beispiel der saisonmässigen Absatzschwankungen eines grösseren Verteilungsbetriebes.

Die Saisonschwankungen in einem Verteilungsbetrieb (Konsumgenossenschaft)

Es ist der Güterbedarf, der durch Witterungsverhältnisse, Lebensgewohnheiten und gesellschaftliche Forderungen Jahresschwankungen besonderer Art unterworfen ist. Vor allem sind es die klimatischen Verhältnisse, die den Ablauf in einen deutlich erkennbaren Rhythmus ordnen.

A. VERGLEICH TÄGLICHER BEDARFS- UND BEKLEIDUNGSARTIKEL

Unsere erste Graphik vergleicht die Absatzschwankungen täglicher Bedarfsartikel mit Bekleidungs- und Haus-



GRAPHIK 1

ratsartikeln. (Graphik 1.) Die Voraussetzung eines Vergleiches der beiden Kurven ist erfüllt, da in beiden Betrieben die gleichen Bevölkerungskreise ihren Bedarf decken.² Die Umsatzschwankungen für beide Güterkate-

¹ Der Verfasser dieses Beitrages hat die Frage einlässlich behandelt: "Saisonschwankungen des Konsumgüterbedarfes in einem genossenschaftlichen Betrieb," Schweiz. Konsumverein, 1933, Nr. 36 und 37. Siehe auch die umfassende Publikation des deutschen Institutes für Konjunkturforschung, "Die Umsatzschwankungen als Mittel der Betriebspolitik," Grünbaum, 1928, sowie die Mitteilungen der Forschungsstelle für Handel Nr. 4, 1931, Professor Julius Hirsch.

² Die Ursprungswerte jedes Monats (Bareinnahmen) werden zuerst auf Tagesdurchschnitte umgerechnet, da die Anzahl der Verkaufstage in den einzelnen Monaten verschieden sind. Zur Berechnung der Saisonindizes, wie sie in den Graphiken dargestellt werden, gibt es verschiedene Methoden. Die einfachste ist die des Monatsdurchschnittsverfahrens, mit der wir uns hier begnügen. Sie besteht darin, die Ursprungswerte der verschiedenen Jahre monatsweise zu ermitteln. Die 12 Mittelwerte sind die Saisonzahlen. Die Saisonindexziffern ergeben sich aus den Saisonzahlen, indem diese auf den Jahresdurchschnitt als 100 bezogen werden. Bei der Bildung eines Indexes auf Grund der Angaben mehrerer Jahre werden am besten vereinzelte Extremwerte ausgeschaltet.

gorien zeigen einen gleich gerichteten Verlauf. Die Tiefpunkte liegen im Januar und im Juli/August, die Spitzen in den Monaten April/Mai und im Dezember. Die beiden Kurven unterscheiden sich aber beträchtlich durch den Umfang ihrer Ausschläge. Während bei den täglichen Bedarfsartikeln Schwankungen von 12% bis 15% um den Durchschnitt zu verzeichnen sind, machen sie auf Bekleidungsartikel 45% bis 65% aus.

In der Bekleidungsbranche und besonders bei Mode- und Putzartikeln sind daher auch die Bedarfs- und Beschäftigungsschwankungen gross. Der "toten" Saison im Januar und im Sommer steht der mächtige Andrang im Frühjahr und im Herbst gegenüber. Es sind dies die ausgesprochenen Saisongeschäfte. Die Schwankungen des Verbrauches bei täglichen Bedarfsartikeln sind um vieles kleiner als bei Bekleidungsartikeln. Daraus ergeben sich andere Möglichkeiten für die Betriebsführung. Die beiden Kurven zeigen einen recht charakteristischen Verlauf. Die Betriebsleitung vermag durch regelmässige Beobachtung dieser Zahlen, wobei die Berechnung eines Indexes ein wertvolles technisches Hilfsmittel bildet, Abweichungen vom normalen oder geplanten Verkauf festzustellen.

In unserem Beispiel aus der Bekleidungsbranche handelt es sich um ein neues Kaufhaus der grössten Schweizer Konsumgenossenschaft. Man wollte nach möglichst fortschrittlichen, für den betreffenden Ort neuen Gesichtspunkten den Betrieb leiten. Dazu rechnete man auch die Gewährung gleich günstiger Verkaufsbedingungen während des ganzen Jahres. Sogenannte Sonderveranstaltungen, wie Ausverkäufe, erhöhte Rabatte und Rückvergütungen oder Vergünstigungen anderer Art, wurden zuerst bewusst abgelehnt.

Eine fortschrittliche Geschäftsleitung musste vor allem am Tiefpunkt, wie er nach unserer Graphik besonders im Januar nach der Spitze im Dezember erreicht wird, Anstoss nehmen. Dies war die Veranlassung zur Einführung besonderer Verkaufsveranstaltungen mit zeitlich beschränkten besonderen Vergünstigungen, deren Form in diesem Zusammenhang nicht wesentlich ist.

B. DIE SAISONSCHWANKUNGEN IN DEN RAYONS EINES KAUFHAUSES

Unsere zweite Graphik vergleicht die Saisonschwankungen der einzelnen Abteilungen von zwei Jahren, wobei in einem Jahr Sonderveranstaltungen durchgeführt wurden. Die Zeitspanne der Sonderveranstaltungen ist durch Schraffur markiert. (Graphik 2.) Die Sonderveranstaltungen haben den Verlauf der Schwankungen bedeutend verändert. Dies gelangt besonders deutlich in den Monaten Januar und Februar zum Ausdruck. Ohne Sonderveranstaltung wird im Januar regelmässig ein Tiefpunkt erreicht. Die Sonderveranstaltung im November bringt ebenfalls eine deutliche Verschiebung. Manche Weihnachtseinkäufe scheinen im voraus erfolgt zu sein.

Auf *Hüte und Mützen* wirkt sich die Sonderveranstaltung im Januar weniger aus als bei den übrigen Artikeln. Ein steiler Anstieg beginnt mit September, was mit dem Herbstbedarf zusammenhängt. Die normalerweise feststellbare Septemberspitze wird durch die Sonderveranstaltung auf den November verschoben.

Schuhe und Schirme erreichen ihren Höhepunkt regelmässig im Dezember. Durch die Sonderveranstaltung

erfolgt der Anstieg jedoch schon im November. Der Anstieg im September ist eine regelmässige Erscheinung und ist ebenfalls mit der Eindeckung des Herbstbedarfes erklärlich.

In *Manufakturwaren* (besonders Stoffe, sowie Bett- und Tischwäsche) entsteht im Januar und Februar eine aussergewöhnlich hohe Spitze. Die Dezemberspitze wird auf den November verschoben. Es ist zu beachten, dass die Kurve der Manufakturwaren von den Bekleidungsartikeln bedeutend abweicht. Für die Anschaffung von Brautwäsche und Neueinrichtungen hatte die Sonderveranstaltung eine besondere Anziehungskraft.

Damenkleiderstoffe erreichen ihre Spitze normalerweise in den Frühjahrsmonaten April und Mai. Nach dem Rückgang im Sommer wird eine weitere Spitze schon im Oktober und nicht etwa im Dezember erreicht. In den Monaten Oktober und November werden am meisten Damenkleider hergestellt; für Weihnachtskäufe spielt der Artikel eine kleine Rolle. Der Tiefpunkt im Januar wird auch hier durch die Sonderveranstaltung ausgeglichen und ins Gegenteil verwandelt. Die Spitze des Oktobers wird auf den November verschoben.

Bei *Herren- und Damenartikeln* handelt es sich vor allem um Bonneteriewaren. Die beiden Kurven nehmen einen ähnlichen Verlauf. In der mächtigen Dezemberspitze, die mehr als eine Verdreifachung des Umsatzes bringt, gelangt die Bedeutung der Artikel für Geschenkzwecke zum Ausdruck. Durch die Sonderveranstaltung im Januar wird der Umsatzsturz aufgehalten. Die Sonderveranstaltung im November vermag die Dezemberspitze etwas zu kürzen, die jedoch immer noch deutlich zum Ausdruck gelangt. Bei diesen Artikeln bringen die Sonderveranstaltungen mehr eine Verschiebung als eine absolute Umsatzzunahme.

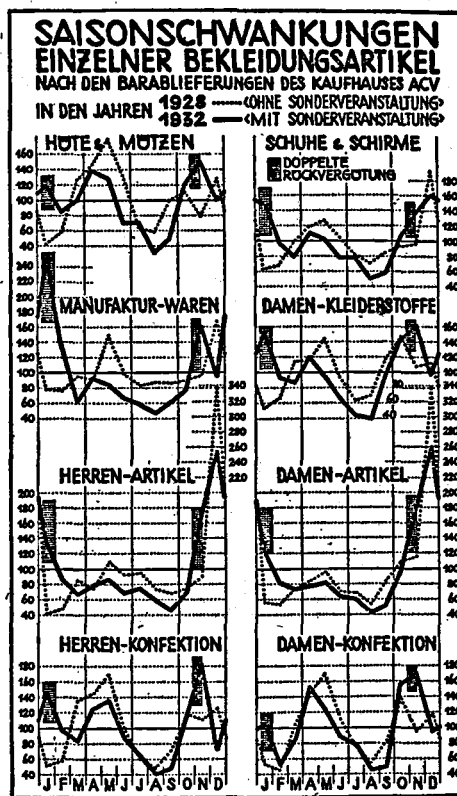
Herren- und Damenkonfektion nehmen einen ähnlichen Verlauf. Der Höhepunkt in den Frühjahrsmonaten liegt im April und Mai, im Herbst vorwiegend im Oktober. Der Dezember weist hingegen einen Rückgang auf, worin auch wieder zum Ausdruck gelangt, dass dieser Artikel für Geschenkzwecke keine Rolle spielt. Auch hier vermag die Sonderveranstaltung im Januar den Tiefpunkt zu beseitigen. Die Spitze wird bei Damenkonfektion, wie bei Damenkleiderstoffen, normalerweise schon im Oktober erreicht. Die Sonderveranstaltung brachte für den November eine weitere Zunahme. Bei diesen Artikeln wirken sich die Sonderveranstaltungen besonders deutlich aus.

Das allgemeine Bild geht dahin, dass durch die Sonderveranstaltungen vorerst die Schwankungen verschoben werden. Das Tief im Januar ist sogar vollständig beseitigt. Das Ergebnis der Sonderveranstaltungen war aber doch, was bei dieser Darstellungsart zwar nicht gezeigt werden kann, dass sich eine Zunahme des Jahresumsatzes ergab. Die Beseitigung des Tiefpunktes im Januar erfolgte somit nicht einfach damit, dass dieser Tiefpunkt auf einen anderen Monat verschoben wurde. Die Ausnutzung der Verkaufseinrichtungen konnte daher verbessert werden.

Die Auswertung der Saisonschwankungen

Die genaue Erfassung der Saisonschwankungen ist für jede wissenschaftliche Betriebsführung eine wichtige Voraussetzung. Alle Umsatzschwankungen sind ein be-

deutender Störungsfaktor, die den geregelten Betriebsablauf wesentlich erschweren. Kostenmässig arbeitet ein Betrieb bekanntlich dann am günstigsten, wenn die Verkaufseinrichtungen möglichst vollständig ausgenutzt werden und ein gleichmässiger Beschäftigungsgrad gewährleistet ist. In Verteilungsbetrieben sind meistens zwei Drittel aller Kosten fest und von einem grossen oder kleinen Umsatz unabhängig. Der Auftragsbestand lässt sich im Verkauf selbst nicht über kürzere Zeiträume verteilen, wie es in der Industrie innerhalb gewisser Grenzen möglich ist. Immer wieder stellt sich daher die Frage, wie eine gleichmässige und optimale Ausnutzung der Anlagen und der menschlichen Arbeitskraft gewährleistet wird. Je grösser ein Betrieb wird, umso schwerer fällt ihm im allgemeinen die Anpassung an die saisonmässigen Schwankungen. Dies wird gerne mit den Worten ausge-



GRAPHIK 2

drückt, dass die Fixkosten die "Achillesferse" der Grossbetriebe darstellen.

Es ist auch zu beachten, dass das stossweise Anschwellen der Beanspruchung oft zu einer Dimensionierung der Anlagen führt, die für die durchschnittliche Beschäftigung viel zu gross sind. Manche Fehlinvestition hat sich auch bei Kaufhäusern daraus ergeben, dass zu rasch eine Anlage ausgedehnt wurde und man sich über den Charakter der einmaligen kurzfristigen Spitzenbelastung nicht klar war.

Eine wichtige Auswertung der Saisonschwankungen ergibt sich durch den Vergleich mit den Lagerbeständen, wobei sich zeigt, dass sich einzelne Betriebe und Rayons diesen Schwankungen recht verschieden anpassen. Die fortlaufende Überwachung der Lagerbestände hat hierdurch ein wertvolles Hilfsmittel erhalten. Die Anführung von Einzelheiten würde in diesem Zusammenhang zu weit führen.

Durch Kombination mehrerer Warengruppen mit zeitlich verschieden gelagerten Saisonrhythmen kann versucht werden, die Saisonausschläge etwas auszugleichen. Im allgemeinen wird versucht dies in den Warenhausbetrieben —oft sogar unbewusst— zu erreichen. Es wurden sogar Kompensationsabteilungen geschaffen, die dem Gesamtbetrieb eine gleichmässige Beschäftigung sichern sollen. Eine vollständige Kompensation wird zwar in keinem Betrieb möglich sein. Es kann sich nur um eine gewisse Abschwächung der Ausschläge handeln. Unsere Darstellung zeigt, wie verhältnismässig klein die Kompensation der Wellenlinie der verschiedenen Rayons ausfällt.

Die Saisonschwankungen sind auch von sozialpolitischer Tragweite, so bei der Gewährung von Ferein und Urlaub. Dann ergibt sich daraus auch die vorübergehende Arbeitsmöglichkeit für Personen, wie Frauen und Haustöchter, die nicht regelmässig im Erwerbsleben tätig sein können.

An die Saisonschwankungen können auch die Kosten des Raumes angepasst werden, indem immer der teuerste Raum der Saison entsprechend am besten ausgenutzt wird. Es ergibt sich daraus die zweckmässige Ausnützung des Einganges, des Lichthofes usw. Die modernen

Warenhausbauten berücksichtigen dies in ihrem Grundriss und in ihrer Einrichtung.

Der Nutzeffekt der Publizität und Propaganda kann durch genaue Beobachtung dieser Zusammenhänge verbessert werden. Besonders auch bei Grossbetrieben, wo es nicht immer leicht ist, dass die einzelnen Dienstzweige die notwendige Fühlung mit dem Verkauf haben, vermittelt die genaue Erfassung der Saisonschwankungen den notwendigen Einblick in das Wesen und in die Entwicklung des Absatzes. Erfolgchancen können besser abgewogen und beurteilt werden. Anstelle gefühlsmässiger Vermutungen und vager Schätzungen treten Zahlen.

Wie auf andern Gebieten der Technik und Organisation gilt es aber auch hier, die Grenzen zu beachten! Eine Beeinflussung der Saisonschwankungen ist im Verteilungsbetrieb durch die Methoden der wissenschaftlichen Betriebsführung vor allem möglich, soweit diese die Folge des wechselnden Kaufwillens sind. Andere und noch viel weiter reichende Mittel müssen zur Anwendung gelangen, wenn es gilt, bei rückläufiger Konjunktur gegen die schrumpfende Kaufkraft breiter Bevölkerungsschichten aufzukommen.

Some Recent Developments of the Problem of Seasonal Variations in Sales and Sales Results

DR. J. G. STRIDIRON*

SUMMARY

Seasonality is connected with the internal structure of a concern; it puts a heavy burden on it. Scientific Management is confronted here with interesting but rather difficult problems. In this paper we give some recent developments in the study of these problems. Some examples of the various extra expenses introduced by seasonality are given. In order to come to a good insight as to the different natures of the various groups of sales-expenses, we divide them in three categories:

- 1) Fixed expenses;
- 2) Strictly variable expenses;
- 3) Variable expenses that show deviations of the seasonal movements in the turnover:
 - a) in amplitude;
 - b) in pattern.

The fixed expenses are especially troublesome for a concern suffering from seasonality. We may meet this difficulty by seasonal compensation, either by finding a compensating market (this new market can be either an existing market, or the result of purposeful propaganda for a new use of the products sold by the industry under consideration), or a compensating commodity (commercial and/or technical compensation). Besides the compensating possibilities we can still, as far as possible, adjust the expenses to the seasonality in sales, especially the payroll.

Two arithmetical examples are given of such an adjustment. The first shows an adjustment by means of varying the number of employees (the staff consisting of a constant part and a variable part). In the second case, adjustment is attained by varying the working time. We may also vary the salaries according to personal output (e.g., commercial travellers only drawing commissions).

External and Internal Factors

WHEN adopting "Market analysis as a basis for the organisation of distribution" we have to reckon with two sorts of factors, viz., "external" and "internal" factors. External factors refer to conditions lying outside the special concern or industry under consideration; whereas, internal factors relate to the internal structure of the special concern.

In the first case we have to depend almost exclusively on general economic guidance (e.g., statistical tables); in the second case, however, we have, at least to a greater extent, the advantage of having the data readily available.

At the London Congress 1935 I gave an example¹ of the first case; at this present Congress I want to give you an example of the second case. The limited space, however, does not allow treating the subject completely; hence we shall have to confine ourselves to principal points that give us a good insight in some recent developments in the field of these problems. The following points will be treated:

1. The seasonal burden and the sales results.
2. Seasonal compensation.

In order to lay down accurately exactly what is meant by "seasonal influence," I shall begin with a definition.

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¹ Stridiron: The Sale of Products not previously marketed, Int. Congress for Sc. Man., London, 1935.

When a statistical series relating to equally long time units is analysed, usually 4 categories of fluctuations are distinguished, viz.: secular, cyclical, seasonal and accidental fluctuations.

We define as seasonal variations such fluctuations in a time series as have a tendency to reoccur regularly at fixed times. We shall confine ourselves to the monthly fluctuations.

The Seasonal Burden and the Sales Results

A. As to the way in which the season affects the enterprise, I refer to the four ways given by Kuznets in his book "Seasonal Variation in Industry and Trade." For the modern concern, seasonality means a burden, e.g., it entails extra expenses incurred when the concern is partly or wholly idle ("no-load" expenses).

Therefore, scientific management must analyse the consequences arising from seasonal variations to get a better insight into the phenomenon. This insight may guard us against wrong judgment, and may also show us the way to lessen the burden of seasonality.

We shall confine ourselves to the special expenses, incurred by the sensibility of the sales. The fact that an important part of selling expense is fixed and does not vary is what causes the "seasonal no-load costs" to rise; and one should be careful not to underestimate these fixed expenses. We think that this phenomenon has as yet not received much attention and, as a contribution to the recent developments in the field of these business-

management problems, we want to give you particulars of some recent investigations which further analyse the seasonal sensibility in sales and sales results.

B. When the influence of the season on sales expenses is further analysed, we proceed to:

- i. Ascertain what groups of expenses suffer from the seasonal variations in the turnover (by which is meant those expenses that, by nature of their special character, do not follow the seasonal movement in the turnover).
- ii. Ascertain how far it pays to try to get seasonal compensation, and how far it is possible to adjust expenses to the seasonality in sales.

In order to get a clear idea regarding the nature of the various kinds of expenses, we divide them in 4 categories:

- 1) Fixed expenses,
- 2) Strictly variable expenses, viz., those expenses that definitely follow the seasonal movement in the turnover.

curve. This method shows us in a simple and clear way the difference between the turnover and expense movements.

Comparing the curves of the turnover and the total sales expense, it immediately strikes the eye that the latter has a less pronounced peak than the turnover. This is a characteristic of a majority of fixed expenses (51.8 per cent).

FIXED EXPENSES

Among these are to be classified all expenses that consist mainly of salaries, wages, rent, etc.

The expense of the commercial inner service is an example of an expense item with an outspoken fixed character. Evidently, we perceive in our method of demonstrating, the course of these expenses can be expressed in a straight line (diagonal).

As we have already stated above, we perceive in the expenses of the commercial outer service a faint seasonal fluctuation.

TABLE 1

Category	Per Cent	Total
1 Management and secretariat.....	2.5	
1 Commercial inner service.....	9.6	
1 Commercial outer service.....	8.0	
1 Publicity department.....	7.5	Category 1, 51.8% (resp. 38.0%)
1 Administration.....	5.9	
1 Housing expenses.....	4.5	
1 resp. 3b Service expenses.....	13.8	
3a resp. 3b Publicity expenses.....	16.5	Category 3a, 16.5% (resp. 0%)
3b Free replacements.....	4.8	Category 3b, 4.8% (resp. 35.1%)
2 Forwarding expenses.....	2.6	
2 Provision for non-current stocks.....	3.0	Category 2, 11.4%
2 Provision for doubtful debtors.....	5.8	
Various expenses.....	15.5	Various exp., 15.5%
Total	100.0	100.0%

3) Expenses that show deviations of the seasonal movements in the turnover. These deviations may be:

- a. In amplitude (greater or smaller than the amplitude of the fluctuations in sales).
- b. In pattern (forerunning or afterrunning in respect to the high sales season).
- c. A combination of cases a and b.

As an example of these categories of expenses, we take the experimentally determined sales expenses of a highly seasonal commodity, that can be spread over various sections (see table 1).

For example, it is evident that commission paid to travellers is liable to seasonal fluctuations. This, however, is quantitatively of secondary importance; so that the group "outer service" may be considered as fixed, in spite of the small fluctuation shown by chart 1. In this chart we reproduce the curves of those expense items that are characteristic of the above mentioned categories of expense. In the graphs the monthly amounts of turnover and expense are expressed in a percentage of the total annual amounts, which percentages accumulate into a

STRICTLY VARIABLE EXPENSES

As such are to be mentioned trade rebates, commission to agents, forwarding expenses, etc.

EXPENSES SHOWING DEVIATIONS OF THE SEASONAL CURVE OF THE TURNOVER

Divergences in Amplitude (Size of the Seasonal Spring). Expenses belonging strictly to this group only do not exist, for they also show a divergence in pattern. The most important example is undoubtedly formed by publicity expenses. A characteristic of seasonal industries is that they are generally, in a specific period of the year, on the market with new or improved products (cars, radios, fancy goods). Generally this period will be preceded by a publicity campaign. Also during the first months of the season the article will be constantly brought to the attention of the public. After this period the advertising activity will decline and retake the shape of a general character (good-will advertising) and increase markedly again a short time before the next season. Thus

the curve of publicity expenses shows two characteristics:

- 1) a more accentuated seasonality than the curve of the turnover;
- 2) a forerunning.

In the graph the dotted line represents the ideal case of greater amplitude, the other line the case of forerunning.

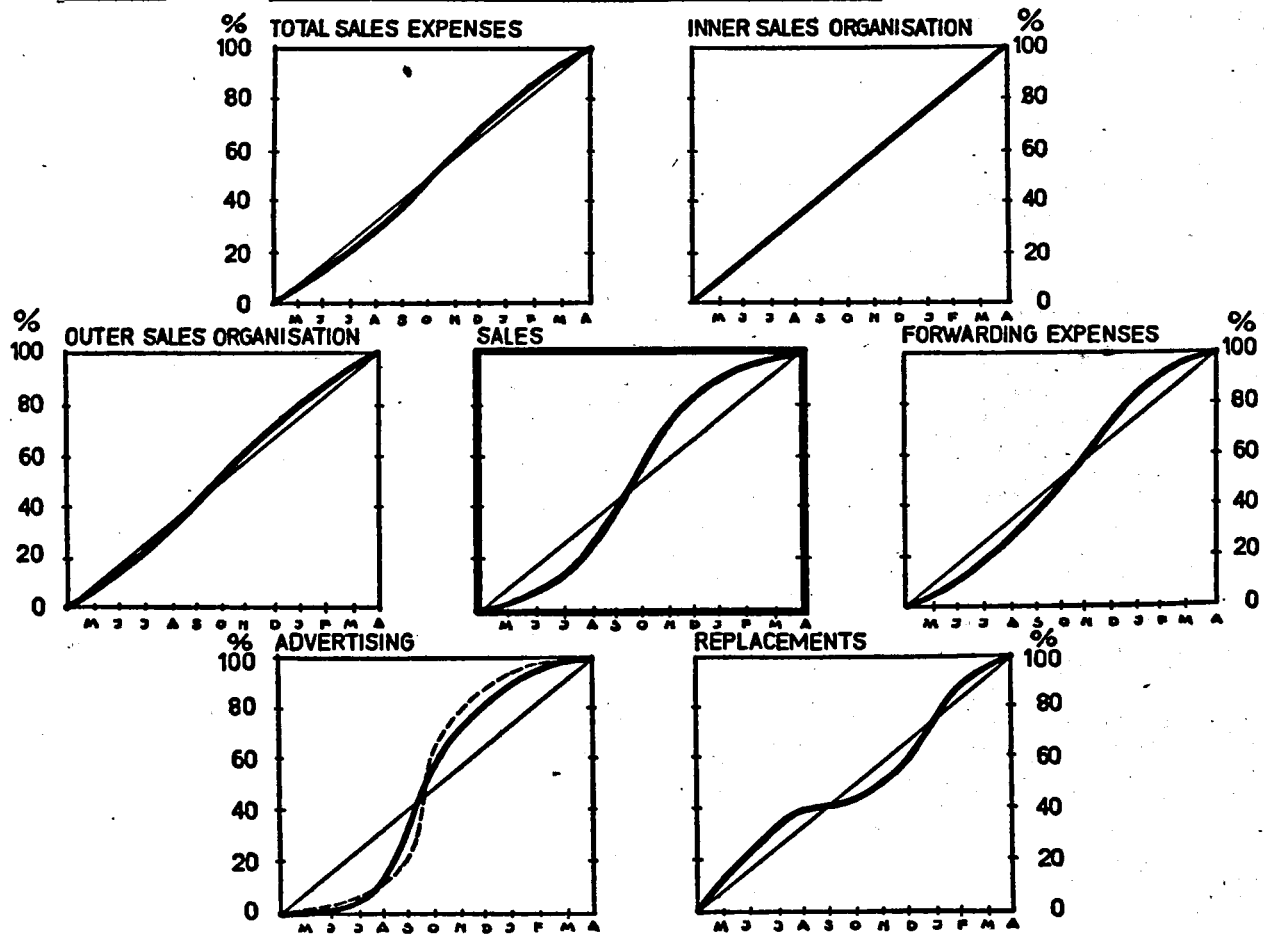
The form of the curve depends on the point of time at which the publicity expenses enter the books of the company. The publicity expenses may enter into the

sold, generalized under the heading "service expenses." Such expense often arises in the fact, that, when the commodity is sold, it is warranted during a certain time (cars, radios). Consequently these expenses increase some time after the beginning of the seasonal sales. The duration of this interval depends mainly on the nature of the commodity sold and also on its quality. In comparison with the turnover curve, the seasonal peak of these expenses falls at a later time than the seasonal sales peak (see chart 1, Replacements).

In many concerns, however, the service expenses will bear a fixed character. The explanation is as follows:

In many instances the expenses will consist of salaries

CHART 1 SEASON IN VARIOUS GROUPS OF SALES EXPENSES



books (a) when the invoices, etc., are received, (b) when the advertising contracts are signed. We cannot do much about the fact of forerunning and greater amplitude. We can only smooth the publicity expenses in our administration in relation to the sales, to get a better intermediate judgment of the sales results. For the rest, they are not troublesome, as they do not involve "no-load expenses" as the fixed expenses do.

Divergence in Pattern (the Characteristic Form of the Seasonal Swing). Above we spoke of a forerunning seasonal movement in publicity expenses.

Afterrunning will generally be shown by expenses referring to revision and/or adaptation of the products already

and wages of a constant part of skilled employees, which the management prefers not to discharge in the slack season. Consequently, the possibility of seasonal compensation will have to be examined, and this will often be done by having the service department participate in the final technical inspection of finished products (so called pre-sale service, e.g., testing of products received from the factory against the "normal" after-sale service, viz., the repairing of the commodities delivered to consumers).

The above does, however, not alter the fact that the purely commercial service expenses (after-sale service) show a well defined afterrunning seasonal movement.

Seasonal Compensation

As a second contribution to the recent developments of the problem of seasonality in business, we shall give you some examples of seasonal compensation.

We may meet the seasonal burden in two different manners, viz., by finding a compensating market or a compensating commodity (a, i and ii); or, by making the expenses more variable.

NEW MARKET FOR SAME COMMODITY

a. i. By finding for the same commodity a new market with another seasonal pattern for this commodity.

This new market can be either an existing market (e.g., the market of radio apparatus in another country with a different seasonal pattern), or this new market may be the result of purposeful propaganda for a new use of the products sold by the industry under consideration.

As an example, we have the manufacturers of ready-made clothing, who have to create different fashions for spring, summer, etc.

As a typical example of this case we may also mention the outlet which the Swiss hotel-keepers found for their

CHART 2

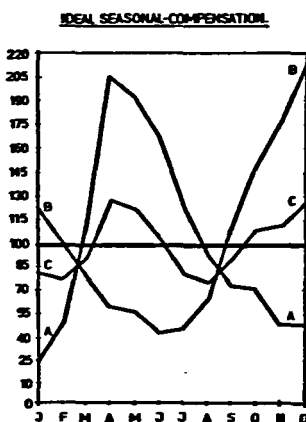
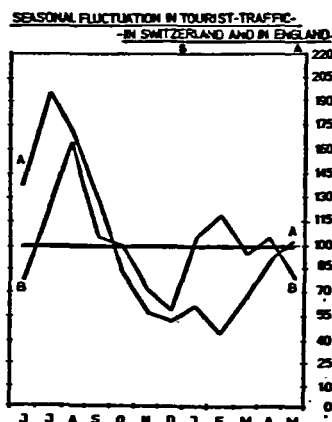


CHART 3



“products” as a result of winter sports. This is of great importance, because the fixed costs of the hotel industry are high. In addition, many other industries gain by it (e.g., railway companies). In chart 3 we have drawn a line B representing the volume of the tourist traffic based on the percentage of the available beds occupied at the middle of each month (averaged over the period 1930/34).² For comparison, we have also drawn a line A representing the tourist traffic in England in 1929,³ based on the total number of incoming foreigners. We do not see anything like a “winter season” in the English hotel industry, whereas the winter season (January and February) in the Swiss hotel industry is striking.

a. ii. *Compensating Commodity.* By finding a “compensating commodity” with a different seasonal pattern, we may distinguish two sorts of “compensating commodities.” In the first place, commodities compensating the seasonal variations in the sales (commercial compensation); and in the second place, commodities compensating the seasonal variations in production (technical compensation). An example of the first case is given in chart 2,

² Statistisches Jahrbuch der Schweiz, 1935.

³ Ogilvie: The Tourist Movement, London, 1933.

which we have borrowed from an American radio periodical. Line A gives the retail sales of refrigerators, and line B the retail sales of radio apparatus. Both of them show intensive seasonal variations, but nevertheless, the combination of these two lines gives the line C, which shows a far less intensive seasonality. We must add, however, that we only have an ideal compensation, when it is a complete compensation of the sales values; only then may we expect the line C. In the wholesale trade as in the retail trade we can find many examples of this case (e.g., fodder and artificial manure; coal-trader (in winter) and dealer in building materials in summer; stores selling bicycles, radio apparatus, refrigerators and cameras).

As an example of the second case (technical compensation) we mention a factory making skates towards winter season and chisels during the rest of the year, and a factory making dyes, and in the slack time chemicals like antifreezing substances. The finding of technical “compensating commodities” is very difficult for, of course, we pass our aim when we are obliged to invest much new capital. It is obvious that commercial and technical seasonal compensations may be combined as may be the case in the several instances mentioned.

ADJUSTING EXPENSES

Beside the radical solution by means of the above mentioned compensating possibilities, we can still adjust expenses—especially the pay-roll—to the season as much as possible.

A. One may reduce the number of employees in the slack time, in which case the total staff may be divided practically into two groups, viz.:

- i. A fixed group of workers and employees who are kept at work during the whole year in order to avoid the danger of their becoming dispersed.
- ii. A variable part of workers and employees, who are only enrolled towards the high season, re-trained temporarily and discharged after the peak months.

The relative sizes of groups i and ii is a problem for calculation. The larger the size of group i, the more expense during idleness; greater size of group ii means more expense for training and also more shrinkage. Both quantities may be computed arithmetically taking into account the degree of indispensableness.

The hourly wages of the seasonal workers may have to be higher than the hourly wages paid to workers permanently employed. We must also reckon with this factor.

B. The working time may also vary in conformity with the quantity of work to be done.

A combination of these two possibilities will be the most profitable. In the following tables we give a simplified arithmetical example of these two possibilities, viz.:

1. Adjustment by varying the number of employees (table 2).
2. Adjustment by varying the working times (table 3).

We wish to emphasize that the examples merely represent logically constructed ideas.

1. We assume that the personnel (column 2) is com-

posed of a "fixed group," while towards the high season an extra number of seasonal workers is enrolled. Farther, we assume that the average working time (column 3) remains constant. The proportion of the total work to be done (column 1) to the total number of time units worked (4) gives an index of output (5). We have chosen the units in such a way that the maximum output should

output of the employees in the "fixed group," because they are losing time by training the others.

Moreover an extra loss is calculated arising from the fact that the average wages of a seasonal worker may be 5 per cent higher than those having a fixed appointment (8).

2. We assume that the personnel remains constant but

TABLE 2

Loss as a Consequence of Seasonal Fluctuations in Activity, the Total Number of Employees Consisting of a Constant Part "A," and a Variable Part "B"; Working Time Constant

Month	Output by			Number of Employees		Working Time (Monthly Av. = 100)	Total Time-units Worked		Output per Employee per Time-unit		Loss at a Normal Output (0.9)		Total Loss			Special Loss 5% (4)
	Total	A	B	A	B		A	B	A	B	A	B	A	B	Total	B
	1			2		3	4 = 2 × 3		5 = 1 ÷ 4		6 = 0.9 - 5		7 = 2 × 6			8
May.....	70	70	..	100	..	1.00	100	..	0.70	....	0.20	....	20	..	20	..
June.....	75	75	..	100	..	1.00	100	..	0.75	....	0.15	....	15	..	15	..
July.....	80	70*	10	100	30	1.00	100	30	0.70*	0.33	0.20	0.57	20	17	37	1
August.....	110	75*	35	100	45	1.00	100	45	0.75*	0.78	0.15	0.12	15	5	20	2
September.....	150	100	50	100	55	1.00	100	55	1.00	0.91	-0.10	-0.01	-10	-1	-11	3
October.....	155	100	55	100	55	1.00	100	55	1.00	1.00	-0.10	-0.10	-10	-5	-15	3
November.....	135	97	38	100	40	1.00	100	40	0.97	0.95	-0.07	-0.05	-7	-2	-9	2
December.....	110	92	18	100	20	1.00	100	20	0.93	0.90	-0.03	....	-3	..	-3	1
January.....	90	86	4	100	5	1.00	100	5	0.86	0.80	0.04	0.10	4	1	5	..
February.....	80	80	..	100	..	1.00	100	..	0.80	....	0.10	....	10	..	10	..
March.....	75	75	..	100	..	1.00	100	..	0.75	....	0.15	....	15	..	15	..
April.....	70	70	..	100	..	1.00	100	..	0.70	....	0.20	....	20	..	20	..
Total.....	1,200														104	12
															116 = 9.7%	

* Employees A are losing time by training employees B.

† Special loss as a consequence of higher wages (+5 per cent).

TABLE 3

Loss as a Consequence of Seasonal Fluctuations in Activity, the Total Number of Employees Being Constant, the Working Time Being Variable

Month	Output	Number of Employees	Working Time (Monthly Av. = 1.00)	Total Time-units Worked	Output per Employee per Time-unit	Loss at a Normal Output (0.9)	Total Loss	Special Loss When Working Over-time above 1.1 (49.5 Hours a Week): Extra Allowance 20%	
								Per Employee	Total
	1	2	3	4 = 2 × 3	5 = 1 ÷ 4	6 = 0.9 - 5	7 = 2 × 6	8	
May.....	70	130	0.95	123	0.57	0.33	43		
June.....	75	130	0.95	123	0.61	0.29	38		
July.....	80	130	0.95	123	0.65	0.25	32		
August.....	110	130	1.00	130	0.85	0.05	6		
September.....	150	130	1.20	156	0.96	-0.06	-8	0.10 × 0.20 = 0.02	3
October.....	155	130	1.20	156	0.99	-0.09	-12	0.10 × 0.20 = 0.02	3
November.....	135	130	1.05	136	0.99	-0.09	-12		
December.....	110	130	1.00	130	0.85	0.05	6		
January.....	90	130	0.95	123	0.73	0.17	22		
February.....	80	130	0.95	123	0.65	0.25	32		
March.....	75	130	0.95	123	0.61	0.29	38		
April.....	70	130	0.95	123	0.57	0.33	43		
Total.....	1,200		1.00				228		6
							234 = 19.4%		

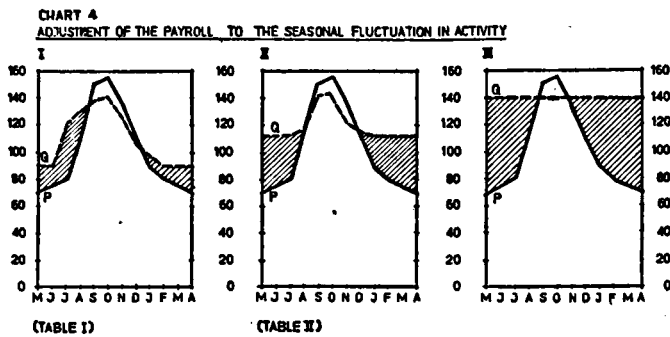
be equal to 1.00. Assuming that the normal output is equal to 0.90 we can calculate for each month the loss per employee (6) and consequently the total loss on "output power" (7), which can be expressed as a percentage of the total output, that is, the work really done.

The loss resulting from the training of the seasonal workers will find expression in a temporary decrease of the

that the working time varies in conformity with the quantity of work to be done. The working time, however, may only be varied between natural limits, determined by social and human conventions, e.g., the maximum working time cannot be taken much higher than 55 hours a week. Reckoning with an average working time of 45 hours, the maximum cannot be more than 1.2 times as

high as the average. We have to reckon with an extra loss as a consequence of an extra allowance on wages when working overtime (e.g., 20 per cent for the time worked over the normal 49½ hours a week).

We then get table 3.



We shall mention here that it is possible to pay the workers constant wages during the whole year based on the average time worked. The concern thus gives its employees an advance in the slack time which the employee repays in the high season by working longer for the same salary.

As stated above, a combination of these two may be made in many variations.

In chart 4 (case I and II) we compare the work to be done (line *P* = col. 1 (total)) with the work that normally would have been done by the existing number of workers in the existing working times (line *Q* = col. 1 + col. 7).

The difference between these two is equal to the loss on "output-power" (col. 7 (total)).

Case III represents the most extreme case in which neither the number of employees nor the working times vary. Line *P* represents the work to be done and the line *Q* the work that would have been done by 155 employees and a normal output of 0.9 in a normal time unit (= 1.00).

As may easily be seen from this graph, the extreme loss of nearly forty per cent in case III is respectively reduced to ten and twenty per cent in cases I and II.

Summarizing, we have two effective methods of adjusting the pay-roll to seasonal variations in activity, viz., first, by varying the number of employees; secondly, by varying the working time. As may easily be seen, we can applicate these means to the following groups of fixed expenses, viz., commercial inner service, commercial outer service, administration and in some cases to the service expenses. There remains still a third way, viz., by varying the salaries according to personal output (e.g., commercial travellers only drawing commissions).

I hope I have given you in the above an idea of some of the recent developments in the field of problems relating to the seasonal variation in sales and sales results.

When, by constructive measures, we succeed in reducing the seasonal burden (either by "compensating commodities" or by increasing the degree of variability of expenses) we put a company into a better earning position and thereby increase the efficiency of the organisation of distribution.

Fundamentals of Sound Sales Planning

LAWRENCE B. WHIT*

SUMMARY

In summing up, there have been discussed four main Fundamentals of Sound Sales Planning.

First, there was "*Relativities of Possible Markets.*" Here, the solution of the question "*Who Could Use This Product*" was determined. The answer was based largely on thorough, current, competent industry consumer research.

Second, was "*Relation of Prospects Within Given Markets.*" Here the solution to the question "*Where Are The Prospects*" was indicated.

Determining the probable potential of the prospect, investigating his ability to pay, starting operations close to the source of manufacture to save needless expense, and contacting smaller companies first were discussed.

Third, was "*Advance Search For Obstacles To Salesmen.*" Determining in advance all possible obstacles and giving salesmen ammunition to overcome these obstacles was established as a very important fundamental of sound sales planning.

Last, was "*Developing The Prospect's Point of View.*" Included here was showing why from the prospect's own selfish point of view, he should buy the product.

BECAUSE of the broad scope of interests represented here and the international character of the audience, this paper on the Fundamentals of Sound Sales Planning will be limited strictly to its subject.

From a selected survey among the leading sales executives of the United States, it has been found that certain fundamentals of sound sales planning sometimes vary from industry to industry. In addition, they have been found to vary among different companies in the same general industry.

Nevertheless, in the endeavor to deal effectively with present-day distribution problems and to promote the wider spread of goods to the greater well-being of the peoples of the earth, an intense effort is made to present in concentrated form the general fundamentals of sound sales planning.

The principles discussed here have been selected for their broad coverage. Certain variations under particular circumstances, as you can readily understand, may not come entirely within their scope. Briefly the four main Fundamentals of Sound Sales Planning are:

1. Relativities of Possible Markets.
2. Relation of Prospects within Given Markets.
3. Plan for Overcoming Obstacles to Selling in Advance.
4. Developing the Prospect's Point of View.

I. Relativities of Markets

Since the subject of this paper deals with sales planning rather than with the execution of sales, an effort will be made to show through actual cases the course of a new product or service. Where products are already in distribution, this procedure can be used as a check-list. To simplify discussion, services will be treated as products.

Given a product, the first question to be answered is, "*Who Could Use This Product?*"

The first step in finding out who could use this product is to employ competent research. A period of fact finding

should be followed by an analysis of the facts found. Then, a program based on this analysis should be tentatively drawn. Later, the program should be put into operation on a limited scale.

The best method of full distribution at minimum sales expense must be determined. Whether distributors, wholesalers, jobbers, salesmen, brokers, agents, mail order or a combination of these should be used involves a very important decision. Local, sectional, or special conditions may affect the successful operation of a sound sales plan. Therefore, the plan must be flexible providing for adjustments suggested by expediency.

In finding out who could use the product, there are certain general principles many companies have found it profitable to follow. In the beginning, the obvious users should be listed. Then, it is also wise to list all who might possibly use the product—even for very different purposes. Of course, time itself will bring to light a number of uses not previously contemplated.

In giving consideration to the marketability of the products the most profitable or most easily obtainable markets are not always those that suggest themselves first. Only by an impartial listing of possible markets and a careful, together with an intelligent checking of the ease of securing each market, can proper basis for relativity be determined. For instance, the manufacturer of an artificial sponge found by careful analysis uses not previously considered for natural sponges. This manufacturer is cultivating aggressively the newly discovered markets.

There is a tendency among many companies to do very little research—many times with later financial regret. Some sales organizations are often too anxious to leap without sufficient study. This procedure is like rushing to get on a train, and then, finding out where the train is going.

Much progress has been made in market research as a basis for sound sales planning. Consumer reactions on a given subject vary from time to time. What consumers would do in five years, or even last year, is no certain criterion of what they will do today. For example, a large manufacturer of safety razor blades once had a mo-

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nopoly. Later he was surprised to find that competitors had broken that monopoly. He revised his marketing policy. On the other hand, the manufacturer of a five cent chocolate bar always maintains the same price, but changes the volume according to the price of chocolate. Periodic consumer checks are necessary to keep sales plans well directed. Too much sales planning ignores up-to-date fact finding and correct analysis of facts.

When a large cash register company started its original campaign, instead of the normal store prospect, research showed at that time that saloons were the best prospects. Many bartenders were found to be not too honest or not too good at mathematics. Again, a house-to-house baker could not be sold transparent wrappers upon the basis of eye-appeal until he was asked if he could describe a cake verbally and do it justice. In this field it was also found that nearly seventy per cent of women shoppers were unaware of the exact price they paid for rye and whole wheat bread, cake, etc. It is important to stress adequate research and planning for without them execution can easily become misdirected and often result in loss.

With a given amount of selling effort, either in man power or terms of sales expense, the greatest sales return can be assured where this factor of relativity is studied carefully with conclusions based upon careful surveys and trials of each market in turn.

An approach to determining the relativity of markets would possibly suggest the listing down of "Just What Will My Product Do?" "What advantages does it have?" "What industry or types of concerns need a product with these advantages?" and a few others that may suggest themselves. As an example, the manufacturers of an anti-freeze solution have now developed a market for a rust-preventer in automobile radiators in the summer time. This gives them a year-around sales possibility which their competitors have either ignored or have not known about.

II. Relation of Prospects within Given Markets

After carefully and accurately determining the prospective markets for the product, the next logical question to be answered is, "Where Are These Prospects?"

Are they in cities, towns, farms—or in a combination? What are the market areas which can be most profitably worked?

The answer to where the best prospects are is one of the most critical and income-determining any company is called upon to answer. Thorough research, tempered with sound judgment, is necessary for this important decision.

A number of companies make the common mistake of throwing caution to the wind and make their initial expansion plans on too broad a base. They are overly ambitious. They want to "go national" too early in the game. They map an advertising campaign and either through themselves or through the council of their advertising agency, they "splash out" in magazines of national circulation. The net result—interest of prospects is aroused in places where they cannot possibly contact personally and must handle on a makeshift basis.

Ordinarily the success of the sales program will probably be no stronger than its system of distribution. Where this system of distribution is not adequate, there are bound

to be many failures to develop initial interest on the part of prospects into actual sales.

Depending entirely upon the resources and present distribution set-up of the companies handling the product in question, they are certainly working in the right direction where they go after prospects closest to the source of manufacture first, and then expand from this initial area as their distribution plans permit.

One company, selling a new product to the meat packing industry, obtained a list of meat packers. Overcoming the tendency to contact at once all the packers, it first eliminated those who were too small and those with bad credit ratings. Thus, it confined itself to the worthwhile prospects and eliminated useless expense. Calls on a few nearby prospects revealed unforeseen weaknesses in the salesmen's presentation which were corrected before selling was put on a mass basis.

The following important questions should be answered. "Are the prospects in good credit standing?" "Can they pay for their goods?" Someone has said that a sale is never made until it is paid for. It does not take very long for a lot of outstanding "Accounts Receivable" to eat up the limited capital of a concern just starting business.

Other things being equal, if the salesmen's time can be spent on the companies having the largest potential, then the returns per dollar of selling expense per account are likely to be larger.

Take, for instance, the selling of trucks. Transcontinental haulers, lumber-men, city delivery men, etc., all are possible prospects. But all do not have the same potential. Tests must be made to find out which deserve more of the salesmen's attention.

With a certain laundry, tests revealed that its best prospects came not from people without washing-machines, but from people with washing-machines because they had more money to spend. Putting into effect on a large scale the normal assumption that persons without washing-machines would be better prospects would have resulted in much wasted selling expense.

Again, a manufacturer of electric razors found that the greatest market for his product was not with people in the higher income brackets, but with truck-drivers and people in the lower income brackets. These people had tough beards and tender skins. They bought on a fifty cents down and fifty cents a week basis.

In selling houses, the salesman usually will parade the prospects through house after house at random hoping he will see a house that appeals. Instead, photographs with floor plans could have saved much wasted selling effort. Research will often correct misdirected selling effort.

The liquor industry has another problem. In certain states permitting the sale of liquor, there are Liquor Control Monopolies. The Liquor Commission is the only customer in these states. Sound sales planning must vary according to specific laws in each state. Normally, however, outside of these states liquor is sold through jobbers and retail outlets. Further, liquor companies are not permitted in any state to sample their products to the consumer either directly or indirectly.

Salesmen in most instances should be assisted by sales promotion. Individual circumstances will determine the advisability of such sales promotion matter as direct mail, newspaper and periodical space, radio, publicity,

car cards, dealer helps, conventions, etc. It is easy to spend money in advertising. The real job is to make a given advertising dollar do the most work. Again, with many companies marketing a new product, there is usually not too much money to do the given jobs at hand. Consequently, there is a greater burden on doing especially well whatever is done. Incidentally, this ties back with the earlier reference to localizing initial effort rather than spreading it too thinly.

There must be both a long-range and a short-range view in successful sales management. The competent sales manager always builds for the future, and does nothing today that will take a toll out of his business tomorrow. He never forgets that today's quotas are immediate realities, and that variations of policy must sometimes be made for the sake of a current sales position.

Sometimes the plan of going after the *largest* prospect, from a potential standpoint, does not always hold good. Many companies have made their first successes by working with smaller but more progressive prospects. This is logical, for many of these smaller companies are on the defensive against their larger competitors, and are constantly on the search for some "edge" which they can use in the battle to compete. Particular new products may appeal to them as providing this "edge."

Again, from a practical standpoint, the getting of decisions to adopt certain new products must involve a number of executives in the larger companies, whereas in the smaller concerns, contacts and decisions can be limited to one man. This simplifies the selling job and after a smaller company has adopted the item, certain indirect pressure usually works on the larger prospects in the field.

III. Advance Search for Obstacles to Salesmen

Quite naturally after answering the question "Who Can Use This Product?" and "Where Are the Prospects?" comes the next question to be answered "How Shall We Reach The Prospect?"

Assuming that either the product or business is new, there should be a selling technique.

Ordinarily the best procedure is to develop a sales technique on a limited basis working experimentally as close at hand as possible to save expenses. Solving problems and correcting mistakes in the beginning as they occur will save much money and time.

Companies who turn a large force of salesmen loose selling a given product without an advance check-up of obstacles to be encountered, merely gamble on the ability of individual salesmen to work out solutions on the spot when they run up against the obstacle.

On the other hand, where the obstacles have been anticipated and logical ways of overcoming them decided upon, then the salesmen go out equipped at least to put up a fight when the obstacle pops up on a given call. This procedure should not really cramp the initiative of the particular salesman who may discover some better method of overcoming the obstacle than the company has heretofore determined.

One large candy account has been quite successful through not only having such a list of obstacles, which are carefully checked over by the entire sales executive staff, but also through revising this list periodically.

A list of all possible obstacles and means of overcoming

them should be incorporated in a sales plan and given to a salesman. If a man in the field has an obstacle thrown at him for which he has no answer—that would indicate poor headquarters sales direction.

For instance, a salesman had nearly sold three sound moving picture projectors to a customer when the customer asked the kind of current necessary to operate them. The projectors were built for alternating current only and should only be used on direct current through the means of a converter. Failure to provide for space for this converter in the original equipment made an extra piece of baggage which was a definite obstacle from the usage standpoint. This was poor sales planning.

First, be certain of facts to guide intelligent effort. There is not enough of this. Potential obstacles should be listed. Some may never come up. Nevertheless, it is better to have an answer to every obstacle in advance than to have one obstacle raised which the salesman cannot overcome.

To accomplish the most in this direction, it is wise to have a really critical attitude toward the disadvantages of the product or service as well as toward the advantages. Answer the questions:

1. Why should the prospect decline to buy or why should the prospect not buy as he sees it?
2. What is wrong with my proposition?

In making up the list of obstacles, it is important not to have to "rose color" a few points in which all defects are minimized, but rather to take a critical, neutral viewpoint. It is also important to make field tests to see what obstacles have been discovered, then find ways of getting around them. Obstacles, small or large, can kill sales. In certain cases, such as credit and factoring companies, the selling of specialized banking service depends more upon the sales plans of producers of commodities than upon any initiative they might take. An analysis of lost sales will often indicate that it is not the complete proposition that is wrong, but rather some *small* point or two which stand out in the mind of the prospective purchaser and take on a significance far out of proportion. Ability to analyze and overcome these obstacles merely paves the way for the main advantages to predominate.

An example lies in the experiences of the oil heater companies who have had a large number of minor points to overcome in the initial stages. The main point of uniformity of heat without effort on the part of the home owner was, of course, the big positive advantage. It was simply a case of providing logical answers for the smaller negatives which came up in the prospect's mind.

Many manufacturers of building materials permit their dealers to locate out of the beaten track, near the freight yard and wait for customers to come to them. Although the local dealer can usually switch the prospect to any merchandise, there is normally no attempt to sell the prospect on the need or desirability for building, repairing or renovating.

According to a leading drug company, the biggest key-stone in any sales policy is the consistency with which it is adhered to and tediously maintained against all aberrations, once it has been found to be sound. There are others who may disagree with this.

Caution must be exercised to maintain a sound and con-

servative course. The average tendency is to try to do everything at once. This multiplies costly mistakes.

IV. Developing the Prospect's Point of View

A salesman should think in terms of the other man's point of view—not necessarily his own. It is more important to get the prospect's point of view early in the game. Show the prospect his selfish interest can be benefited.

"Why should a prospect be interested in my product?" "What is he using now, and what are its weaknesses?" Often in listing the weaknesses of this present or possibly competitive product, the salesman will uncover enough ammunition to give a marvelous impetus to the selling advantages of his own item.

Again, individuals and companies differ. They do not all take the same point of view. They do not all have the same problems. What is that point of view? What are those problems?

While the questioning type of strategy on initial calls by salesmen may often develop no action on that particular call, it may very readily develop a fund of very valuable information for productive action which will benefit on the next call.

One large company instructs its salesmen to go out in the retail stores where the products of particular prospects are now being sold. They find from the conversation of dealers selling these products, weaknesses that can be translated into an effective selling message back in the prospect's office.

This procedure, of course, takes a certain amount of extra time in the beginning, but it saves a lot of time for the salesman later on in landing the account.

There is nothing more important in a sound sales plan than the complete and intimate understanding of the prospect's situation. A detailed knowledge of the individual business of the prospective customer is essential.

This involves a better understanding of the prospect's present attitude toward price and general business conditions. With the buyer's attitude ever-changing, this is important not only to new, but also, to old salesmen.

There should also be a complete understanding of the relationship of competitive commodities and services. This embraces not only direct competitors in the same materials, but also in different materials. A number of competing products outside the particular field are striving for prospect's dollars.

Above all, do not follow sales strategy dictated by a competitor rather than by logic. Just because a competitor makes a wrong move, do not follow suit.

Conclusion

In summing up, there have been discussed four main Fundamentals of Sound Sales Planning.

First, there was "*Relativities of Possible Markets.*" Here, the solution of the question "*Who Could Use This Product?*" was determined. The answer was based largely on thorough, current, competent industry consumer research.

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The Work of the International Chamber of Commerce in the Field of Distribution

THE INTERNATIONAL CHAMBER OF COMMERCE*

SUMMARY

The International Distribution Commission appointed by the International Chamber of Commerce in 1932 includes all the different categories of distributors, drawn from fifteen different countries. The so-called "independent" retail trade, department, chain and one-price stores, coöperatives, wholesaling, manufacturing, etc., are thus represented. It also includes representatives of the auxiliaries of Distribution, such as advertising technicians, market study experts, and specialists in organization. Economists and directors of research institutes complete the membership properly so-called. Various international organizations, both private and official, are also closely associated with the Commission's work.

The concrete subjects to which the Commission has chiefly turned its attention may be classified under three main headings: reduction of the cost of Distribution, improvement of statistics relative to Distribution, and market study and increased consumption. International inquiries are carried out into subjects of this nature—through the various National Committees of the Chamber and the "Coördinating Committees on Distribution" which have been set up by the National Committees in several instances—and the results of these inquiries are disseminated throughout the various countries, thus constituting an exchange of information and experience which furthers a better understanding of the problems of Distribution and of their practical solution.

To take an example, one of the principal points in the Commission's policy is that ways and means should everywhere be sought of enabling the less efficient enterprises to benefit by the methods of organization employed by the more efficient. The importance of such methods of scientific organization as budgetary control, sales control, stock control, the use of statistics in all other departments of management, and staff education has thus been widely emphasized. Again, information will shortly be disseminated on such systems as combine or group buying, voluntary chains, etc., which appear to enable the independent retail enterprises to obtain the benefits of centralization in purchasing, store arrangement, advertising, credit, etc., which seem to have contributed to the success of certain forms of centralized undertakings.

Material bearing both on the work which has been accomplished up to date and on the studies which are at present under way, whether under the auspices of the Chamber itself or by various other organizations in the different countries, with which the Chamber is in touch, is available to interested readers at the Chamber's World Business Information Centre.

THE interest of the International Chamber of Commerce in Scientific Management has constantly increased as it has carried forward its studies of the problem of Distribution. As the International Committee of Scientific Management has advanced in its activities it has taken a greater and greater interest in Distribution. Both organizations, each in its own way, are thus working towards the same goal.

The Headquarters of the Chamber have therefore been particularly glad to take the opportunity kindly offered them by the International Committee to provide delegates to the 7th International Management Congress with information on its International Distribution Commission. The following paper, however, necessarily presents only a brief general outline of this work; but Headquarters of the International Chamber of Commerce will be happy to supply details to anyone who may wish to have them.

Nor has it been attempted to deal in detail with what,

* Paris, France.

in a way, may perhaps be considered as the most important aspect of the Chamber's achievements in this field—the movement for the improvement of Distribution which its efforts would appear to have contributed towards creating and which, since the Chamber first took up the subject—at a time when it was still hardly realized, outside of one or two countries, that Distribution was one of the most urgent problems of the day—has gradually spread from country to country and is constantly gathering strength. Exhaustive material bearing both on the work which has now been accomplished and on the studies which are at present under way, either under the auspices of the Chamber itself or by various other organizations in the different countries, is available to interested readers at the Chamber's World Business Information Centre.

Origin

The work of the International Chamber of Commerce in the field of Distribution began in 1931 with its Washington

Congress. A series of reports presented on this occasion by the "Europe-United States" Committee, under the leadership of Mr. Alberto Pirelli, who was at that time President of the Chamber, included a special study of Distribution in these two areas. Prepared by Mr. L. Urwick, then Director of the International Management Institute at Geneva, as regards Europe, and, as regards the United States, by a sub-committee headed by Mr. F. P. Valentine, at that time Vice-President of the American Telephone and Telegraph Company, this report described, in the light of the available data, the different aspects of the distributive systems in the various countries dealt with and the principal changes they had undergone in recent years, and concluded that all the trends developed, whether in the United States or in Europe, appeared to focus on three essential needs:

"1. The allocation and evaluation of the potentialities of each local market for the consumption of goods, by commodity lines;

"2. The efficiency of retailing outlets in supplying them;

"3. The economic adjustment of all other distribution and production planning and activities to the efficient retailing of goods, in accordance with the effective demand which can be developed in each local market."

To cope with these needs, the report recommended a general plan of action based, on the one hand, on the co-ordination of individual efforts in each country, and, on the other, on some form of international co-ordination. On the basis of these recommendations, the Congress adopted a resolution which resulted in the Chamber's appointing a permanent body known as the "International Distribution Commission" and in the subsequent setting up, by the National Committees of the Chamber, of the local "Co-ordinating Committees," the function of which will be explained below.

Organization and Scope

The membership of the International Distribution Commission includes representatives of all the different categories of distributors, drawn from fifteen different countries—the so-called "independent" retail trade, department, chain and one-price stores, co-operatives, wholesaling, manufacturing, etc. It also includes representatives of the auxiliaries of Distribution, such as advertising technicians, market study experts, and specialists in organization.¹ Economists and directors of research institutes complete the membership properly so-called.

Various international organizations, both private and official, are also closely associated with the Commission's work. In the beginning, the Chamber was materially assisted in planning and starting the work of the Com-

¹ The Chamber has also set up recently a Committee on Advertising which works in close contact with the International Distribution Commission. Among the tasks assigned to this Committee on its formation was the preparation of the Code of Standards of Advertising Practice which was approved at the last Congress of the International Chamber of Commerce, in Berlin (June 1937), and is now in process of adoption in the various countries. This Code will be administered by the International Council on Standards of Advertising, created by the Chamber within the last few months, to which complaints of unfair dealing in advertising as affecting international transactions may be referred for consideration. (See Brochure No. 97.)

mission by the International Management Institute in the person of its Director, Mr. Urwick. The international organizations now represented, in addition to the International Committee of Scientific Management, are: League of Nations (Financial Section and Economic Intelligence Service), International Labour Office, International Statistical Institute, International Association of Department Stores, International Chain Stores Association, International Co-operative Alliance, International Federation of Retail Grocers, and International Federation of Importers' and Wholesale Grocers' Associations.

The Commission is seconded by the fifteen National Committees of the International Chamber of Commerce which are directly represented, several of which have constituted, or are at present arranging to form, the special "Co-ordinating Committees" to which reference has already been made and which are national bodies made up very much in the same way as the international body. It also enjoys the support of the other seventeen National Committees of the Chamber and of individual members of the Chamber in fifteen additional countries. It has thus become the centre of activities extending over forty-seven different countries.

As regards the scope of its studies, this may perhaps be best defined by quoting the definition of the term "distribution" adopted by the Commission at the outset: "Distribution covers the various activities and processes involved between the production of goods in final form for use and their delivery to and acceptance by consumers." It will be noted that this definition includes neither raw materials nor capital goods, and the efforts of the Commission have therefore been concentrated, up to the present time, upon what are currently known as "consumer goods."

Main Subjects Studied

Needless to say, a very great deal of spade work was required in the beginning before the Commission could get down to the matters of immediate, practical interest with which it is now dealing. It was chiefly necessary to arouse the interest not only of the public—and, in many cases, of distributors themselves—but of official and educational circles in Distribution regarded as an essential economic function. The efforts made in this respect took the form of resolutions—and more particularly those adopted at the biennial Congresses of the International Chamber of Commerce—articles in the press of the various countries, lectures, etc. This aspect of the work, indeed, continues as before, as will be seen at the end of this paper.

As regards the concrete subjects to which the Commission subsequently turned its attention, these may be classified under three main headings.

THE REDUCTION OF THE COST OF DISTRIBUTION

Taking the view that wherever the cost of Distribution was too high, it amounted—to quote the Commission's Chairman, Mr. Emile Bernheim—to "cancelling out the results of the technical progress achieved in production, at least as far as the community in general is concerned," the Commission has endeavored to point the way towards the necessary reduction. Its first effort in this direction was a popular brochure entitled: "Helping Retailers to Better Profits—The Comparison of Operating Costs"

(Brochure No. 86), showing how knowledge of and comparison with the operating figures of similar enterprises enables retailers to reduce their own costs. The author of this pamphlet, which was published in English, French and German, was Mr. Otto D. Schaefer, Vice-President and Technical Advisor of the Commission, who was at that time Director of the Reichskuratorium für Wirtschaftlichkeit.

There followed shortly—also in English, French and German—a brochure explaining the system of so-called "Standard Figures" and their practical usefulness in Distribution (Brochure No. 6 of the Paris Congress of the International Chamber of Commerce). This publication was also due to Mr. Otto D. Schaefer and constituted an introduction to a substantial handbook which was published later in German under the title of "Kennzahlen zur Handelsforschung," with the collaboration of the Forschungsstelle für den Handel beim Reichskuratorium für Wirtschaftlichkeit, on the basis of an original text prepared by Prof. Julius Hirsch.

Meanwhile, the Commission had decided to draw up a questionnaire which would enable the Chamber's National Committees and their Coördinating Committees on Distribution to undertake inquiries into the total costs of Distribution in the retail trade in their respective countries. Examples of what could be done along this line were supplied by the Committees in Italy and The Netherlands. Realizing, however, that conditions were not perhaps everywhere conducive to such inquiries and therefore to an international comparison of the total costs of retail distribution, instructive and urgent as these would have appeared to be, the Commission made a trial effort to compare particular kinds of costs internationally, viz., costs of stock-keeping and advertising. The results of this trial effort have led the Commission to prepare a campaign for rational accounting throughout the retail trade of the various countries, in the hope of making it possible ultimately not only to carry out complete inquiries in all the different countries but to compare the results of such inquiries internationally. The brochure which is to form the basis of this campaign is at present under preparation. Besides dealing with the matter of rational and uniform accounting, it will represent a fresh attempt to pave the way for the establishment of organizations for the comparison of operating costs in countries where these are still unknown.

The possibility is also being examined of convening special conferences for international exchanges of experience on the costs of Distribution and methods of operation among distributive enterprises of similar character. Still other work which the Commission is planning in connection with the question of the reduction of the cost of Distribution will be mentioned at the end of this paper.

THE IMPROVEMENT OF STATISTICS RELATIVE TO DISTRIBUTION

The essential importance of adequate statistics, both official and private, for the study of Distribution problems was realized by the International Distribution Commission early in its work. Its first step towards improvement in this field was to sponsor a report on the United States Census of Distribution, prepared and published on its behalf by the International Management Institute, for

the purpose of drawing the attention of both business men and Public Authorities to the value attaching to such Censuses and thus encouraging similar undertakings in other countries.

But in order to avoid defeating its own ends, which would no doubt have been the case had it asked too great an initial effort on the part of the various Statistical Bureaus, the Commission drew up a first list of the statistics which it regarded as an indispensable minimum. An inquiry carried out with the help of Mr. Ansgar Rosenberg, of the Secretariat of the League of Nations, resulted in the preparation of a table showing how far this minimum was available in the different countries. On the basis of this table, the National Committees and Coördinating Committees were asked to approach their Public Authorities and call their attention to the desirability of making these statistics available to business.

Subsequently, with a view to interesting business men in the practical usefulness of statistics and to creating a sufficient demand to induce the Public Authorities to give the matter adequate attention, a brochure entitled: "The Part of Statistics in the Business of Marketing and Distribution" (Brochure No. 97) was brought out. The author of this publication was Mr. F. C. Mitchell, Deputy Managing Director of the London Press Exchange, Ltd.

The interest aroused by these efforts in various quarters has encouraged the Commission to prepare a more complete list of the statistics which would be useful to the business community. The appearance of this list will constitute the next step in this campaign.

Meanwhile, no opportunity is lost of furthering the idea of Censuses of Distribution wherever possible. In fact, a first attempt at an international census of this character, prepared with the collaboration of the International Statistical Institute on the basis of an inquiry which the Commission carried out some months ago with the assistance of the Institute and the Secretariat of the League of Nations, will shortly be published under the title of "The Structure of Distribution in 28 Countries."

THE MARKET STUDY AND INCREASED CONSUMPTION

The principal object of the Commission's work on the question of statistics is to provide commercial and industrial enterprises everywhere with the material necessary for market study. For market study is regarded by the Commission as one of the essential instruments of modern Distribution, in that it enables distributors and manufacturers to "know how their trade is made up, what the reactions of the public are to their products, what are the real needs and desires of the consumer, and therefore the possibilities of developing the total volume of business done" (Resolution No. 4 of the Berlin Congress of the International Chamber of Commerce).

Reports on various aspects of this subject have been issued by the Commission and published in leading periodicals in various countries; and a brochure entitled: "Market Study—How to Make the Consumer into a Customer," by Mr. L. R. Coleman, Managing Director of the "Agence Thompson (France)" (J. Walter Thompson Company), was brought out by the Chamber on the occasion of its Berlin Congress (Brochure No. 5).

These documents have constituted the Commission's initial attempts to spread the idea of market study in

countries where it was practically unknown, and to explain its technique. The Commission is now examining ways and means of completing its work in this field, convinced, as it is, that in this case, as in others, where a vast amount of valuable material exists in certain countries, the principal service it can render is to place such material at the disposal of the other countries in a clear and convincing form.

Other Questions

In addition to these three main subjects, special reference should be made to a matter of general policy which has constantly engaged the Chamber's attention. In presence of the efforts made in various countries to restrict the development of the newer forms of distributive enterprise in order to protect certain other forms, the International Chamber of Commerce has always contended that there was ample room for all forms of distributive enterprise, and that the great complexity of modern economic life made them all both necessary and desirable. It has also combated what it considers as the mistaken belief that certain existing forms of distributive enterprise no longer correspond to modern conditions and must therefore disappear. In other words, its policy is to defend the freedom of trade and individual initiative.

At the same time, realizing that, in the struggle to keep afloat and withstand the competition of the more up-to-date and better informed undertakings, the enterprise which is out of touch with progressive ideas and left to its own devices has a depressing effect on the average efficiency which the distributive service offers to the public, the International Chamber of Commerce recommends that ways and means should everywhere be sought of enabling the less efficient to benefit by the methods of organization employed by the more efficient. The importance of such methods of scientific organization as budgetary control, sales control, stock control, the use of statistics in all other departments of management, and staff education has thus been widely emphasized.

In this same connection, largely on the suggestion of the late Edward A. Filene, who was one of the leading members of the International Distribution Commission, information will soon be broadly disseminated on such systems as combine or group buying, voluntary chains, etc., which appear to enable the independent retail enterprise to obtain the benefits of centralization in purchasing, store arrange-

ment, advertising, credit, etc., which seem to have contributed to the success of certain forms of centralized undertakings.

The dissemination of useful information is, as will have been observed throughout this paper, considered by the Commission to be one of the essential aspects of its activities. But, as is inevitable where economic problems are concerned, one of the great difficulties with which it has to contend is the psychological resistance which distributors often display where new ideas are concerned. It is not enough merely to recommend a new method or a new technique; distributors must be induced to make use of them. A fresh effort in this direction is about to be made by the Chamber: a series of model lectures and articles will be placed at the disposal of the presidents of distributors' and producers' associations of all categories with a view to enabling them to make known to their constituents all the various aspects of the policy adopted by the International Chamber of Commerce as regards ways and means of adapting the distributive machine to the conditions of modern economic life.

To supplement this work of education, the Commission is endeavoring to promote a general movement for more, and more complete, courses on Distribution in the schools and universities, as well as to make it possible for distributors and their personnel to improve their professional knowledge.

Lastly, as regards the spreading of information, the Chamber's World Business Information Centre has been equipped to deal with direct inquiries and, for example, to supply distributors on request with examples of the solutions to individual, concrete problems, which have been successfully carried out elsewhere in their own line.

The experience accumulated by the International Distribution Commission in exploring a field practically unlimited in scope and all too long neglected outside of pioneer countries like the United States, has enabled that body to confine its activities to matters which are essentially practical in character and to eschew purely academic or theoretical discussions. It well realizes that it still has a long path to tread before its work will be completed. And it looks to all those who, like the delegates to the 7th International Management Congress, have the betterment of the economic life of the Nations at heart, to support its work.

DISTRIBUTION

SESSION }
SITZUNG } II
SESSIONE }

Market Outlets and Trade Channels

Débouchés du Marché et Voies du Trafic

Absatzgebiete und Handelswege

Mercati di Sbocco e Correnti di Traffico

Market Outlets and Trade Channels

A Critique Prepared by
WILFORD L. WHITE,* *Rapporteur*

The papers which are to be discussed at this session are extremely stimulating, each one deserving thoughtful and thorough examination. They go directly to the roots of our economic order and challenge time-honored systems of commerce and trade.

Our economic order is based upon consumption—the consumer. Production of all kinds springs from the necessity for consumption, yet for generations and almost without exception, we have thought of industry and trade as moving from the fields, mines, and waters of the world through processing, manufacturing, and distributing institutions to the ultimate consumer. In fact, the consumer, until rather recent years, has been required to take what our economic order desired to produce for him.

It appears that we have given too much attention to things, to merchandise, to objects which could be traded at a profit, and not enough to human needs. And yet, every item of merchandise, every man-made thing which could be sold at a profit was preceded by an idea, and that idea was generated by a human need.

The gradual realization of this more fundamental point of view has brought new ideas, a conflict of methods, confusion. Out of this confusion will inevitably come a greater sensitiveness to consumer needs, more economical production and distribution costs, and an increase of real income for people living at each income level. That we are in the midst of this change today constitutes our problem. Points of view are at least three in number, those of: (1) the ultimate consumer who is gradually securing the upper hand and will eventually have his wants fulfilled in a manner satisfactory to himself; (2) the producer who, faced with a consumers' market, feels forced to follow the products of his labor beyond his own warehouse to the shelves of this ultimate consumer; and, (3) the business man, be he manufacturer or distributor, who in the past has dominated our economic order, who naturally resists any change, but who is trying to adjust his operations to the advantage of the final consumer.

Into this broad field has been injected, within recent years, a fourth point of view, that of a government which can represent either the collective points of view of the consumers or voters or which represents an end in itself into which consumers, producers, and business men, like all other units, must fit, irrespective of either the needs of the ultimate consumer or the desires of the business man.

As a result, distribution is exceedingly dynamic at the moment. It is based upon the needs of millions of individuals, needs which have never been satisfied even in those

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areas where real incomes have been the highest and the variety of goods and services the broadest. While these needs themselves do not change, the methods of satisfying them are constantly changed, the institutions which handle them are continually adjusted to meet new conditions, and final control of all the processes involved is moved from one to another group of individuals.

This constant change, which is going on before us and which we must understand thoroughly before we can set to solving the problems with which distribution is faced, expresses itself in a number of ways. First, is the change in style or taste. Superficial in many respects, it is of primary importance to business men in such fields as clothing, furniture, and foods. Although people must be clothed, equipped, and fed, there is a constant shifting back and forth in the attempts of the business man to catch the eye and the pocketbook of the consumer. The result has been the rise and development of modern selling and advertising.

Second, change is brought about because of the natural tendency for business either as a proprietorship, partnership, or even a corporation to start out as a vigorous youth, grow to manhood and then drop back into ineffective old age along with the managers of the business. This phenomenon seems to hold true generally of individual firms such as a manufacturer of cotton cloth, a wholesaler of hardware, or a retailer of groceries. It also holds true for types of institutions such as service wholesalers or chain systems.

A new company, a new industry, or a new institution starts with something new desired by the consumer, with the enthusiasm of youth, low costs, and narrow margins. Prosperity results. Instead of continuing the fight for the favor of the consumer, the management becomes self-satisfied. Costs increase and prices rise disproportionately. The time is then ripe for some new company, industry, or institution to enter the field, and experience tells us that almost invariably one is waiting, ready to be called.

Third, change is brought about by forces outside business itself. The objectives of a nation may be such that consumer, producer, and business organizations are eliminated and their duties taken over by the state. Distribution becomes a function of the state. Or, it may be decided by officials of the state that consumer coöperatives must give way to small independent distributors. Or, by this same method, large-scale distribution may be forced to give way to small-scale distribution. In many cases, the ultimate consumer is not consulted; in fact, his problems are often ignored.

Business men have given a great deal of attention to

style change; in fact, they have fostered and developed it as one means of competition, often without any material benefit to the consumer. They have given some consideration to the second problem presented by change, i.e., the rise and fall of individual firms or entire industries. The growth of the corporation is one result, into which new management can be injected continuously. Vertical combination is another, which permits the prime producers, through their own contact with the consumers, to know more about their wants and needs. A third is the use, by manufacturers, of consumer research in a serious effort to know the consumer mind, his likes and dislikes. Another method is to drop products no longer desired and to add new ones, even when a firm gradually moves away from one industry into another. Management, like labor, however, tends to hang on to the old, to distrust the new, and to hope for the good old days.

Within recent years, the third type of change has been presented to business, change forced on it by government through legislation or by edict. Business, used to having an important voice in government itself, has not found any solution for this situation except as it has turned to legislation itself for help. In the United States, as in some other countries, one sector of the business world has turned to legislation to protect itself from another portion of business. During the N.R.A. days, retailers wanted protection from wholesalers. Service or full-line wholesalers wanted their just margins protected from the forages of short-line wholesalers or manufacturers who desired to sell direct. High-cost manufacturers and distributors, who felt that they represented quality, wanted protection from the low-cost firms who were "price cutters." Since that time, the desire for legislative protection has expanded.

Whether or not national philosophy on this subject is finally influenced in any one country by the consumers, producers, small business men, bureaucrats, or dictators, that national philosophy will set the pattern, and there will be nothing which you or I can do about it. For this reason, I have entered into this long introduction, and I urge you to give much attention to these broader questions before you consider the more immediate problems which our subject presents.

A review of the six papers prepared for discussion at this Session from Germany, Switzerland, Sweden, Italy, and the United States not only illustrates the direction which each country is taking to solve some of the questions raised above, but indicates the common problems in which all of us are interested personally. These papers clearly indicate that in all countries there are similar problems, such as: (1) Difficulty in securing facts, although in some of the totalitarian nations this problem no longer appears to exist; (2) Common definitions acceptable to all; (3) Variety of channels for the movement of the same goods from producer to consumer; (4) Distinction between the functions performed by manufacturers, wholesalers, and retailers; (5) Distinction between the functions performed by different types of manufacturers, by different types of wholesalers, and by different types of retailers; (6) Tendency for distribution to take about the same proportion of the consumer's dollar, irrespective of the country in which the consumer lives; and, (7) Tendency for distribution costs from decade to decade to take a larger share of the consumer's dollar.

Market outlets and trade channels have no value in themselves; they serve as a means to an end, and that end is the movement of goods and services from points of production to points of consumption as fully, quickly, efficiently, and economically as possible.

In laying these factors before ourselves, we must first decide which point of view we are going to accept—that of the state, the business man, the producer, or the consumer. Our basic philosophy determines our answer because in Germany and Italy, it is the state which dominates; the consumer, producer, and business man must rationalize their position and accept that which the state decides best meets the needs of the state. In Switzerland, and in England and France, too, if we had papers reflecting attitudes in those countries, the point of view of the small business man is advanced as it is in one paper prepared in this country. In Sweden, a compromise is sought between consumer, producer, and the business man. The sixth paper, also written in the United States, defends large-scale distribution as most efficacious for the consumer.

If a state operates the economic institutions within its borders, the entire subject becomes a matter of political science, not of economics. By edict or legislation, consumers are told what they can have, when they can expect to get it, how they can get it, and for what price, in terms of labor or money, they may have it. Market outlets and trade channels are of no significance under these circumstances. The question is: To what extent the commercial nations are apt to move in this direction.

Next, consider the producer. Agricultural coöperation, as developed in the paper of Mr. A. H. Stensgard of Sweden is an outgrowth of the idea that the producer or farmer needs control over his products beyond the point of production if he is to receive a reasonable price for his labor. This prevalent idea further emphasizes the basic fact that the ultimate consumer is the motivating element in our economic order, and those institutions, like the producer and manufacturer, which are farthest from the consumer are at the greatest disadvantage. For that reason they feel forced to reach out to the consumer by continuing some control over their products or by conducting consumer advertising campaigns to gain recognition for these goods at the point of consumption. The business man calls this "push" and "pull" sales efforts. This basic fact must be kept in mind in planning any "perfect" channel of distribution.

Coupled with this concept is the idea that because the producer or farmer puts a seed in the ground and it is later harvested as wheat, he has done more than the manufacturer who converted that wheat into flour or the distributor who transported the flour from the mill to the retail store where it was stored until a consumer called for it. I fail to see any important distinction or any need for any preferential treatment.

The business man himself, whether manufacturer or distributor, whether found in Switzerland or the United States, argues himself into a somewhat similar position. He has certain very definite costs which must be covered. He must make a certain mark-up. And he must be protected from the large fellow, the price cutter, or the fellow who handles another line but who carries a few competing products. He seeks protection of one kind or another,

irrespective of the current effect upon the consumer or the consumer's attitude.

Which leaves us with the consumer. Who is he? How does he differ from the others? After all, the bureaucrat, the producer, the manufacturer, and the distributor are all consumers. Add to them the mass of governmental employees, laborers, white-collar workers, and professional people, and you have The Consumer. Can we expect him to be more altruistic than the others when considering control of the channels of distribution? No, because he wants to spread his income over as many goods and services as possible. He is not concerned with the labor or money cost which has gone into anything which he purchases as a consumer, unless as a producer he helped make it.

Consumer control of trade channels would not necessarily produce any better results for all concerned because most consumers must be producers and their real income as producers conditions their importance as consumers. As soon as an individual consumer has to depend upon another for any item of consumption, distribution channels are involved. Specialization in the use of land, labor, capital, and management sets in. After that point is reached, the "rights" of an increasing number of people are involved, and the economic processes become more and more complicated. Adjustments must be more delicate in character, and maladjustments become more common.

It is obvious that the consumer cannot alone act as his own distributor. The practical question is, therefore, who should he or who will he elect or pay to perform this function for him? He might elect a Commissar or Secretary of Distribution and thus control the distribution channels; he might hire a manager and thus control *and* own the distribution institutions; he might join forces with either one or both of two minority groups and be served by producers, business men, or both.

It is probably obvious that the consumer would be tempted, particularly by those he elects or hires, to choose one or both of the first two methods which would give him control, ownership, or both. But the degree of this temptation will depend at all times upon the producers and business men and the manner in which they conduct their producing and distributing, as well as upon the consumer himself.

We have no right to assume that all consumers will act alike. Within any selected group there will be some who will insist upon asserting their "rights," while others will be perfectly willing to pick and choose from what is offered. These differences between individuals can be seen as

differences between nations. In those states, however, where the consumer still has some choice in this matter, it must be assumed that the majority will establish the pattern and the minorities will work out their own ideas to the best of their several abilities.

From the point of view of the business man, the question becomes one of determining what the consumer wants and how to act after studying the results. Finding out what the consumer wants, a subject which is barely touched upon in these 6 papers, every one of which was concerned with questions vitally affecting the consumer, is what we call consumer research and can be carried on by business houses themselves or by professional organizations, the personnel of which is trained in this particular type of service. It means multiplying these wants by the people found in each market, classifying them according to their income levels, modifying these markets with the local buying habits, and measuring the whole through the distributing facilities available. If the consumer is given what he wants, think of the economies which can be made and the income which will be released for the purchase of other articles of consumption.

Having taken this first step successfully, and it will not prove to be an easy one, the second is to prove to the entire satisfaction of the consumer that he is being as fully, quickly, efficiently, and economically served as is possible under any channel of distribution; this is a matter of consumer education. Consumer coöperatives in many countries have lead the way in this direction. Business men have been unusually negligent. Just as often as not, when they do start they use some quasi-sincere technique or attempt to subsidize some consumer agency. At times it seems that business men cannot quite relinquish the hope that some day a sellers' market will return and the distributor can again exercise his prerogatives of 25 or 50 years ago. I hope that these last two points will be amplified with examples given by members of the audience in the subsequent discussion.

In discussing market outlets and trade channels, I am firmly convinced that we as business men should start our discussion with the consumer, his wants, how to satisfy them, and convince the consumer of our ability to continue to do so more economically than others. Then and only then, will outlets or trade channels remain open to us indefinitely.

Gentlemen, as I understand my function at this meeting, it is to stimulate your thought on the subject assigned, either through agreement or disagreement. The extent of my success will, in part, be measured by the discussion which follows.

Die Arbeiten Der Rationalisierung In Der Deutschen Absatzwirtschaft 1935–1937

EIN GEMEINSCHAFTLICHER BEITRAG*

SUMMARY

The economics of distribution comprise those steps which have to be taken in connection with an item of merchandise between the time when it is made and the time when it finally reaches the consumer. Both manufacturers and dealers are actors in this drama.

To rationalise the processes of distribution successfully, each step must be taken in conformity with business efficiency and with the social rights of private enterprise and national economy. Only such activities as fulfill the foregoing requirements can find a place in a sound plan of distribution economy.

The price of an item of merchandise has to include the cost of distribution as well as the cost of production plus a legitimate profit. Recent developments in the science of cost accounting, and analyses of those functions common to major types of business have facilitated exact determination of cost wherever incurred and so paved the way for the advent of a planned distribution economy. In consequence, individual business enterprises are better able to-day to erect sound price structures, and the tasks confronting directors of marketing are simplified.

Die Aufgabe der Rationalisierung der Absatzwirtschaft

Die Absatzwirtschaft umfaßt den gesamten Weg der Ware vom Hersteller zum Verbraucher, ihre Träger sind Hersteller und Händler. In der Absatzwirtschaft Vernunft durchsetzen, sie rationalisieren, heißt, die Arbeit ihrer Organe so einzurichten, daß sie allen.

Anforderungen technischer, privatwirtschaftlicher, volkswirtschaftlicher und sozialer Natur genügt. Nur solche Glieder, deren Leistungen zur Erfüllung dieser Anforderungen *nötig sind*, haben in einer richtig geordneten Absatzwirtschaft Raum. Der Teil des Gesamtproduktes, der die aus diesen Leistungen erwachsenden Kosten abgibt und einen zu volkswirtschaftlich fruchtbarer Kapitalbildung nötigen Gewinn errechnen läßt, ist den Organen der Absatzwirtschaft als Spanne am Gesamtpreis der Produkte zuzubilligen. Die Unterrichtung darüber, welche Leistungen und Kosten nach dem Stande der wirtschaftlichen Erkenntnis der Gegenwart als nötig anzuerkennen sind, wird heute den einzelnen Betrieben

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Otto D. Schaefer, Vizepräsident des Ausschusses für Absatzwirtschaft der Internationalen Handelskammer, Berlin.

Dr. F. Hayler, Leiter der Wirtschaftsgruppe Einzelhandel, Berlin.

Dr. E. Hotz, Hauptabteilungsleiter im Reichsstand des Deutschen Handwerks, Berlin.

Dr. Th. Buddeberg, Vorsitzender des Deutschen Ausschusses für Absatzwirtschaft der Deutschen Gruppe der Internationalen Handelskammer, Bielefeld.

Deutschland.

der Absatzwirtschaft, ihren jeweiligen Partnern bei Verhandlungen über Preise und Rabatte, ihren Berufsvertretungen und den Aufsichtsbehörden der Marktwirtschaft erleichtert durch die Fortschritte des *Betriebsvergleichs*, der *Betriebsuntersuchungen* und des ihnen zugrundeliegenden Rechnungswesens der Betriebe.

Die Formen der Rationalisierung

Der Mannigfaltigkeit der Aufgaben entsprechen Umfang und Gliederung der zu leistenden Arbeiten. Schon in früheren Jahren hat das Reichskuratorium für Wirtschaftlichkeit in seinen Untersuchungen industrieller und wirtschaftlicher Betriebe Leistungen und Kosten des *Vertriebs* zu erfassen gesucht. Die Vertriebskosten wurden den jeweiligen Kostenträgern als Gemeinkostenanteil zugerechnet. Anfang 1936 hat das Reichskuratorium diejenigen wissenschaftlichen Institute Deutschlands, die sich der Erforschung der Absatzformen insbesondere widmeten, und die an der Absatzpraxis interessierten Gruppen der gewerblichen Wirtschaft (Reichsgruppen Industrie, Handel und Handwerk) zu einem *Reichsausschuß für wirtschaftlichen Vertrieb*¹ zusammengeschlossen. Die Untersuchungen der Institute brachten insbesondere im Bereich des *Warenhandels fortschreitende* Aufklärung über Gefüge und Leistungen, über Umsätze, Kosten und Erträge von Zweigen und Betriebsformen des Großhandels und des Einzelhandels. Auf dem Gebiet industrieller und handwerklicher Absatzpolitik wurden die Ergebnisse der Absatzforschung im ersten Abschnitt der Arbeit 1935/37 bisher in erster Linie den unmittelbar beteiligten *Betrieben* dienstbar gemacht, Veröffentlichungen über Methode und Ergebnisse stehen im Augenblick der Abfassung dieses Berichtes (April 1938) bevor.

¹ Vgl. "Ein Jahr RWV" von Dipl. Volkswirt W. Fleck, RKW-Nachrichten, 11. Jahrg., H. 6, September 1937.

DIE INDUSTRIE

In der Industrie führte das *Institut für Wirtschaftsbeobachtung der deutschen Fertigware in Nürnberg*² in zunächst elf Zweigen der Verbrauchsgüterindustrie Untersuchungen der Absatzverhältnisse durch. Gegenstand der Erforschungen waren die Leistungen, die zum Absatz der Waren in den untersuchten Zweigen vollbracht wurden, ihre Verteilung auf Hersteller und Handelsstufen und ihre Kosten.

In allen diesen Funktionen wurden wesentliche Unterschiede je nach der Natur der einzelnen Produktionszweige und nach den Typen von Produktion der einzelnen Betriebe festgestellt. Bei reinen Verbrauchsgütern sind die letzten Kunden der Fabrikanten andere als bei Produktionsmitteln und Arbeitsmitteln gewerblicher Betriebe. Im ersten Falle ist die Fabrik für den größten Teil ihrer Produktion auf den Absatzweg über den Großhandel angewiesen, andere Teile setzt sie an Einkaufsverbände von Fachgeschäften des Einzelhandels, an Warenhäuser, Einheitspreisgeschäfte und große Fachgeschäfte unmittelbar ab. Neben dem Verkauf auf dem Inlandsmarkt steht die Ausfuhr, die unmittelbar durch den Hersteller, durch selbständige Ausfuhrhändler oder durch Kommissionäre erfolgt. Produktionsmittel werden zum großen Teil an die Abnehmer in Industrie, Handwerk und Handel unmittelbar abgesetzt. Für die einzelnen Warengruppen sind die Absatzfunktionen sehr verschieden.

Die bisherigen Untersuchungen des Instituts für Wirtschaftsbeobachtung der deutschen Fertigware haben über mannigfache Wege des Absatzes, namentlich von Verbrauchsgütern, Klarheit geschaffen. Über die *Kosten* konnte bisher nur in einem umgewogenen Durchschnitt ein vorläufiges Ergebnis aus den untersuchten Betrieben gewonnen werden. Es zeigte in diesem Rahmen vorläufig, daß auf je RM 100,—abgesetzter Ware etwa RM 24,—an Vertriebskosten des Herstellers entfielen.

Besondere Bemühungen mußten aufgewandt werden, um das *Rechnungswesen* so gut zu entwickeln, daß es die Kosten des *Vertriebs* gesondert von den Kosten der Herstellung und der allgemeinen Verwaltung der Betriebe deutlich erkennen ließ. Die Arbeit des Instituts für Wirtschaftsbeobachtung der deutschen Fertigware ging in erster Linie dahin, die unmittelbar aus dem Vertriebe entstehenden Kosten und die auf ihn entfallenden Anteile *allgemeiner* Kosten (besonders der Verwaltung und der Steuern des Gesamtbetriebes) zu erkennen. Im Laufe der Arbeit wurde der Fragebogen des Instituts für Wirtschaftsbeobachtung der deutschen Fertigware dahin erweitert, daß er neben diesem Einblick in die *Struktur* des Vertriebs auch die Grundlagen einer *Kalkulation* der Vertriebsleistungen schaffen kann.

DER HANDWERK

Im Handwerk untersuchte das *Handwerks-Seminar*,³ jetzt an der Universität in Bonn, in fünf Zweigen Art, Umfang und Kosten der Vertriebsleistungen. Die untersuchten Zweige mit etwa 60 Betrieben waren im Hinblick auf den Zweck dieser Untersuchung sehr verschieden geartet. Bei Bäckern und Fleischern tritt neben eigener

² Vgl. "Vertriebsuntersuchungen in der Industrie" von Dipl. Ing. Dr. oec. Erich Küspert, RKW-Nachrichten a. a. O.

³ Vgl. "Vertriebskosten im Handwerk" von Prof. Dr. K. Rößle, RKW-Nachrichten a. a. O.

Herstellung und Bearbeitung auch der Vertrieb von industriell hergestellten Gütern, z. B. von Markenartikeln hervor. Das Malerhandwerk ist dagegen ein reines Leistungsgewerbe, bei dem ein Vertrieb sich im wesentlichen nur in Vorbereitung und Abschluß von Verträgen erkennen läßt. Die vom Handwerks-Seminar in die Betriebe entsandten Prüfer, die den Verhältnissen des Handwerks durchweg aufgrund eigener Anschauung näher standen, suchten in eingehenden Aussprachen mit den Handwerksmeistern zu ermitteln, in welchen geschäftlichen Vorgängen besondere *Vertriebsleistungen* zu sehen seien. Insgesamt haben die bisherigen Untersuchungen ergeben, daß eine einheitliche *Werbung* mit kaufmännischen Mitteln, sowie Inseraten oder Katalogen, in Handwerksbetrieben die *Ausnahme* bildet. Das Vorhandensein von Schaufensterauslagen freilich zeigt, daß die hier untersuchten Betriebe des Handwerks, namentlich Bäcker und Fleischer, über Umfang und Charakter der geschichtlichen Stufe der Kundenproduktion hinausgewachsen sind und eine Produktion für den unbekanntenen Kunden betreiben. Durch diese Erweiterung des Absatzbereiches haben die rein absatzwirtschaftlichen Probleme, wie die Lagerhaltung in Fertigwaren, die Führung von Verkaufsgesprächen und in einigen Betrieben auch die direkte Werbung durch Anzeigen u. a. an Bedeutung gewonnen. Die *Unterschiede*, die gerade in der Intensität der Absatzförderung zwischen den einzelnen Typen von Handwerksbetriebe bestehen, zeigten sich deutlich in der Entwicklung der *Kosten*. Nach den bisherigen Ergebnissen ist ein Anteil der Vertriebskosten an den Gesamtkosten anzunehmen, der mindestens 10%, vielfach aber bis zu 30% beträgt.

Die Erfassung der Kosten wurde durch erhebliche Lücken in der *Buchführung* der meisten untersuchten Betriebe behindert. Für die vollständige Berechnung der Kosten wurde Wert darauf gelegt, daß die Handwerker neben den *Ausgaben* an Mitarbeiter und betriebsfremde Gläubiger auch die kalkulatorischen Posten (Unternehmergehalt, Mietwert eigener Geschäftsräume und Zins für Eigenkapital) berechnen lernten. Das Rechnungswesen des Handwerks im besonderen hat hierdurch eine wesentliche Förderung erfahren, daß die gesetzliche Berufsorganisation (Reichsstand des deutschen Handwerks) eine *Buchführungspflicht* für Handwerker angeordnet hat.

Über die Ergebnisse dieser Untersuchungen wird in der nächsten Zeit ein erster Bericht veröffentlicht werden.

FORSCHUNGSARBEITEN UND IHRE ANWENDUNG IM HANDEL

Im Bereich des Warenhandels wird die Rationalisierungsarbeit wissenschaftlich getragen von einem Institut, das dem Reichskuratorium für Wirtschaftlichkeit angehört, der

Forschungsstelle für den Handel. Die Arbeit baut hier auf einem *Betriebsvergleich* auf.

Der Betriebsvergleich soll den Betrieben Anleitungen zu wirtschaftlicher Arbeitsweise geben. Er stellt ihnen in regelmäßiger Wiederkehr vor Augen, mit welchen Aufwänden sie selbst ihre Leistungen bewirkt haben, und wie dieses Verhältnis bei vergleichbaren anderen Betrieben gestaltet war. Zur Bildung eines wirtschaftlichen Urteils wird nicht allein die *Höhe* der Aufwände, sondern ihre *Zusammensetzung* und ihr Verhältnis zur Höhe des Umsatzes dargestellt. Dem Umsatz werden die Auf-

wände für die Warenbeschaffung und die Kosten für die eigenen Leistungen des Betriebs gegenübergestellt. Als Kostenarten werden Mietkosten, Personalkosten und die übrigen Kosten in einer Summe erfragt. In den meisten Fällen werden noch die Kosten für Steuern, Zinsen, Werbung und Abschreibungen gesondert ermittelt. In großhandelszweigen werden insbesondere die Kosten für Reisende und Sachaufwände für den Fuhrpark festgestellt. Verschieden weit geht die Erfragung von Bürokosten und Beiträgen. Neben den *Ausgaben* werden auch die kalkulatorischen *Kosten*, das Unternehmiergehalt und der Mietwert eigener Geschäftsräume, ermittelt. Zu diesen kurzfristigen Feststellungen tritt die Erfragung derjenigen Kostenarten, die nur in *Jahresrechnungen* ermittelt werden können, wie die Zinsen für Eigenkapital und die Abschreibungen auf Geschäftseinrichtungen und auf Außenstände.

Die Beträge für die einzelnen Kostenarten sollen unmittelbar aus der Buchführung in die Fragebogen der Forschungsstelle für den Handel übertragen werden können. Ihre Zusammenfassung nach *Kostenstellen*, auf die die einzelnen Kosten entfallen, ist insoweit möglich, wie ein klarer Zusammenhang im Betriebsgange erkennbar ist. Ein Großhandelsbetrieb kann also z. B. seine Ausgaben für Gehälter, Provisionen und Tagelöhner von Reisenden mit Anteilen an den Gehältern von solchen Angestellten, die nur zeitweilig reisen, sowie mit Anteilen an den Sachaufwänden für seinen Fuhrpark zur Kostenstelle *Reise* zusammenfassen. Dagegen ist eine Aufteilung der Kosten auf andere grundlegende Betriebsvorgänge wie insbesondere *Einkauf* und *Verkauf* bei der engen Arbeitsverbundenheit in den meisten Mittel- und Kleinbetrieben des Handels im Wege des *Fragebogenverfahrens* nicht durchführbar, sondern kann nur bei eingehenden *Betriebsuntersuchungen* und persönlichen Befragungen gelingen.

Um die *Entstehung* der Aufwände ursächlich klarzulegen, werden die ihnen zugrundeliegenden Tatsachen und Verhältnisse erfragt. Dazu dient in erster Linie die Gliederung der Betriebe in die Stufen des *Großhandels* und des *Einzelhandels*, sowie in deren einzelne *Fachzweige*, sie wird dem organisatorischen Aufbau der gewerblichen Wirtschaft entnommen. Speziellere, ursächlich aufschlußreiche Merkmale sind insbesondere die *Warenkreise*, der *Anteil technischer Arbeiten* am Umsatz, die Zusammensetzung des *Abnehmerkreises* und die Anteile von *Bar- und Kreditverkäufen*.

*Gang der Arbeit der Forschungsstelle für den Handel.*⁴ Im einzelnen soll der Betriebsgang durch folgende Gegenüberstellungen der verschiedenen Werte aufgehellt werden: die *Wareneingänge* werden dem Umsatz gegenübergestellt, im Großhandel erfaßt man auch die Beträge der Lieferantenrechnungen. Aus dem Verhältnis der Umsätze zu den Zahlen der Kassenzettel ist zu entnehmen, wie die Gesamtumsätze eines Betriebes aus den Einkäufen der einzelnen Kunden entstehen. Aus diesen Elementen und aus der Zahl der Mitarbeiter des Betriebes baut sich der *Umsatz je beschäftigte Person* auf, er zeigt an, welcher Leistungswert aus der Tätigkeit der einzelnen Beschäftigten zur *Deckung der Aufwände* erzielt wird.

Lagerbewegungen und Umschlagsgeschwindigkeit des

⁴Vgl. "Wirtschaftlichkeit im Handel," RWK-Nachrichten, 1. Jahrg. H. 11/12, 1936.

Warenlagers zeigen die Lagerdauer der Waren und den Rhythmus, in dem das im Lager angelegte Kapital wieder eingebracht wird. Diese Feststellung zeigt den verschiedenen Grad der Kapital- und insbesondere der Kreditbedürftigkeit von Betrieben und Geschäftszweigen an. *Vermögen und Schulden*, Fremdkapital und Eigenkapital, Außenstände und Lieferantenschulden werden in Prozenten des Umsatzes erfaßt, sodaß man sie auch untereinander vergleichen kann. Bei dieser Feststellung arbeiten jetzt die Forschungsstelle für den Handel und das Statistische Reichsamt zusammen. Im Jahre 1936 hat die Forschungsstelle für den Handel erstmalig *Roherträge* und ihr Verhältnis zu den Kosten für eine Reihe von Einzelhandelszweigen ermittelt und auch im Großhandel damit begonnen.

Neben dieser Darstellung der *Struktur* der Betriebe und Handelszweige wird die *Entwicklung* der Umsätze, Personalleistungen, Lagerbewegungen, Bilanzwerte und Kosten seit dem Vorjahr sowie seit dem Tiefpunkt der Wirtschaftslage im Jahre 1933 ermittelt und in Berichten dargestellt.

Die Durchführung dieser Befragungen stellt erhebliche Anforderungen an das *Rechnungswesen* der beteiligten Betriebe. Mit der regelmäßigen Durchführung und allmählichen Erweiterung der Erhebungen hat die Forschungsstelle für den Handel vielen Betrieben deutliche Hinweise darauf gegeben, welche Aufzeichnungen nötig seien, um die von ihr gestellten Fragen beantworten zu können. An dieser Befragung gewannen die Betriebe im Verlauf der Arbeit selber ein wachsendes Eigeninteresse. Seit 1935 sind im Einzelhandel und im Großhandel von den Wirtschaftsgruppen Kontenpläne veröffentlicht worden, die in die Praxis der angeschlossenen Betriebe eingeführt werden. Der Betriebsvergleich hat diesen Bestrebungen bei vielen Betrieben praktisch vorgearbeitet. Ein endgültiger Kontenrahmen für den Großhandel ist durch Anordnung des Leiters der Wirtschaftsgruppe Groß-, Ein- und Ausfuhrhandel für alle Großhandelsbetriebe für verbindlich erklärt worden.

Die Aufstellung von *Richtzahlen und Kennzahlen* zeigt den Kaufleuten, welche Leistungsergebnisse und welche Kosten mit einer bestimmten Erstreckung des Geschäftsbereichs erfahrungsgemäß verbunden sind. Ein Eisenwarenhändler z. B., der die Aufnahme von Glas- und Porzellanwaren in sein Warenlager erwägt, um dadurch Saisonschwankungen seines Umsatzes zu mildern, kann aus den Berichten erkennen, daß in dieser Abteilung geringere Umsätze je beschäftigte Person und höhere Kostenanteile zu erwarten sind, als in seinem bisherigen Geschäftstypus.

Diese Arbeit schließt im Großhandel und im Einzelhandel die Kaufleute zu einer neuen Art von *Gemeinschaft* zusammen, in der sie ihre selbständige Unternehmerfunktion keineswegs aufgeben, sondern *bewußter* ausüben sollen. Am Betriebsvergleich nehmen jetzt etwa 5800 Großhändler und etwa 7000 Einzelhändler teil. Sie setzen sich zusammen aus Betrieben fast aller Zweige des Absatzgroßhandels mit Fertigwaren seit 1935 und auch eines wachsendes Ausschnittes des *Produktionsverbindungshandels*. Aus- und Einfuhrhandel sind nur insoweit beteiligt, als manche Betriebe des Großhandels Binnen- und Außenhandel miteinander verbinden. Vom Einzelhandel sind nunmehr alle Zweige des *Fachhandels* am

Betriebsvergleich der Forschungsstelle für den Handel beteiligt.

Noch oft werden Zweifel an der vollständigen *Beweiskraft* der Ergebnisse des Betriebsvergleichs laut. Ihnen ist dahin recht zu geben, daß der Kreis der mitarbeitenden Betriebe noch manche *Lücken* aufweist. Dem Betriebsvergleich fehlt bisher noch namentlich eine genügende Beteiligung von Betrieben der *kleinsten* Größenklasse. Freilich sind in den meisten Zweigen Betriebe beteiligt, die unter der durchschnittlichen Umsatzgröße des Zweiges liegen.

Die nächsten Arbeiten der Forschungsstelle für den Handel werden einer Durchführung *regionaler* Betriebsvergleiche, besonders zur genaueren Ermittlung von *Standort-einflüssen*, ferner der genaueren Erfassung der *Saisonschwankungen*, besonders im Einzelhandel, und der Vervollkommnung der Berechnungen von *Rohund Reinerträgen* dienen. Der Kaufmann, der Roherträge eines Handelszweiges und seiner einzelnen Gruppen mit ihren verschiedenen Warenkreisen kennenlernt, wird dadurch zu kritischem Nachdenken über die *Preisspannen* der einzelnen Waren angeregt, aus denen der Rohertrag entsteht. Der Betriebsvergleich in seiner bisherigen Anlage diente in erster Linie dazu, den Betrieben ihre Belastung mit Kosten⁵ zu *zeigen* und *ursächlich zu erklären*, um sie zu höherer Wirtschaftlichkeit anzuleiten. Künftig soll der Betriebsvergleich durch diese Hinweise auf Unterschiede der einzelnen Kostenträger den Kaufmann näher an die richtige Art des *Kalkulierens* heranzuführen.

FORSCHUNGSARBEITEN ANDERER INSTITUTE⁶ AUF DEM GEBIETE DES HANDELS

An der wirtschaftlichen Erforschung des Warenhandels haben neben der Forschungsstelle für den Handel beim Reichskuratorium für Wirtschaftlichkeit auch andere Institute teil.

Regelmäßige Arbeiten auf diesem Gebiet werden vom *Statistischen Reichsamt* und vom *Institut für Konjunkturforschung* geleistet. Das Statistische Reichsamt ermittelt in der Hauptstatistik fortlaufend die Umsätze einer größeren Zahl von *Einkaufsverbänden* des Einzelhandels und des Handwerks sowie von Betrieben des *Lebensmitteleinzelhandels*. In der Steuerstatistik untersucht es in einer Reihe von Zweigen des Großhandels und des Einzelhandels Merkmale steuerlicher Leistungsfähigkeit.

Das Institut für Konjunkturforschung untersucht Umsätze, Beschäftigtenzahlen, Lagerwirtschaft und Kosten der *Warenhäuser* und *Kaufhäuser* sowie die Verhältnisse der *Versandgeschäfte*. Die Gesamtheit der regelmäßigen Untersuchungsergebnisse über die Umsätze des Ladeneinzelhandels wird in monatlichen Berichten verwertet, die seit 1936 von der Forschungsstelle für den Handel und dem Institut für Konjunkturforschung gemeinsam veröffentlicht werden.

⁵ Vgl. "Die Kosten des deutschen Einzelhandels von 1930-1935," Schriftenreihe der FfH, Neue Folge Nr. 1, 1937.

⁶ Vgl. "Gemeinschaftsarbeit in der Erforschung des Warenverkehrs von Industrie, Handel und Handwerk," von Dr. J. Tiburtius, Schriftenreihe herausgeb. vom Verband Deutscher Dipl. Kaufleute e. V., Bd. 4, 1937.—"Rationalisierung im Einzelhandel" von Dipl. Kfm. Fr. Prieß, Schriftenreihe der FfH, Neue Folge Nr. 2, 1937.—"Der Großhandel im Blickfeld unserer Zeit," von E. v. Sellner, Bd. 1 der Studien zur neuen deutschen Wirtschaft. Berlin, 1936.

Neben diesen laufenden Gesamtuntersuchungen der Handelswirtschaft stehen *einzelne Forschungsarbeiten*, die der Rationalisierung auf wichtigen Teilgebieten dienen, so besonders des *Einzelhandelsinstituts in Köln*, des *Professors Lampe in Freiburg i. Brsg.*, der *Konsumforschungsgesellschaft e. V. in Nürnberg*.

ZUSAMMENFASSUNG

Diese kurze Zusammenfassung wird die Frage auflösen, in welchem Maße die *Praxis* bei den hier geschilderten Untersuchungen und bei der Verwertung ihrer Ergebnisse zu ihrem Recht kommt. Sie ist an diesen Arbeiten in verschiedenen wichtigen Abschnitten maßgebend beteiligt.

Praktischen Nutzen gesamtwirtschaftlicher Art hat die Zusammenarbeit von Instituten und Gruppen der gewerblichen Wirtschaft schon bei der Vorbereitung der *gewerblichen Betriebszählung von 1939* stiften können.

In der Zusammenarbeit im Ausschuß für Absatzwirtschaft bei der *Internationalen Handelskammer* hat der Reichsausschuß für wirtschaftlichen Vertrieb beim Reichskuratorium für Wirtschaftlichkeit dafür sorgen können, daß die deutschen Arbeiten auf diesem Gebiet zur Kenntnis der Vertreter der anderen Länder kamen, und daß die deutsche Absatzwirtschaft Erfahrungen anderer Länder besonders in der Marktanalyse und in der Werbewirtschaft sich zu eigen machen konnte.

Ausblick auf die Rationalisierungsarbeit des Staates und der Gruppen

Drei wesentliche Ziele sind in dieser Arbeit zu erkennen:

- I. Die Absatzförderung der *Verbrauchsgüterindustrie*, deren Aufstieg in der Gesamtbewegung seit 1933 in Deutschland später einsetzte und langsamer fortschritt als der der Produktionsmittelwirtschaft.
- II. Die Erhaltung eines möglichst stabilen *Preisstandes* der wichtigsten Lebenshaltungsgüter.
- III. Die Betonung der Wichtigkeit des *Fachgeschäfts* im Einzelhandels und des Fachhandwerkers.

Der tiefste Eingriff der staatlichen Wirtschaftsführung geschah beim Einzelhandel. Das *Einzelhandelsschutzgesetz* hat in den Jahren 1934 ff die innere Wandlung erfahren, daß in den Vordergrund die Anforderungen an die *Sachkunde* und *moralische Zuverlässigkeit* an Personen gestellt wurden, die ein Einzelhandelsgeschäft begründen oder übernehmen wollten. Die Handelsforschung kann die zulassenden Behörden darüber unterrichten, auf welche Warenkreise sich die Kenntnis eines Einzelhändlers in den einzelnen Fachzweigen erstrecken muß, sie kann Anhaltspunkte dafür liefern, in welchem Verhältnis Eigenkapital und Kredite erfahrungsgemäß zum Umsatz stehen und welcher ein Umsatz in einer bestimmten Marktlage Gewähr dafür bietet, daß der Anteil der Kosten in angemessenen Grenzen bleiben wird. Zurzeit werden etwa 25000 Einzelhändler von *Treuhändern* beraten, die ihnen in der Anlage und praktischen Auswertung einer ausreichenden Buchführung an die Hand gehen. Mehr als 50000 Einzelhändler sind in Arbeitsgemeinschaften zusammengefaßt, die von der Wirtschaftsgruppe Einzelhandel zur Verbreitung von Buchführungkenntnissen gegründet wurden.

Dem gleichen Ziele dient auch die *Berufsförderungsarbeit* der Berufsvertretungen des Handels. Für diese Arbeit liefert die Handelsforschung mit den Ergebnissen des Betriebsvergleichs Erkenntnisse, die sowohl der jetzt tätigen Generation von Betriebsführern als auch dem Nachwuchs an Gehilfen und Lehrlingen zugute kommen. Mit dem gesetzlichen Schutz des Einzelhandels wird also die Hebung der *Leistungen* verbunden. *Textilhändler* werden in Textilfachschulen und durch gemeinverständlich gehaltene Schriften über Änderungen der Stoffe und ihre Behandlung im täglichen Gebrauch unterrichtet. *Hausrathändler* erhielten Gelegenheit, durch praktische Arbeit in Musterbetrieben der Glas- und Porzellanwarenherstellung wieder einmal unmittelbar mit diesen Stoffen und ihren Eigenarten in Berührung zu kommen. *Lebensmittelhändlern* wurde in Fischlehrküchen gezeigt, wie sie durch richtige Ratschläge an die Hausfrauen diesem gesunden Nahrungsmittel zu möglichst weiter Verbreitung verhelfen können. Diese Arbeit der Verbrauchlenkung wurde in Gemeinschaft mit der wirtschaftlichen Organisation der Deutschen Frauen (Abteilung Haus- und Volkswirtschaft des Deutschen Frauenwerks) geleistet.

Den rechtspolitischen Gedanken, das *Fachgeschäft* im Einzelhandel und seinen *regelmäßigen* Geschäftsgang zu stützen, hat in den Jahren 1935 ff das *Wettbewerbsrecht* immer stärker ausgebildet. *Automaten* hat der Gesetzgeber nur für Fachgeschäfte innerhalb ihres Warenkreises zugelassen. *Sonderverkäufe* werden auf alle Fälle eines volkswirtschaftlich begründeten Anlasses beschränkt. Die Verbesserungen der Statistik im Einzelhandel ermöglichen ein schärferes Urteil über die Lagerdauer der einzelnen Waren, die Prüfung der *Preise* zur Beurteilung der Lauterkeit des Wettbewerbs konnte sich auf die objektiven Berechnungen der *Kosten* des Einzelhandels im Betriebsvergleich stützen.

Der Rationalisierung der *Großhandelstätigkeit* dienen Richtlinien über Inhalt und Umfang der Großhandelsfunktionen, die gemeinsam von der Reichsgruppe Industrie und der Wirtschaftsgruppe Groß-, Ein- und Ausführhandel aufgestellt wurden. Auch der Großhandel strebt eine Steigerung der Leistungsfähigkeit seiner Gesamtheit durch die Berufsauslese aufgrund gesetzlicher Normen an. Der Betriebsvergleich zeigt die Verschiedenartigkeit dieser Funktionen in der Praxis der einzelnen Zweige. Die staatliche Finanzpolitik hat eine Stärkung der Lagerhaltung beim Großhandel durch die Ermäßigung der Umsatzsteuer für alle Großhandelsumsätze auf $\frac{1}{2}\%$ vom Umsatz gefördert. Der Wettbewerb zwischen Großhandel und Einkaufsverbänden aller Arten und Rechtsformen ist durch den Reichswirtschaftsminister durch Regelung der *Rabatte* unter gerechtere Bedingungen gestellt worden.

Als wichtiges Mittel der Rationalisierung der Absatzwirtschaft hat die Reichsregierung in den letzten Jahren die *Preispolitik* angewandt. Der Reichskommissar für die Preisbildung strebt eine Preisentwicklung an, die eine Abgeltung der volkswirtschaftlich nötigen Kosten, also eine Sicherung der nötigen *Leistungen* ermöglicht

Auch für *strittige* Fragen der Absatzwirtschaft bietet die Absatzforschung der Wirtschaftsführung Anhaltspunkte, so z. B. für die Leistungen und Kosten der *Warenhäuser*.⁷

⁷ Ihr Anteil an den Gesamtumsätzen des Einzelhandels sank von 3,7 vH im Jahre 1933 auf 2,9 vH im Jahre 1936.

Die *Verbrauchergenossenschaften*⁸ sorgen bisher durch eigene Berichtserstattung für Unterrichtung von Staat und Öffentlichkeit. Ein Reichsgesetz vom 21. Mai 1935 hat von insgesamt 13000 Verkaufsstellen 600 als nicht-existenzfähig geschlossen und etwa 700 in private Betriebsform übergeleitet.

Auf fast allen Gebieten der Rationalisierung der Absatzwirtschaft wirken also Forschung, Staatsführung und wirtschaftliche Selbsthilfe zusammen. Der Erfolg der Rationalisierung, der in der Herstellungstechnik schon früher erreicht wurde, soll in der Sphäre des Absatzes gesichert werden. Auf diesem Gebiet spielt die Irrationalität der Nachfrage des *letzten Käufers* eine so wesentliche Rolle, daß die Rationalisierungsarbeit umso wichtiger ist. Ein Gegensatz zwischen privatwirtschaftlichen und volkswirtschaftlichen Regeln vernünftigen Handelns kann nur vorübergehend, nicht aber auf die Dauer bestehen, besonders nicht in einem Gemeinwesen, in dem gesamtwirtschaftliches Denken einen lückenlosen Ausdruck in den Maßnahmen der staatlichen Wirtschaftsführung und in der Wirksamkeit der Pflichtverbände aller Wirtschaftszweige gefunden hat. Vorübergehende Widersprüche zwischen diesen Zielsetzungen sollen durch bestmögliche *Schulung* aller Wirtschaftstreibenden möglichst vermieden und abgekürzt werden. Die Wirtschaftsführung selber gewinnt zugleich aus dieser engen Verbindung mit der Praxis der Wirtschaftsberufe die Unterrichtung, die sie braucht, um ihre Entscheidungen auf eine möglichst vollständige Kenntnis der Lebensverhältnisse und -bedürfnisse in allen einzelnen Gruppen stützen zu können. Damit schließt sich der Ring, der einzelwirtschaftliche und gesamtwirtschaftliche Rationalität verbindet.

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Equalizing the Flow of Goods in Distribution

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SUMMARY

Equalization of the flow of goods in distribution is essential to the stability of a business because goods are made to be used and unless sold production cannot continue regularly nor can economy be attained. Distribution embraces all functionalities between the physical completion of commodities and their consumption, including wholesale and retail distributors, manufacturers' sales and advertising organizations, etc.

Of the elements which tend to interfere with the equalized flow of goods, some such as general business conditions, new discoveries, wars or politics are beyond the control of individual private enterprises; others like style changes, seasonal demand or competitive activities are subject to this influence. Equalization of distributive flow is therefore the comprehensive question of demand and supply. It is management's duty to understand what outside factors are most significant to it and how to anticipate and adjust to them.

For the purposes of this paper consideration will be confined to matters subject to substantial control by individual private enterprise. This limits us to commodities identified by the maker's name or brand because anonymous goods lose their identity in the general mass once they leave the producer and control is lost. Discussion will relate to consumer goods within the purchasing power of average families.

Ordinary impediments to constancy of flow are fluctuations in consumer demand; quality of product; costs of production; selling prices; and effectiveness of machinery of distribution. If one varies it affects the rest. Price stabilization is the most decisive factor.

A large part of the statesmanship of commerce is in the strategy of policies which will hold the enduring support of the body of distributors whose final interest is in profits. This is to be accomplished by constant surveys of the market, adapting goods to changes, introducing needed new products and assisting distributors in meeting resistance to sales.

EQUALIZATION of the flow of goods in distribution is essential to the maintenance of orderly, economical production. If the flow fluctuates widely, production costs also fluctuate, employment of wage-earners becomes irregular, help must be laid off and taken on, the skill of the worker suffers, quality lacks uniformity, and general instability results.

Distribution embraces the whole structure which bridges the gap between the production and the consumption of goods. As here used it pertains to the process of getting goods into use after their physical completion. It includes the body of wholesale or retail middlemen whose services give time and place utility to commodities; the cultivation of the market by producers in preparing users to receive their goods; the education of their middlemen distributors in the merits, functions and suitability of their products for the market; the producers' own selling organization, sales promotional activities and advertising efforts.

The equalization of the flow of goods through the channels of distribution implies the power to control or materially influence this flow. Ordinary factors which impair the regularity of flow are:

- Changes in general business conditions and purchasing power;
- Gluts and shortages in production;
- Seasonal character of demand for many products;

- Style changes, obsolescence;
- Changing habits of customers;
- Variations in the intensity of competition;
- Speculation in commodities;
- Unseasonable weather affecting many things like crop supplies or the demand for clothing;
- Price changes resulting from or abetting other changes.

Other factors, less ordinary are: discoveries of new resources in supplies, as of petroleum affecting gasoline or of ores or coal; new inventions, as of radio affecting phonographs or of automobiles affecting carriages and railways and altering the demand for many kinds of materials and labor; labor relations, affecting wages, employment, productive efficiency, costs and purchasing power; and credit facilities.

And beyond these are still innumerable other factors such as changes in transportation facilities, legislation, politics, wars, floods, cyclones and immigration. In short, when we contemplate the equalization of the flow of goods in distribution we are dealing with the comprehensive question of supply and demand which, depending upon what commodity is concerned, may be affected by any development or activity. Which serves to remind us that it is the duty of management to know and understand the outside factors affecting its business, to anticipate as far in advance as possible what changes or developments are probable and what their effects will be.

But, for the purposes of this paper, many of the contingent factors cited amount to imponderables. Private

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enterprise can do little individually to equalize the flow of its product in the face of war, revolution, or international restrictions. In order to reduce the question to manageable proportions within our time limit we must confine our consideration to factors with which the management of an individual private enterprise may cope under ordinary circumstances. Even within this range, conditions vary so widely in different industries that we must further restrict our treatment on this occasion. As already noted, equalization implies the power to control or measurably influence results. To secure such an effect throughout his field of distribution, the average industrialist must be possessed of an identified commodity—a branded or trademarked product. Ordinarily the producers of anonymous goods which lose their identity in the general mass once they leave the producers hands, are relatively helpless to control their flow after the goods have entered the channels of distribution nor are they usually interested in doing so. If they are they must have resort to cartels or other joint or governmental regulation. Our consideration therefore may be limited to identified products which carry the name, personality, responsibility and usually the guarantee of their producers wherever they travel on their way to consumption.

Such qualifications apply equally however to capital goods of the nature of locomotives or factory equipment and to consumer goods whether packaged groceries, branded articles of clothing, radio sets or watches.

While some of the general problems of distribution flow are common to both groups, for present purposes we will consider only identified consumer commodities, marketed through dealers and falling within the consuming power of middle and upper bracket family incomes.

How then may the flow of such products be equalized in distribution? What this question asks is: how may their demand and sale be stabilized? How may these be held uniform?

Other papers in the sessions of this section discuss methods of market development, sales promotion, demand stimulation and the like. Now we are dealing only with the element of constancy, presumably on a normally rising scale.

In our opening observation we remarked the interdependent character of several factors of uniformity. Given constancy of purchasing power:—

- Uniformity of costs requires uniformity of production;
- Uniformity of production requires uniformity of demand;
- Uniformity of demand requires uniformity of price, uniformity of quality and uniformity of distribution;
- Uniformity of price depends upon uniformity of costs which, as noted, depends upon demand which again, turns upon price and quality;
- Uniformity of quality is sided by uniformity of production, permitting regularity of employment for wage-earners and the skill acquired with constant experience.

Thus do these elementary ingredients of constancy react each upon the other. They are like the stones in an arch: remove one and the others fall. And of these, price may be regarded as the keystone of the arch. Under constancy of purchasing power about which the industrialist can do little individually, if price fluctuates demand

fluctuates with it, disturbing production and costs and quality and distribution and employment.

Other things being stable, the first objective then in equalizing the flow of our goods in distribution is to maintain the constancy of their price in the final stage. In the United States since 1911 the power to stabilize prices in distribution has until recently been denied to producers even of identified goods. Our guests from England, France, Germany, Sweden or other industrial countries where such control is taken for granted, may find it difficult to visualize how a reasonable people so long tolerated such an obvious handicap to the efficient transaction of business. It was because our courts failed to recognize the unity, the interdependence of production with distribution. It is sufficient to record that even as to identified products, in the eyes of our courts, these were separate, unrelated functions until the law was changed by the recent enactment of legislation known as our "fair trade" laws. These laws distinguish between anonymous goods sold upon the responsibility of the distributor, and branded products which are accompanied throughout the distributing process by the name and reputation of their originators. For the first time in a quarter century our industrialists may stabilize the several factors essential in equalizing the flow of their goods in distribution, which was impossible as long as the key factor, price, was forbidden to control.

In passing, it may be observed that having so long been denied this right, the majority of American industrialists are unaware of its practical value and its application but the more alert brand owners in various industries are capitalizing upon the new opportunity to lay a foundation for constancy in the flow of their products. This may shortly enable them to outstrip competition in the delivery of quality and value at stable prices to their final patrons. And the sponsors of the new legislation may later find themselves hailed for having contributed a salient economy to the structure of American business.

It may be said then that if we would hold the flow of branded consumer goods in balance the interacting forces of:

- Demand,
- Production,
- Production costs,
- Selling price,
- Quality,
- Employment, and
- Distribution

should be stabilized as far as possible.

This does not imply inflexible rigidity. But it does aim at avoidance of upheavals which disturb the rhythm of harmonious operation. Gradual, constant improvement is of course to be sought in all particulars, the most vital of which are betterment of quality in its widest sense and reduction of price.

Before proceeding to other phases of the problem of equalization, a further examination of the application of these ideas is worthwhile. The forces in question are ones which are substantially subject to management. They are not the great outside "imponderables." The most immediate of them in effect upon demand and sale, are constancy in quality, price and effectiveness of distribution.

After a producer has provided goods of satisfactory quality and price the result hangs heavily upon distribution. If demand is to be supplied, the goods, must be available, accessible, convenient to those who want them. Which is to say that they must be placed on sale in stores adjacent to the consuming public.

In a competitive world in which each dealer has his choice of throwing his influence behind either of several competing items of each class, and under our so-called profit system in which the incentive for dealer support is the profit he can make as a reward, it is evident that the mere physical scattering of goods in stores throughout a territory will not insure the stability of demand and sale that we are seeking. The dealer is usually more than a mechanical handler. He is an advisory agent. He can double the flow of a product through his establishment or cut it in half. Collectively therefore the dealer is a vital factor in the stabilization of demand. He is influenced not alone by the quality of goods or by the satisfaction they afford his customers but also by other factors which determine whether his experience with a product is pleasant and profitable.

Unless the policies and methods of a manufacturer satisfy the normal requirements in these respects, his distribution will fluctuate. Dealers will stop handling or will minimize the flow of goods which it does not please them to distribute. Manufacturers will discover that the number of outlets in a territory is unstable, that accounts die off or become dormant and that when the accessibility of the product to consumers is thus interfered with, the demand upon the plant facilities wavers accordingly with the consequence of effects upon factory costs, quality and so on.

The policies and methods necessary to maintain a stable flow of goods through the body of distributing outlets, it goes without saying, begin with reliability of product. But this is only the beginning. Market value must be included. In style merchandise, the styling must be kept abreast of changing taste. Packaging should provide not only for the safety of the contents but should also take into consideration the convenience of the dealer both in storing the merchandise and in exhibiting or demonstrating it. Judicious selection of dealers as to location and qualification for distributing the character of product to be sold will forestall later shifting. In all but the commonest convenience goods, the number of such outlets to be appointed should be standardized according to the characteristics of each area against its potentialities so that there may be a sufficient volume of business to interest the caliber of dealer desired and to hold his interest to insure stability of sale. This involves the measurement of sales possibilities of the area by experience records and market surveys.

Making it pleasant for the distributor to deal with the house by providing prompt, considerate and comprehending service with respect to correspondence, credit handling, complaints, orders and shipments will help hold dealer support. In mechanical products such as refrigerators, phonographs or watches the service and repair function is essential to satisfaction. Where salesmen are employed, their selection and training covers one of the vital points in customer satisfaction. To those at a distance who have no direct contact with the house the salesman is the house. Houses which have too large a turnover in their sales staffs usually have a high mortality rate among

customers. The preparation and supervision of the sales organization is therefore a safeguard against dealer fluctuation.

Since dealers ordinarily handle hundreds of items of stock which must divide their attention and since they are preoccupied with their own problems of stock control, credits, collections, accounting and other elements of management, it is not enough to deposit merchandise upon their shelves. To equalize and maintain the flow of goods through their establishments, it will assist if they are supplied with reminder signals to suggest to consumers that given merchandise is obtainable there. These may be in the form of posters, signs, display fixtures or window materials. Information bulletins or selling suggestions for the instruction of dealers' sales clerks will also help. The creation of consumer interest or demand by means of advertising in its various forms will aid in the stability of distribution.

Keeping an oversight of dealers' inventories through salesmen or sales records and avoiding over-stocks or stagnant stocks on dealers' shelves is one of the most effective measures for preventing fluctuating sales flow. The merchandise should be kept a running stream through each outlet. Overloading defeats this objective. It is likely to lead to price cutting to move surplus stocks and resentment against the product concerned. But after all of these and other precautions have been taken they will not avail unless included with them is a profit for the distributor. A margin must be provided above the cost of the goods to him, sufficient to cover his operating expenses in re-selling them, plus a reward in return for his investment in them, the risk he assumes and the facilities he provides in housing, showing and recommending them. This is a crucial consideration in identified goods, known under the maker's brand and known to be the same and worth the same in one store as another. If the goods are well known to the public, people are reluctant to pay more at one place than they can be obtained for at another. We are back then to the question of establishing a uniform price. It must be done at a level that will invite consumer acceptance in order that an opening will not be left to competitors to make a lower price and capture the market. But it must not be at a level so low that it fails to furnish the necessary incentive to dealer support.

The intricacies of this problem are too great for detailed exposition here and it does not concern our friends from other countries. It will suffice then to say that it gives scope for strategic handling requiring understanding of the several divisions of the market as between the trade in the large centers of population, suburban communities, smaller cities and rural districts. Price irregularities are the most prolific source of difficulty in maintaining the even flow of distribution in all divisions of the market. They divert the flow from its normal, desirable course and cause undue congestion in favored sections of the market at the sacrifice of healthy, general distribution. Too much emphasis cannot be placed upon the importance of the key consideration of price stability to consumers at the strategic level.

And what of those other obstructions to equalizing the flow of goods in distribution—lurches in general business conditions, excess facilities of production, competitive aberrations, seasonal demand, style changes, processing

innovations, labor disturbances, catastrophes of nature, price wars and all the rest?

Certainly it is the duty of the management of each individual enterprise to avail itself of every means of anticipating coming events, to appraise their probable effect upon the enterprise, to ascertain what measures will turn favorable developments to the most advantageous use and what measures will minimize the hardships of unfavorable ones. In these times of rapid change it behooves every business to place upon a competent officer the responsibility of constantly scanning the horizon and of interpreting the signs that he observes.

It is not given to men to divine all that is ahead. Under the most watchful guidance there will be surprises and disappointments. But this does not signify that because perfection cannot be attained it should not be striven for. If results are imperfect with the best of care, they will be worse without it, except by luck to which prudent management dare not trust.

Of the numerous contingencies which business must constantly face, there are some, such as seasonal demand or labor relations, about which a particular private enterprise *can* do something to adjust itself. There are others, such as futile competitive behavior, excess production in an industry which require some sort of collective action by those affected. For the rest, wars, floods, revolutionary discoveries in the sciences and such, it seems possible to do nothing more individually than to be ever on the alert for signs of their approach and to have well-laid plans of a course that is to be steered in case any of them eventuate. Forewarned permits being forearmed and prompt, decisive action when emergencies arise is often of the essence of escape from disaster. Beyond that when untoward developments loom, one can only join with his fellows or his government in trying to discern the wisest policy of action.

As to offsetting seasonal demand for the product of a given producer there are several devices which have been found effective in different trades. One is to find a complementary line of goods to make which will fill out the valley season, be appropriate to the manufacturing facilities of the enterprise and not too remote from its distributing experience. It is on this principle that the coal dealer sells ice in the summer and that the radio manufacturer enters the refrigerator field. Flexibility of terms of settlement has in other cases overcome drastic peaks and valleys in distribution. For example, nobody is now interested in buying and paying for calendars for the year 1939. Yet ever since December 1937 the calendar manufacturers have been making and delivering 1939 calendars by the million. They have done it by taking orders and producing the goods and making delivery currently but arranging for settlement on the date that buyers would otherwise have been willing to accept and pay for the goods. Similar methods are used in selling Christmas cards, Easter cards, and other greeting cards and thus the production and flow of goods are equalized throughout the year. If credits are prudently given there are now financial agencies ready to assist even small companies in carrying this burden of seasonal settlements which relieves the more serious burden of seasonal buying.

Style changes are also now subject to anticipation. Fashions which were supposed to be as unpredictable as the weather can now be foretold with about the same degree of assurance as the weather. And in spite of jibes

at the expense of the weather "man" his average of accuracy puts the business world to shame.

There are organized methods for glimpsing far enough in advance, the trends of style in any field to permit the production of goods to meet the arrival of new demands. A few years ago for example it was known a year or two ahead of the fact, that wool fabrics were coming back into vogue for women's apparel after having been displaced for years by silk. An alert manufacturer of women's leather hand-bags being possessed of this information knew also that it would make a place for a new type of handbag of heavier leathers and he devised and had ready for the market a line of bags which lifted him to high success as a leader.

Similarly the maker of costume jewelry who knew ahead of time that Victorian styles would have a large place last year in women's costumes knew that there would be a call for jewelry in the design of the Victorian period. So pronounced has the vogue of costume ensemble become that it is commonplace for the most remote little shoe factory to attune its production to the standard demands for colored leathers and decorations to harmonize with the accepted colors in dress materials and other apparel.

There are agencies which make a business of carrying on organized research to keep track of coming trends of style. Their services are available to any manufacturer upon terms which make them the essence of economy when set against the losses incurred in producing unsalable goods or the loss of sales that would be made if the goods were styled to current taste.

In other particulars there are organized means of anticipating the requirements of the market. Skillfully devised field reports from travelling salesmen will sometimes reveal symptoms of competitive activities which unless matched may lead to slumps in the flow of a company's goods. Or they may reveal openings for new goods or for changes or adaptations which will avoid fluctuations.

Market surveys made either by a special department of the company organization or often preferably by an outside research organization which is not biased by company viewpoint, will uncover weaknesses in product or policy or will show new opportunities to adjust to market requirements before disturbances to distribution have set in.

Always to have in reserve some new product which by research has been found to have possibilities has been found good practice by many concerns. Then when there is a recession in business the shortage can be made up by the introduction of the reserve item.

Another device is to have additional areas ready for invasion when it becomes necessary to provide new business to replace volume that is being lost. If a company has not been selling in certain sections where there is a logical market for its goods its output can be equalized by entering territory that has not been cultivated before. And though it is slow, hazardous and expensive, export can sometimes be made to supply new fields to take up slack resulting in previous markets. The most common method of equalizing the flow of goods in distribution however is to increase or decrease the amount of sales or advertising effort in the regular markets. Adding or dropping salesmen or increasing or cutting advertising budgets is so usual that it scarcely requires mention.

Let us hope that by wise guidance of general world affairs, management will be spared the necessity of coping with emergencies of the more extreme sort.

Rationalisierungsbestrebungen im schweizerischen Einzelhandel

JAKOB VIEL*

SUMMARY

Following the example of the United States and Germany, there is a tendency in Switzerland to introduce the use of comparative operating reports as one of the most efficient tools of scientific management. Understanding of its value started first in the field of retailing as this economic group suffered some very important structural changes during the last decade. It has come to the point where far reaching measures of self support are required. The structural changes are characterized by a growing concentration of retailing in large enterprises. Consequently the existence of the small independent retailer was threatened and many family enterprises had to be dissolved.

Those enterprises whose subsistence was threatened received government protection: establishment of new, and expansion of existing department- and retail-stores were prohibited. Government and business leaders were of the opinion that further steps should be taken by the retailing organisations themselves through application of more efficient methods of operation. Government protection can only prove a full success, if the protected are willing to do their part in improving existing conditions.

The retailing enterprises should try to increase their efficiency of output. The retail trade associations are willing to cooperate, as they are ready to adopt any measure which might prove helpful. A special trustee office has been created, its main purpose being to increase efficiency of retail enterprises through research and consulting and to promote closer cooperation.

Strukturwandlungen im schweizerischen Handel

DER Einzelhandel als letzter Verteiler der Bedarfsgüter an den Konsumenten ist ein wesentlicher Faktor in der Volkswirtschaft eines Landes. Die Schweiz besitzt nach der eidgenössischen Betriebszählung vom Jahre 1929 insgesamt 48,963 Einzelhandelsbetriebe, die 124,275 Personen beschäftigen. In bezug auf die Zahl der Betriebe steht der Detailhandel unter den Berufsweigen der Schweiz an erster Stelle; anähernd ein Viertel (22.5%) der 217,792 Gewerbebetriebe entfallen auf ihn. Nach der Zahl der beschäftigten Personen geordnet, wird der Einzelhandel nur von der Baubranche und der Metall- und Maschinenindustrie übertroffen. Bei etwas über vier Millionen Einwohnern weist die Schweiz 1,260,864 Erwerbstätige aus, von denen jeder zehnte im Einzelhandel beschäftigt ist.

Die Funktion des Einzelhandels als letzter Verteiler der Bedarfsgüter führt ihn dazu, sich in nächster Nähe der Konsumentenkreise niederzulassen und sich dadurch in zahlreiche Kleinbetriebe aufzulösen. Von den 48,963 Einzelhandelsbetrieben der Schweiz zählen nicht weniger als 42,633 oder 87.1% zu den Kleinbetrieben mit ein bis drei beschäftigten Personen. Dementsprechend stehen auch 39,568 Betriebe oder 80.8% unter der Rechtsform der Einzelfirma; in Deutschland sogar 95.7%, da dort die Aktiengesellschaften und Genossenschaften des Kleinhandels relativ schwächer vertreten sind als in der Schweiz.

Der Vergleich der Ergebnisse der beiden letzten schweizerischen Betriebszählungen, nämlich derjenigen von 1905

und 1929, zeigt aber, dass in dieser Zeitspanne bedeutsame Strukturwandlungen eingetreten sind. Darüber orientiert die folgende Zusammenstellung, in welche allerdings der Grosshandel einbezogen werden musste, weil die Zählung von 1905 noch keine Unterscheidung in Grosshandels- und Kleinhandelsbetriebe gemacht hatte. (Tabelle 1.)

Aus dieser Aufstellung ergibt sich mit aller Deutlichkeit die zunehmende Konzentration im Detailhandel. Sie drückt sich aus:

1. Durch die starke Progression in der Zunahme der Zahl der Betriebe und beschäftigten Personen mit steigender Betriebsgrösse. Die unterste Betriebsgrössenklasse mit nur einer beschäftigten Person erfuhr eine leichte Abnahme der Betriebszahl, während in der obersten Betriebsgrössenklasse mit über 100 Beschäftigten die Zahl der Betriebe sich verdreifacht hat;
2. Durch die Verlagerung in der Betriebsführung zugunsten der unselbständig Erwerbenden. Der Zunahme der selbständigen Betriebsinhaber um 4,408 steht eine sechsmal grössere Zunahme der unselbständigen Betriebsleiter um 26,214 gegenüber. Die Zahl der letztern hat sich verfünffacht, diejenige der weiblichen unselbständigen Betriebsleiter sogar verdreizehnfacht. Die männlichen selbständigen Betriebsinhaber nahmen um 1.9% ab, die männlichen Direktoren dagegen um 150.5% zu. Mit dieser Verunselbständigung in der Betriebsführung hängt auch die beträchtliche Abnahme der mitarbeitenden Familienangehörigen um 42.6% zusammen;
3. Durch die Verlagerung innerhalb der selbständig

* Schweiz.

erwerbenden Betriebsinhaber, unter denen der Anteil der weiblichen Inhaber sich von 28.8% auf 33% erhöht hat.

Man mag diese Strukturwandlungen als Zeichen der Rationalisierung deuten; ob sie aber volkswirtschaftlich als Vorteil zu werten sind, ist zu bezweifeln. Die zunehmende Verunselbständigung, verbunden mit einer Auflösung der Familienbetriebe, zeitigt auch politische Auswirkungen.

Behördliche Massnahmen

Die zunehmende Verschlechterung der Existenzbedingungen im Einzelhandel, welche zum guten Teil der zunehmenden Konkurrenzierung der Klein- und Mittelbetriebe durch die Grossunternehmen zuzuschreiben war, führte im Jahre 1933 zu einem Bundesbeschluss über das

TABELLE 1

Betriebe mit ... beschäftigten Personen	Betriebe			Beschäftigte Personen		
	1929	1905	Verändg.	1929	1905	Verändg.
	Zahl	Zahl	%	Zahl	Zahl	%
1	30,509	30,647	-0.5	30,509	30,647	-0.5
2	25,351	22,094	+14.7	50,702	44,188	+14.7
3	13,225	10,550	+25.3	39,675	31,650	+25.3
4-5	9,167	6,911	+32.6	39,677	29,979	+32.3
6-9	4,832	3,337	+44.8	34,327	23,549	+45.8
10-19	2,762	1,816	+52.0	36,388	23,596	+54.2
20-50	1,345	712	+88.9	39,472	20,842	+89.4
51-100	309	139	+122.3	21,646	9,523	+127.3
über 100	138	45	+206.6	26,798	6,849	+291.3
	87,638	76,251	+14.9	319,194	220,823	+44.5
				1929	1905	Verändg.
				Zahl	Zahl	%
Im Betriebe gelegentlich tätige						
Familienangehörige.....				31,672	55,216	-42.6
Betriebsinhaber.....				61,702	57,294	+7.7
davon männlich.....				39,978	40,763	-1.9
weiblich.....				21,724	16,531	+31.4
Direktoren.....				31,263	5,049	+519.2
davon männlich.....				8,574	3,422	+150.5
weiblich.....				22,689	1,627	+1294.5

Verbot der Eröffnung und Erweiterung von Warenhäusern, Kaufhäusern, Einheitspreisgeschäften und Filialgeschäften. Das Verbot war auf zwei Jahre befristet, wurde dann aber verlängert. Im Jahre 1936 setzte das Eidgenössische Volkswirtschaftsdepartement eine begutachtende Kommission für die Wirtschaftsgesetzgebung ein mit dem Auftrage, einen neuen Verfassungsartikel auszuarbeiten, der die verfassungsrechtliche Grundlage für die neue Wirtschaftspolitik bilden soll. Die Kommission befasste sich eingehend mit den Problemen des selbständigen Mittelstandes und legte in ihrem Schlussberichte an das Departement eine Reihe beachtenswerter Grundsätze dar, die hier kurz wiedergegeben seien:

1. Die Erhaltung eines selbständigen Mittelstandes in Gewerbe und Handel ist eine wichtige Aufgabe der staatlichen Wirtschaftspolitik.
2. Die Klein- und Mittelbetriebe bedürfen einer

vermehrten staatlichen Förderung unter stärkerer Mitwirkung der Verbände und Genossenschaften.

3. Die Stärkung dieser Betriebe muss namentlich von innen heraus durch Hebung ihrer Qualität und Steigerung ihrer Leistungsfähigkeit erfolgen.
4. Der Zustrom ungeeigneter Elemente zum Kleingewerbe und zum Detailhandel ist durch die Einführung des obligatorischen Fähigkeitsausweises zu unterbinden.
5. Es sind alle Bestrebungen zu unterstützen, die der Steigerung der Leistungsfähigkeit der mittelständischen Betriebe dienen. Dazu gehören:
 - a) Förderung des kaufmännischen und gewerblichen Bildungswesens,
 - b) Unterstützung der Bestrebungen zur Hebung der Wirtschaftlichkeit,
 - c) Förderung des betrieblichen Rechnungswesens und der Kalkulation,
 - d) zweckmässige Betriebsberatung,
 - e) Schaffung vertraglicher Vereinbarungen über Lieferungs- und Kreditbedingungen.

Die Kommission gab der Ueberzeugung Ausdruck, dass es dem Mittelstande im Rahmen der aufgestellten Grundsätze der allgemeinen Wirtschaftspolitik möglich sei, auf dem Wege der Selbsthilfe seine Existenzgrundlagen zu erhalten.

Selbsthilfebestrebungen im Einzelhandel

Der gesetzliche Schutz des Einzelhandels beschränkte sich auf das Verbot der Eröffnung und Erweiterung von Warenhäusern, Filialbetrieben usw., womit wenigstens ein weiteres Ueberhandnehmen der Grosskonkurrenz verhindert wurde. Damit war jedoch noch keine Gesundung der Verhältnisse herbeigeführt, aber die Voraussetzung für die Inangriffnahme von Selbsthilfemassnahmen geschaffen. Jede Bestrebung auf Selbsthilfe im Detailhandel wäre unfruchtbar gewesen, wenn dem Ueberwuchern der Grossunternehmen nicht Halt geboten worden wäre, aber andererseits muss gesagt werden, dass jeder behördliche Schutz nur dann zur vollen Wirksamkeit gelangen kann, wenn er vom Bestreben der so Geschützten begleitet ist, es nicht damit bewenden zu lassen, sondern das ihrige zur Bessergestaltung der Existenzbedingungen beizutragen. Dazu gehören insbesondere die Bestrebungen zur Steigerung der Leistungsfähigkeit, Hebung der beruflichen Tüchtigkeit, Förderung des Rechnungswesens und ganz besonders die Unterstützung aller jener Vorkehren, welche dazu angetan sind, die Wirtschaftlichkeit der Einzelhandelsbetriebe zu heben.

Es ist die Aufgabe der Berufsverbände, in dieser Richtung zu wirken, und der Wille ist denn auch vorhanden. Der Schweizerische Detaillistenverband hat besondere Betriebsberater angestellt, welche den Verbandsangehörigen im Sinne einer Steigerung der Leistungsfähigkeit an die Hand zu gehen haben. Ein weiterer Schritt ist vom Verband der Detaillisten der schweizerischen Handelsmetropole Zürich unternommen worden, und zwar durch die Errichtung einer besondern Treuhandstelle für den Detailhandel. Der Institution sind zehn Berufsorganisationen des Detailhandels und ferner auch der Verband der Bäckermeister angeschlossen. Weitere An-

gliederungen stehen bevor, sodass für die Treuhandstelle begründete Aussicht besteht, mit der Aufnahme ihrer Tätigkeit auf 1. Januar 1938 unverzüglich erspriessliche Arbeit für den Einzelhandel zu leisten. Den Problemen der Rationalisierung der Einzelhandelsbetriebe wird besondere Aufmerksamkeit geschenkt werden, denn das Arbeitsprogramm sieht vor "auf betriebsorganisatorischem Gebiete alle jene Massnahmen durchzuführen, welche geeignet sind, die Wirtschaftlichkeit der Einzelhandelsbetriebe im Sinne einer Kostensenkung und Leistungssteigerung günstig und wirksam zu beeinflussen." Durch Förderung der Gemeinschaftsarbeit und engern Zusammenschluss der Betriebsinhaber sowie durch betriebswirtschaftliche Forschung, Beratung und Mitarbeit sollen die Wege zu einer Verbesserung der Existenzgrundlage im Einzelhandel geebnet werden.

Die Betriebsberatung setzt voraus, dass die Beratungsstelle selbst über ein umfassendes Material verfügt, das sie über die Existenzbedingungen im Einzelhandel orientiert und in den Dienst der Beratung und Erforschung bestimmter Gesetzmässigkeiten stellen kann. Der Einzelhandel wird als erste schweizerische Wirtschaftsgruppe den eigentlichen zwischenbetrieblichen Vergleich einführen, in der Weise, dass aus monatlichen Fragebogen Vergleichs- und Richtzahlen gewonnen und für die laufende Betriebsberatung verwendet werden.

Der Eingliederung eines Betriebes in die Vergleichsgruppe seiner Branche geht eine einlässliche Betriebsanalyse voraus. Ueber das Ergebnis der Untersuchung wird ein Bericht ausgefertigt, der in 95 Fragen erschöpfende Auskunft über den Untersuchungsbetrieb gibt und sich in folgende Hauptabschnitte zergliedert:

- I. Branche, Standort und Betriebsgrösse
 - II. Personelles
 - III. Betriebsräume
 - IV. Einkauf
 - V. Verkauf
 - VI. Rechnungswesen
 - VII. Finanzielle Grundlage
 - VIII. Kostengestaltung
 - IX. Kalkulation
 - X. Wirtschaftlichkeit
 - XI. Zusammenfassung und Verbesserungsvorschläge
- Für den Betriebsvergleich werden monatlich erfragt: Zahl der beschäftigten Personen, Kundenzahl, Umsatz, Einkauf, Kosten, Lieferantenschulden, Kundenaussenstände, flüssige Mittel, eventuell auch Lagerbestand.

Der Vergleich umfasst:

1. *Leistungsvergleich* (Kundenzahl und Umsatz je beschäftigte Person, je Verkaufskraft und je qm. Raum).
2. *Kostenvergleich* (Kostengestaltung, Kostenverlauf).
3. *Finanzierungsvergleich* (Warenschulden zu Waren-

einkauf, Kreditoren zu flüssigen Mitteln, Debitoren zu Kreditumsatz).

Die Vergleichsergebnisse werden jedem Vergleichsteilnehmer monatlich in Gegenüberstellung der Zahlen seines eigenen Betriebes mitgeteilt, wobei ihn die Treuhandstelle laufend über allfällige Unwirtschaftlichkeitsmerkmale seines Betriebes aufmerksam macht und mit ihm auch die Mittel und Wege zu einer Bessergestaltung prüft. Auf diese Weise soll eine Kostensenkung und Leistungssteigerung der Vergleichsbetriebe herbeigeführt werden, und es ist nicht daran zu zweifeln, dass diese Bemühungen von Erfolg gekrönt sein werden, denn die Erfahrungen in andern Ländern haben zur Genüge den grossen praktischen Nutzen des Betriebsvergleichs erwiesen.

Schlusswort

Der Einzelhandel hat in den letzten Jahrzehnten tiefgreifende strukturelle Veränderungen erfahren, deren Ursachen auf die veränderten Lebensgewohnheiten der Menschen zurückzuführen sind. Das Zeitalter der Technik mit seinen zahllosen Erfindungen ermöglichte dem Begüterten, sich mit einem Komfort zu umgeben, der früher nicht einmal den Monarchen bekannt war. Im Minderbemittelten aber wurde der Wunsch rege, möglichst auch an diesen Annehmlichkeiten teilzuhaben. Die gesteigerten Bedürfnisse konnten aber nur bei erhöhtem Einkommen oder aber bei Herabsetzung des für die Beseitigung der einzelnen Bedürfnisse erforderlichen Geldaufwandes befriedigt werden. Daher der Ruf nach Billigkeit. So entstanden neben dem selbständigen Einzelhändler die Genossenschaften der Konsumenten, ferner die Warenhäuser und Einheitspreisgeschäfte, welche zu den bereits dargelegten Strukturwandlungen und dem erschwerten Existenzkampf der Einzelhändler führten.

Es ist daher kein blosser Zufall, dass in der Schweiz nicht die Industrie oder der Grosshandel, sondern der Kleinhandel mit der Rationalisierung auf dem Wege des Betriebsvergleichs voranschreitet, denn die veränderten Verhältnisse und der ungeheure Druck durch die Grosskonkurrenz rufen gebieterisch nach umfassenden Selbsthilfemassnahmen und engern Zusammenschluss. Konzentration und Rationalisierung des Einkaufs, Konzentration der Reklamekraft, berufliche und kaufmännische Ertüchtigung sind Probleme, die mit Hilfe der Berufsorganisationen angefasst werden sollen. Der Kampf gegen das weitere Ueberwuchern der Grosskonkurrenz erheischt auch die äusserste Komprimierung der Betriebskosten. Die Inhaber der kleinen und mittlern Einzelhandelsbetriebe bilden heute eine eigentliche Schicksalsgemeinschaft, und deshalb ist auch bei den einsichtigen Geschäftleuten der Wille vorhanden, allen geeigneten Rationalisierungsbestrebungen zum Durchbruch zu verhelfen.

The Significance of Large Scale Retail Operations in Present Day Distribution of Goods

PAUL H. NYSTROM*

SUMMARY

It is the purpose of this paper to describe the significance of large scale retailing as carried on in America, and to indicate its probable future development. Large scale retailing includes such institutions as department stores, mail order houses and chain store systems. Large scale retailing is usually characterized by the distribution of goods directly from producers to consumers without the intervening aid of wholesalers and may, therefore, be termed direct distribution, as distinguished from wholesaler-retailer distribution. Direct distribution in this country accounts for 10.9% of all retail stores, 33.0% of all retail sales and 36.8% of all retail employees.

Direct distribution had its origin in the changing conditions and increased demands of American life during the past fifty years. These changes were of such a character and occurred so swiftly that the wholesaler-retailer system was unable to meet them properly. Direct distribution not only provided the needed outlets for mass production, but at the same time provided more attractive, cleaner and better lighted places of business, better stocks of goods and better trained employees, and, most important of all, lower prices to the consuming public. Gradually, however, the wholesaler-retailer has adjusted itself to the needs of modern distribution and is now more than holding its own. The wholesaler-retailer system together with direct distribution are today providing the American people with the best system of goods distribution they have ever had.

As to the future, both direct distribution and the wholesaler-retailer system might be counted upon to continue to progress and to share the responsibilities of distribution in about the same proportions as at present were it not for obstructive methods recently introduced and now widely used by some engaged in the wholesaler-retailer system. These methods consist of attempts to handicap and even to destroy their competitors, the direct distributors, by political maneuvers. This political action is usually more or less disguised under fair sounding titles intended to divert public attention from its real purposes. This campaign is of recent origin, but has made rapid progress and may continue for some time. The hope of direct distribution in connection with this campaign rests with an awakening of the public, including both producers and consumers. Nothing short of such a public awakening is likely to check these efforts. Unless this movement is checked, it seems likely that the entire system of distribution will settle down to mediocrity, such as existed before the advent of direct distribution, including poorer service both to producers and consumers and higher prices to consumers.

IT IS the purpose of this paper to describe the significance of large scale retailing in the present distribution of goods, from the American viewpoint, and to indicate what its future developments are likely to be.

The term, large scale retailing, as used here, is intended to include department stores, mail order houses and chain store systems. These institutions are all so well known that time need not be taken to define them.

The methods of large scale retailers vary greatly, but they all have one point in common and that is the practice of procuring their merchandise supplies, either in part or in entirety, directly from producers instead of through middlemen. Large scale retailers are, therefore, usually termed *direct distributors*, and the distribution of goods

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directly from producers to consumers through these institutions is usually termed, *direct distribution* in distinction from distribution through wholesalers and other middlemen. This paper might, therefore, with equal propriety, be termed, "The Significance of Direct Distribution."

The Present Status of Direct Distribution

What is the present status of the types of retailing comprehended under direct distribution? In the main, subject to some exceptions, table 1 presents the essential facts in the United States for the year 1935.

From this table it may be seen that chain stores operate 7.7 per cent of all stores, secure 22.8 per cent of total retail sales, and employ 24.3 per cent of all retail store workers. Department stores are relatively fewer in number but are responsible for 6.1 per cent of all retail sales and for the employment of 8.5 per cent of all retail

employees. The mail order houses are still fewer in number, and account for but 1.3 per cent of the total retail sales. "All Others" include leased departments, utility operated stores, house-to-house selling concerns, company stores, publicly-owned stores and consumers' coöperatives. Not all of these are direct distributors. Many of them depend upon wholesalers and other middlemen for their merchandise stocks. Consumers' coöperatives are as yet unimportant either in number of stores or in sales volumes in this country, but judging from the experience of other countries, it is quite possible that they may come into more prominence in the future.

Broadly characterized, direct distribution is carried on in whole or in part by only 10.9 per cent of all retail stores, but these stores do 33.0 per cent of the entire retail business and employ 36.8 per cent of all the workers employed in the retail stores in this country.

The significance of large scale retailing in the present distribution of goods may best be appreciated by comparing present retailing with the conditions prevailing before these institutions came into existence. Such a comparison calls for no special effort of research for nearly all types of direct distributors, at least in their modern

enormous changes both in production and in consumption. The traditional systems of distribution in existence at the beginning of this period could not possibly have taken care of these changes. Their inadequacy brought the new systems of distribution into existence.

It was during this period that mass production was extended to nearly all kinds of goods. Mass production, in turn, made widespread, well-coördinated, highly organized market distribution, such as offered by direct distributors, necessary.

The rapid growth of industrial and commercial cities populated by large numbers of people with similar incomes and similar demands created enormous mass consumer markets that could be serviced more economically by direct distributors than by the old time retail shops and their wholesalers.

A rising demand by consumers in the smaller towns and out in the country for goods and services such as offered in the larger centers, such as the traditional wholesaler-retailer system could not possibly satisfy, opened the door for mail order distribution.

The spread of popular education, the advancement of literacy, the growing interest in the outside world and the general rise in taste and intelligence promoted not only by the schools but also by the press, by the movies, by travel and more recently by radio prompted consumer demands for new kinds of goods, for better retail service and for new kinds of stores.

Invention, which had played so important a part in the improvement of the processes of production, has likewise made contributions to the distribution of goods. As a matter of fact, the old fashioned and traditional wholesalers and retailers were slow to introduce these improvements, but they were promptly taken up by the newer direct systems of distribution. These inventions were not merely mechanical such as cash registers, refrigerators, weighing, measuring and slicing machines, but also included improvements in accounting, merchandising control, display and advertising. Beginnings in the uses of many of these devices had been made by individual wholesalers and retailers before the rise of the direct distributors, but the latter made these things a part of the regular equipment and have to this day been the best customers for all sorts of improvements in retail equipment.

The methods of operation of the wholesaler-retailer system had long been well established. There was a self-assurance and conservativeness, the product of long existence, which made it difficult if not impossible for them to adapt themselves promptly to the new changes and needs. Expenses of operation and, particularly the expenses covering such antiquated practices as carrying long credits, were deeply entrenched. Almost the first of the serious competitive attacks made against the wholesaler-retailer system by their direct competitors was in cutting down costs of operation.

In the old wholesaler-retailer system, there had been a great deal of pressure-selling, the practice of borax methods and even of dishonesty in the form accepted by law and custom as expressed in the rule of trade, "caveat emptor." As a result most customers were glad to transfer their trade when newer establishments came into existence offering more pleasant conditions of shopping and trading. It was direct distributors who popularized such slogans as,

TABLE 1
Status of Direct Distribution in United States
Census of 1935

Types of Direct Distributors	Number of Stores	Per Cent of All Retail Stores	Sales (,000 omitted)	Per Cent of Total Retail Sales	Number of Employees	Per Cent of Total Retail Employees
Department Stores.	1,711	0.1	\$2,034,945	6.1	337,865	8.5
Mail Order Houses.	378	...	420,027	1.3	40,969	1.1
Chain Stores.....	127,482	7.7	7,550,186	22.8	963,636	24.3
All Others.....	51,952	3.1	944,951	2.8	118,072	2.9
Total.....	181,523	10.9	\$10,950,109	33.0	1,460,542	36.8

forms, have come into existence within the memory of people still living. The Bon Marché of Paris which was probably the first department store of the modern world was established in 1851, but department stores did not appear in America until the late 1860's or early 1870's. Montgomery Ward & Company of Chicago, the first of the large mail order concerns, was established in 1872, but neither this concern nor others like it became very important factors in distribution until well into the 1890's. There have always been chain stores, that is, several retail stores owned and operated under common management. Nearly all chain store systems originated with the successful operation of a single store, followed by the establishment or acquisition of others. Corporate ownership of retail stores, followed by the extension of such ownership to chain systems is, however, relatively recent. The dates of origin shown for chains now in existence are usually those of the founding of the first stores and mean little so far as real chain store methods are concerned. Chain store operation of the modern type apparently did not appear until well down in the 1890's and the most active chain store growth did not occur until after 1910.

During the past fifty or sixty years there have been

"The customer is always right," "Your money back if you want it" and "One price to everybody."

Nor were the relations of old time retailers with their wholesale sources of supply less free from expensive faults. The retail failure rate before the advent of direct distribution was unduly higher. It was higher than it has since been under competition with direct distribution. The losses incurred by wholesalers from these sources had to be covered by unnecessarily high gross profits. Direct distribution eliminated these wasteful conditions and through competition forced the acceptance of better standards of operation in the wholesaler-retailer system as well.

The conditions of employment in the old wholesaler-retailer system were likewise difficult. The hours of work were extremely long and wages were low. Worst of all, the apprenticeship system which had formerly prevailed in the distributive trades had all but disappeared so that no training or special preparation for advancement existed for retail employees until beginnings were made by the direct distribution systems.

Wholesalers and retailers of the old system through long standing habits of thinking had come to look upon the distribution of goods as their vested interest, and to feel that these interests gave them the right to collect high tolls on all sales to consumers. Their claims to a "fair profit" included margins not only sufficient to cover their expensive costs of operation, but also a lot of uncorrected inefficiencies and a high net profit as well.

The newer systems of direct distribution offered many improvements to consumers. Their stores were better stocked, more attractive, cleaner and better lighted. Their employees were better mannered and better trained to serve their customers. None of these improvements, however, were so significant as the lower prices generally offered by direct distribution. In addition to all of its other advantages, direct distribution has consistently sold goods at lower prices.

Direct distribution has made lower prices at retail possible as a result of one or more of five different methods as follows:

1. More limited service such as the cash and carry policy extensively followed not only by mail order houses, but also by chain drug, food and variety stores.

2. More efficient store operation resulting in lower costs of selling, in more sales per employees, or more sales per square foot of retail store space than had hitherto been secured by the older types of retail stores.

3. More carefully planned stocks which resulted in higher sales and a faster turnover. A better turnover insured a lower overhead expense. This, in turn, meant the goods could be profitably sold at a lower gross margin. Moreover, most direct distributors were also willing to carry on their business at a lower rate of net profit per dollar of sales as a means of extending their trade.

4. The purchase of goods directly from producers has made it possible in some part to eliminate the expenses and profits formerly required in wholesaling and other middlemen institutions.

5. Finally, large quantity purchases have enabled direct distributors to buy their goods for less because of the savings they were able to make for producers in selling, warehousing, transportation, accounting, credit and other expenses.

Much of the savings made by these various methods by direct distributors were and are largely passed on to customers. Every comparison made between the prices of goods offered by retailers served by wholesalers, and prices charged by direct distributors has shown a decided advantage in favor of the latter. Naturally, these differences have been most significant and most frequently noted in comparisons between independent stores and chain stores. The amounts of these differences have been found to range from 5 per cent to 20 per cent and even more. The average differences are well over 10 per cent.

Effects of the Competition of Direct Distribution

What have been the effects of the rise and spread of direct distribution on the wholesaler-retailer system? Comprehensive statistics comparing the relative trends prior to 1929 are not available. It is improbable, however, that retailers supplied by wholesalers who enjoyed a total volume of nearly thirty-five billions in 1929 have ever had greater sales than this amount. The total retail sales volume through all types of stores certainly did not exceed this amount in 1920. From the figures available since 1929, it is clear that the wholesaler-retailer system has gained rather than lost in its proportions of total retail sales. It, therefore, seems fair to say that the growth of direct distribution has probably paralleled the gains in total retail sales, while the wholesaler-retailer system has but held its own.

The antagonism of the wholesaler-retailer system towards direct distribution may, therefore, be ascribed to a jealous belief that if it had not been for the competition of the direct distributors they might have had the entire business. This antagonism was no doubt intensified during the 1920's by a fear that direct distribution might secure a much larger percentage of the total retail trade than it has actually taken. Additional reasons for this fear were contributed by the direct distributors themselves, particularly by the chain stores and their promoters, who as we now clearly see, oversold the idea of direct distribution and its possibilities of expansion in this country.

Aside from the rise of this competitive antagonism towards direct distribution, a great many changes and improvements have been made in the wholesaler-retailer system. Beginning early in the 1920's and continuing down to the present time, independent retailers have taken drastic measures to do their work better and more economically. In a widespread way, they have rebuilt and remodelled their stores. They have installed modern equipment, modern methods of accounting and modern merchandising and service. Most independent stores are now as bright, clean, well-lighted and attractive as their chain and department store competitors.

Wholesalers have likewise made marked progress in improving their functions and especially in cutting their costs of operation. Useless and unnecessary services have been eliminated. Attempts to carry on wholesaling in a national way have given way to intensive cultivation of local territories. General wholesalers have largely been displaced by specialists. The warehousing functions have been reduced to engineering simplicity. The costs of wholesale marketing have been considerably cut

down by selective selling. Accounting and credit risks have been materially reduced. The expenses of wholesaling are now, in many cases, as low as the overhead and warehousing costs incurred in direct distribution.

The wholesaler-retailer system has likewise taken entire chapters from the book of chain store operation in organizing and operating so-called voluntary chains and coöperative chains, more or less duplicating the services and especially the quantity buying functions of the regular chains. There is scarcely a device or method used by direct distributors not duplicated and used by these wholesaler-retailer organizations.

By 1929, it had been noted by close students of distribution, that direct distribution had ceased to show the rapid gains in expansion and of sales made in previous years, and that the movement towards direct distribution had taken on some of the characteristics of maturity. The awakening of the wholesaler-retailer system to the competitive dangers of direct distribution during the years preceding, had led to the adoption of changes in policy and operation which began to offset these dangers and served to flatten out the differences that had previously existed. There was every indication that both the wholesaler-retailer system and the direct distribution systems, if left to themselves, might thereafter have gone on together, each holding its own.

Through the improvements and economies introduced by direct distribution and widely copied and adapted by the wholesaler-retailer system, enormous savings have been introduced into the marketing of goods. These improvements and economies have proved of inestimable advantage to consumers. The competition has been keen and the public has benefited immeasurably. There have been enormous improvements and advances in convenience and service. There have been huge economies in operation which have been passed on to consumers, averaging at least 10 per cent on all retail sales, amounting to savings of five billions of dollars a normal year. These reductions in the costs of goods bought through retail stores have made it possible for consumers substantially to improve their standards of living in other directions. These savings from retail purchases have been set free for use in buying other goods and services. Were these savings now to be lost, it would be those industries which have grown up most rapidly in recent years and which depend for their very existence and growth on the surplus purchasing power of the American public that would be the first to suffer serious declines.

Wholesalers and Retailers Go into Politics to Destroy Their Competitors

Notwithstanding the substantial progress made by the wholesaler-retailer system in meeting the competition with direct distributors, certain representatives of this system have recently adopted methods of combat by which they apparently hope not only to restrict and handicap their rivals but also to crush them. This new technique makes no pretense of attempting to increase efficiency, to improve distribution, to cut costs of operation or to reduce prices to consumers. It consists merely in getting the help of politicians in passing laws which will hinder, handicap and restrict the operations of competitors and so make it possible to gain the upper hand.

This technique first made its appearance in Indiana in 1926 in the form of an anti-chain store tax. Its provisions were so mild, however, that both legislators and courts apparently failed to see its sinister economic implications. Since 1926, 21 other states have passed similar laws, and, in almost every instance, each has been more severe in its attacks upon direct distribution than the preceding. The earlier anti-chain laws set the principle and pointed the way of using this weapon against direct distributors. More recent laws have become more distinctly destructive.

The practice of turning to politicians for protective legislation as a means of relief from the difficulties of rendering a steadily improving service at a declining cost under competition with direct distributors has taken several forms. In addition to the 22 states in which anti-chain laws have been passed, there are 18 states in which so-called "unfair trade practice acts," forbidding the sale of goods below cost, have been passed. Moreover, in 42 states there are now price maintenance laws, euphoniously termed "fair trade acts," permitting the fixing of retail prices and prohibiting all retailers within a state or other competitive area from selling below such prices. Further regulations, intended especially to apply to and restrict the purchasing methods of direct distributors, have recently appeared in the Robinson-Patman Act of 1936.

The fact that some of these laws include provisions that do in fact correct certain evils that needed correction is beside the point. These evils could have been simply corrected without the inclusion of provisions intended to favor one branch of distribution at the expense of another.

Other proposals have been made, and may be adopted, intended to place further handicaps upon direct distribution and so give further aid to the wholesaler-retailer system under the guise of helping the "little man." Among such proposals is the possibility of requiring all concerns engaged in interstate-business, and this means most direct distributors, to obtain a Federal license to be granted only upon condition of acceptance of several restrictions as to methods of operation, restrictions not required of retailers who make their purchases of wholesalers. Another proposal would prohibit chain stores from operating in more than one state, and still another proposal is intended to prohibit any manufacturer or producer who sells his goods through wholesalers also to sell to retail stores of his own or otherwise at retail.

Finally, the wholesaler-retailer system is apparently making as much as possible of a somewhat indefinite under-current of fear of and antagonism to all forms of big business, a fear that is now prevalent in this country. This may well be a part of the world-wide emotional unrest and the unending quest of dreamers for some new panacea for our economic and social ills. In aiding this undercurrent the wholesaler-retailer system may discover sooner or later that it is participating in the preparations which, if successful, may well lead to their own liquidation.

Outlook for Direct Distribution

Direct distribution has been and is now an effective force for the economical distribution of goods. As such it not only serves the interest of consumers but also of producers. Direct distribution has kept and is keeping competition alive in the channels of trade. It has been

instrumental in reducing the costs of distribution of goods materially from producers to consumers. It has, therefore, reduced prices to consumers not only through its own stores but also by competition in other stores as well. It is not merely those who buy in the department stores, mail order houses and chain stores who profit from these savings, but also all those who buy in other stores affected by the competition of these concerns.

Consumers who have been the chief beneficiaries of these gains have in turn used these savings in expanding and raising their standards of living in other directions. They have used these savings in purchasing billions of dollars worth of other goods which they would not otherwise have been able to enjoy.

Direct distribution has undoubtedly reached its maturity. This does not mean that it has reached the point of decline, but rather that, if left to itself, unhampered by unfair restrictions and class legislation, it might go on with the other systems of distribution in providing goods and services to the consuming public at the most reasonable prices possible. Consumers in this country

now enjoy the best system of retailing in the world. This condition might well continue so long as an even balance is maintained among the competitive systems that seek the consumers' trade.

It would be easy to forecast a continuance of the trends towards more efficient and more economical distribution were it not for the political efforts now being made by selfish interests to restrict or to destroy direct distribution. These efforts constitute a definite menace not only to direct distribution, but, more to the point, to the consuming public and to the producers of goods. These efforts constitute a special menace against those producers and distributors whose businesses have been built up as a result of the surpluses of purchasing power resulting from the economies introduced and spread by direct distributors. These efforts are becoming overt and acute. They are rapidly becoming a public issue. Apparently nothing short of a general awakening to the problems and interests involved can save this country, its consumers, its producers and even its distributors themselves from this menace.

The Agricultural Coöperative Movement in Relation to Consumer Coöperation or Private Trade

A. H. STENSGÅRD*

SUMMARY

Agricultural sales associations have advanced considerably in the course of the last few years. The greater part of the produce is now collected by them, and they also manage some processing, as well as the wholesale and to some extent the retail distribution of farm products.

The consumers' coöperative movement in Sweden has long advocated that farmers, through their sales associations, should control the collection and preliminary processing of their produce; but that further processing and distribution should be effected by the consumers' organizations in competition with private trades.

Agricultural associations, however, are bound to sell all the produce of their members to the best advantage. Hence, they can only afford to leave retail trade in the hands of consumers' organizations and private tradesmen when both these parties agree to treat the farmers' organizations as most favoured sellers.

These issues have now been settled by agreements made between the principal agricultural associations on the one hand, and consumers' associations and private trade on the other. To the former are allotted the collection of the produce and such processing as is associated with this; while the latter are to look after distribution. Both parties have undertaken, however, to respect and admit any now existing exceptions to that general principle.

In the egg trade a certain amount of coöperation has been agreed upon, and the consumers' associations may there act as the collecting organizations of the egg associations.

The agreements embody the general working principles adopted in the respective branches, and also stipulate that joint delegations shall be appointed, consisting of an equal number of members from either party. In each delegation six members are elected to serve as a board of arbitrators for settling any disputes arising.

THE agreements made in Sweden during 1936 between agricultural-economic associations on the one hand, and consumers' coöperatives or private trade on the other, must be considered against the background of recent progress in organizing the marketing of farm produce. Such organizations have made great strides in the last few years in Sweden, both in membership and turnover. About 80 per cent of all the milk, and a good 70 per cent of the animals for slaughter, are now sold through associations, which but a few years ago did a much smaller share of the business. Associations process milk into dairy produce, slaughter animals, and sell the greater part of these products at wholesale. Progressive associations have thus supplanted private enterprise in the collection, processing, and wholesale disposal of goods—generally by buying them out. Nor has retail trade remained unaffected. Formerly both joint-stock and private dairies often had retail shops of their own. When such dairies and wholesale businesses were acquired by the farmers' associations, their shops were also taken over, and new ones established in many places. In some cases this has involved a considerable expansion of the retail trade of the associations.—Some of the joint stock butcheries also used to have their own shops, and new shops were opened as the associations grew. The object of this expansion of the distributing organization was often to facil-

itate the sale of by-products, and to enable the members to buy meat direct from the association. But the opening of new shops was frequently due to the difficulty of selling the products any other way in competition with other local firms. If, for instance, local firms refused to buy beef from a butchering association with no shops of their own in that place, the former, having control of the local sales and retail prices, could pay more for the animals for slaughter. Conditions become different if the association opens its own shops and takes its share of the local trade. It will then be able to regulate retail prices.

Consumers' Coöperation which is well organized and very strong financially in Sweden has had a rapid growth, but it has not (by a long way) increased its turnover as rapidly as have the farmers' marketing associations. The consumers' associations are reported to be selling about 15 per cent of all the food sold in Sweden. That percentage will of course vary greatly in different parts of the country. Obviously, they cannot sell more than a fraction of what the producers' associations sell.

The policy of consumers' associations in Sweden has long been that the farmers should control the collection and initial processing of their products through their marketing associations, while further processing and distribution should be managed by Consumers' Coöperation in competition with other traders. With certain exceptions, the Coöperative Federation has acted on that principle. In one or two cases it has even assisted a produc-

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ers' association in difficulties, so that the latter could continue its activities.

The growth of farmers' associations, however, has in recent years caused anxiety both in private retail trade and in consumers' associations, chiefly because of the tendency of the producers to increase their distribution activities by opening retail shops. Private retailers naturally did not like having farmers encroach upon what the retailers considered *their* business; while the consumers' associations, as has been said above, considered that retail distribution was *their* job, in which producers ought not to interfere. Both of them pointed out how unfair it was on the part of the farmers, who supplied the retail shops, to compete with private retailers and consumers' associations by establishing shops of their own. The obvious reply of the agricultural organizations was: "We have to sell the products of our members to the best advantage. If you are not prepared to buy from us on favourable terms, we are compelled to establish our own retail shops. If we are to cease doing so, you must treat us as the most favoured sellers."

The consumers' associations also expressed the fear that the farmers were trying to create a *monopoly*. This the former were bound to oppose, as they represented the interest of the consumers. Not wishing to be wholly dependent on the farmers' associations for their supplies, they thought they had better establish their own collecting organization while there was still time to do so. Some dairies and a few butcheries were, therefore, bought.

The above account is of some importance for a proper understanding of subsequent agreements. It will be seen that there were numerous conflicts of interests and opinions which had to be settled if an agreement was to be reached. The alleged risk of monopoly, for instance, had to be considered. As a matter of fact, the agricultural organizations are hardly in a position to establish a monopoly, as they have no power to restrict production. Their statutes give them no such right. Even though the associations may have a very large membership, prices will depend as before on the quantities produced by farmers, which the associations are bound to accept and sell. The associations can thus benefit their members primarily by selling more, and not by trying to establish monopoly prices. Realization of this fact has done much to remove the said fears. One point in the agreements serves the same purpose, viz., that no producers' association may demand contracts stipulating compulsory purchases, i.e., that the other party shall buy all it needs from one association alone. The consumers' associations and the private traders are thus at liberty to buy elsewhere, if any association should put its prices too high. With fear of monopoly thus removed, consumers' associations could agree not to establish their own collecting organizations, and the principle that the producers' organizations should do all the collecting work and any processing associated with this could be generally accepted. As it was further stipulated that consumers' associations and private traders must give preference to the farmers' associations as suppliers of goods when prices are equal, the latter were able to agree to the principle that they would only in exceptional cases do any retailing business. The above has, I trust, explained the meaning of some of the fundamental stipulations in the agreements. The delicate and important question of defining the boundaries has thus

been decided on the principle that the farmers' organizations shall collect the produce and do any processing directly connected with that work, while consumers' associations and private traders will handle distribution. Without this concession, farmers' organizations would probably not have subscribed to any agreement. A definite distinction has thus been made between associations representing farmers as producers, and associations representing the interests of consumers. A rider has been added, however, to the effect that the parties mutually agree to allow exceptions from the main rule so as to maintain approximately the present shares of each party in the total turnover in the whole country. The distributing organization of the producers' associations can obviously not be wound up immediately; hence, these exceptions. Coöperative slaughterhouses shall also, notwithstanding any other stipulations, be entitled to have a retail shop in the same locality or—if situated in the country—in the nearest town or large industrial community.

Finally, exceptions may be made in special cases, but only with the consent of a special joint delegation. The agreement made with private traders indicates what kind of reasons will be considered to justify such exceptions. The agreement says that, if retailers make use of methods that hamper or prevent the sale of the products of the farmers' organizations (e.g., by purchasing mainly from other than the farmers' organizations, or by demanding selling charges so high that retail prices cannot be suitably adjusted to the wholesale prices) producers' organizations shall be entitled to open retail shops of their own. The question must first be discussed by the joint delegation, where efforts can be made to find a solution for avoiding the opening of such retail shops.

The above account refers primarily to milk, dairy produce, and animals for slaughter. The principles laid down for the egg trade provide for some coöperation in collecting, so that a consumers' association may collect eggs for an egg association. This coöperation is also extended to selling.

In another branch, viz., the buying of cattle foods, fertilizers, etc., a consumers' association may be appointed to act as the agent (distributing) of a farmers' association. In that case, the National Federation of Farmers in Sweden looks after the wholesale trade in such commodities for the consumers' associations. The latter are not permitted, however, to undertake anything beyond retail trade in commodities used for the work on the farms, i.e., merely sell small quantities over the counter. On the other hand, the farmers' associations are not to sell consumers' goods. This means that in Sweden consumers' coöperation, represented by the Coöperative Federation, even serves the households of the farmers themselves. In this country there is, thus, only one coöperative movement among consumers.

Similar agreements have been made with private dealers, although they are not so detailed. As far as grain is concerned, the agreements are of hardly any practical importance, and there are none respecting cattle foods and fertilizers.

Someone may ask why agreements with private dealers should be necessary. The reason is that an agreement with the consumers' associations would only cover their share or 15 per cent of the total provision trade in Sweden.

The bulk of the agricultural produce must, therefore, be sold to other buyers. Should private dealers compete with them in this, the farmers' associations would have to extend their distributive organization, and would then be unable to keep any agreement with the consumers' associations as to their respective spheres of work.

The agreements deal partly with general principles to be followed in the respective cases, and partly with the appointment of a joint delegation to which all issues are referred. The former, which have been described above, are the most important, and may be said to be the guiding principles for the work of the different organizations.

Joint delegations are composed of a like number of members from each side. They elect a committee of 6 of their members to act as a board of arbitrators for the

settlement of any disputes arising. One might say that these delegations and boards have to see that the above general principles are observed. Their other duties are to promote mutual understanding and coöperation, and to prevent and remove causes of friction.

These agreements, made between the large organizations, are obviously not legally binding on the individual members of each. Results, therefore, depend mainly on the willingness of the local organizations to comply with them, and on the ability of the main organization to enforce acceptance of the principles involved. The agreements have, however, produced an atmosphere favourable to the development of good relations, based on mutual confidence. So far, results justify the hope that the co-operation thus begun will be of lasting value.

Gli Studi Sul Servizio Di Distribuzione E Sui Mercati Di Consumo In Italia

PROF. GUGLIELMO TAGLIACARNE*

SUMMARY

Earnest, well documented, and objective studies on the organisation of distribution and of consumption markets in Italy have been realised only in recent years in that country, and chiefly by the Fascist Confederation of Merchants and the Italian Section of the International Chamber of Commerce.

Reports concerning two important inquiries were submitted on behalf of the above mentioned Section by Professor Guglielmo Tagliacarne, Director of the Research and Statistical Office of the Confederation of Merchants, to the Congresses of the International Chamber of Commerce held respectively in Paris (1935) and in Berlin (1937). In the first report (Paris Congress) the equipment and structure of the wholesale and retail trades in Italy were examined, as were also the different cost components which go towards increasing the price of goods on their way from the producer to the consumer.

The second report (Berlin Congress) contained a survey of the chief consumption markets in Italy (fish, eggs and poultry, cattle and meat, flowers, fruit and vegetables), particular attention being given to the organisation of the different services available for the said markets and to the incidence of their cost on selling prices.

Mention is made of a recent initiative of the Consultation and Concern Statistics Centre (E. N. I. O. S.), of Florence, intended to ascertain the absorption power of the several regional markets in Italy.

Finally, the commercial and distribution census is referred to which is to be taken in the whole of Italy in 1940 by the Central Statistical Institute.

ANCHE in Italia, come del resto in tutti i paesi, le ricerche e gli studi concernenti i problemi della distribuzione delle merci dalla produzione al consumo sono stati trascurati sino a pochi anni fa. Eppure questi problemi hanno sempre interessato e preoccupato gli uomini di Governo e la grande massa del pubblico, che in questo caso si rappresenta col nome di consumatore. Infatti sono numerosi in tutti i tempi e luoghi provvedimenti che concernono questo servizio indispensabile in ogni forma, anche primordiale, della società; così come sono innumerevoli gli articoli che si occupano dei problemi stessi, quasi sempre, però, senza una sufficiente preparazione.

Quelli che sono mancati sono gli studi seri, documentati, obiettivi.

Gli sconvolgimenti dei rapporti economici degli ultimi anni, i rapidi movimenti dei prezzi, le profonde crisi economiche e le più profonde crisi dello stesso sistema economico hanno richiamato con maggior insistenza e urgenza l'attenzione sul meccanismo della distribuzione delle merci e del suo costo.

Le indagini della Confederazione dei commercianti

L'organizzazione sindacale, che rappresenta le categorie commerciali alle quali è affidato il compito di questo servizio è stata la prima, la più pronta e la più attiva a chiedere di far luce sui vari aspetti e sui vari elementi che

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concernono l'afflusso dei prodotti dai campi, dalle fabbriche, dalle miniere ai concentramenti dei magazzini dei grossisti e al frazionamento in piccole quantità adatte al consumatore.

La Confederazione fascista dei commercianti iniziò nel 1931, per la prima volta in Italia, la rilevazione diretta e sistematica dei numerosi elementi di costo del servizio di distribuzione, assumendoli presso tipiche aziende commerciali all'ingrosso e al dettaglio, scelte col sistema "rappresentativo," in varie parti d'Italia.

L'indagine riguardò parecchie centinaia di magazzini all'ingrosso e di negozi di vendita al dettaglio nei rami più importanti di commercio dei generi alimentari, di abbigliamento e arredamento.

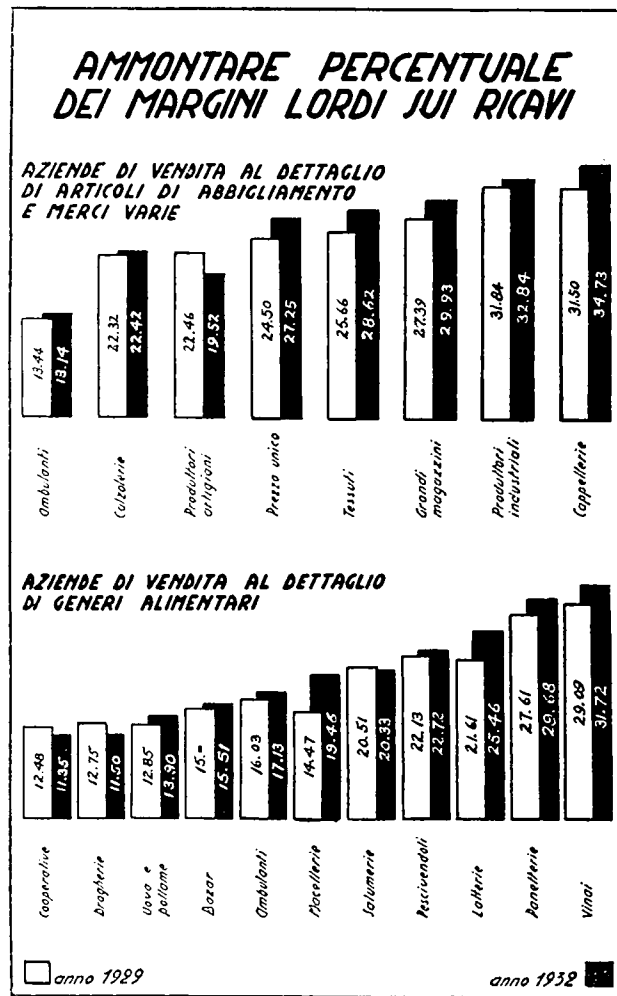
Più tardi, ricorrendo il primo decennale della rivoluzione fascista, fu ancora la Confederazione dei commercianti a trattare in una documentata monografia inserita nell'opera "Commercio: 1922-I-1932-X" la questione del costo del servizio mercantile, e a fornire dati precisi ed obiettivi sul costo del servizio stesso e sui margini lordi e netti esistenti fra i prezzi delle merci alla produzione e quelli al consumo.

Infine la Confederazione dei commercianti ha dato negli ultimi anni la sua attiva collaborazione a uno speciale Comitato della sezione italiana della Camera di Commercio internazionale sorto con lo scopo di studiare a fondo, con una documentazione seria e sicura, il meccanismo e il costo del servizio di distribuzione in Italia, in connessione e analogia agli studi che si dovevano compiere presso altri paesi, conformemente a una deliberazione adottata al Congresso di Washington della Camera di Commercio internazionale nel 1931.

Le inchieste della sezione italiana della Camera di Comm. internazionale

Si devono all'attività del suddetto Comitato i principali studi che sono stati fatti in Italia durante questi ultimi anni per portare finalmente anche in questo campo, sinora deplorabilmente abbandonato alle improvvisazioni, la ponderatezza dell'indagine scientifica.

I risultati ottenuti sono notevolissimi, e sono valsi a smentire molti luoghi comuni, molte idee false, a chiarire cognizioni rimaste per lungo tempo confuse, a stabilire l'importanza dei vari elementi di costo, a giudicare



obiettivamente e per la prima volta la vera misura dell'utile che l'intermediario tiene per sé a compenso del servizio ch'esso rende, utile che, contrariamente all'opinione popolare diffusa, è ben piccola parte del complesso delle spese e delle imposte che gravano sul passaggio delle merci prima di giungere al consumatore.

Un ampio studio è stato presentato dalla sezione italiana della Camera di commercio internazionale al Congresso di Parigi nel 1935.

In una prima parte di tale studio viene analizzata la struttura e l'attrezzatura delle aziende commerciali in Italia; in una seconda parte si forniscono i risultati di un'indagine ampia e approfondita compiuta dalla sezione stessa con la collaborazione, oltre che della Confederazione dei commercianti, delle Confederazioni dell'Industria

e dell'Agricoltura, dell'Ente della Cooperazione, del Ministero delle Corporazioni (a mezzo dei Consigli Provinciali delle Corporazioni) e dell'Istituto centrale di statistica.

Da questo studio è risultato che il numero delle persone addette al commercio in Italia è aumentato negli ultimi cinquant'anni dell'80 per cento, mentre la popolazione adulta è aumentata di poco più del 40 per cento. Gli addetti all'industria sono aumentati del 25 per cento e quelli dell'agricoltura sono diminuiti del 5 per cento. Si vede quindi che l'aumento della popolazione commerciale è sensibilmente superiore a quello complessivo del numero di abitanti e a quello delle persone che sono occupate nell'industria e nell'agricoltura.

E' pure risultato che la partecipazione della donna nell'attività commerciale rappresenta circa un quarto del personale addetto al commercio, sale a circa il 40 per cento nel commercio al dettaglio di generi alimentari e in quello di filati, tessuti, mercerie; aumenta a quasi il 50 per cento negli esercizi pubblici e negli alberghi.

Le aziende commerciali ammontano in Italia a circa 800.000 unità (per il 95 per cento a conduzione familiare) con circa 1.600.000 addetti. Si ha così un esercizio ogni 50 abitanti e un addetto ogni 25 abitanti.

Con larga approssimazione si può dire che per distribuire i prodotti alla cui produzione attendono circa 12 milioni di persone che lavorano nei campi, negli opifici e nei cantieri industriali (sia per l'interno come per l'estero) occorrono oltre mezzo milione di persone addette ai trasporti e oltre un milione e mezzo di persone occupate nelle aziende commerciali. Considerando assieme il servizio di trasporto con quello della vendita all'ingrosso e al dettaglio, abbiamo quindi una persona che attende al servizio di distribuzione ogni sei persone che producono, intendendo questo termine in senso restrittivo.

L'indagine compiuta sulla composizione dei costi nei vari rami di commercio e nelle diverse forme di attività distributrice delle merci, ha dimostrato che pure nella molteplicità e, alle volte, contraddittorietà delle singole situazioni aziendali, alcuni elementi si presentano così insistenti e costanti da assumere un carattere generale.

Di particolare interesse e importanza sono i risultati ottenuti circa l'ammontare percentuale dei margini lordi sui ricavi nei diversi rami di commercio al minuto di generi alimentari, di abbigliamento e arredamento, riferendosi al 1929 e al 1932, che riproduciamo qui di seguito (table 1).

Al Congresso della Camera di commercio internazionale tenutosi a Berlino nel 1937, fu ancora la Sezione italiana che presentò un nuovo studio sull'organizzazione, sul funzionamento e sui costi di alcuni importanti mercati di consumo italiana.

I mercati studiati sono quelli del pesce, delle uova e pollame, del bestiame, dei fiori, della frutta e verdura. Per ognuno di essi sono state raccolte particolareggiate notizie sulla superficie, sulla gestione, sugli orari di mercato, sui raccordi ferroviari, sulle celle refrigeranti, sui sistemi di vendita, sugli operatori, sulle categorie di acquirenti, sull'esistenza della cassa di mercato, sulla compilazione dei listini dei prezzi e sulle statistiche delle merci introdotte e uscite dai mercati con la indicazione delle principali provenienze e destinazioni delle merci stesse.

La parte più importante di questo studio è però dedicata alla documentazione delle varie spese, degli aggravii, delle tariffe, dei diritti, ecc., che le merci subiscono nel loro passaggio sui mercati, e all'esame di alcuni bilanci di costi e di ricavi riguardanti un gruppo di aziende grossiste che esercitano il loro commercio sui mercati stessi.

TABLE 1
Percentuale dei Margini Lordi sull'Ammontare delle Vendite

	Anni	
	1929	1932
(A) Aziende di vendita al minuto di generi alimentari		
Drogherie.....	12,75	11,50
Salumerie.....	20,51	20,33
Bazar alimentari.....	15,00	15,51
Pescivendoli.....	22,13	22,72
Negozi di uova e pollame.....	12,85	13,90
Macellerie.....	14,47	19,46
Fornai.....	27,61	29,68
Latterie.....	21,61	25,46
Negozi di vino.....	29,09	31,72
Spacci cooperativi.....	12,48	11,35
Venditori ambulanti.....	16,03	17,13
(B) Aziende di vendita al minuto di articoli di abbigliamento e merci varie		
Negozi di stoffe.....	25,66	28,62
Negozi di cappelli.....	31,50	34,73
Negozi di scarpe.....	22,32	22,42
Grandi magazzini.....	27,39	29,93
Negozi a prezzo unico.....	24,50	27,25
Negozi di calzature, di produttori industriali.....	31,84	32,84
Negozi di calzature, di produttori artigiani.....	22,46	19,52
Venditori ambulanti.....	13,44	13,84

Lo studio sulla capacità di assorbimento dei mercati

Un'altra importante iniziativa, recentissima (gennaio 1938) che va ricordata, è quella del Centro di consulenza e studi per la statistica aziendale, sorto a Firenze sotto gli auspicj dell'E. N. I. O. S.

Si tratta di uno studio sulla base di elementi ed indici statistici, intorno alla capacità di assorbimento dei mercati d'Italia (province, regioni, capiluoghi e centri urbani).

L'iniziativa è utilissima perchè troppo si abusa, anche da parte di dirigenti di azienda e uomini d'affari del preteso intuito a fiuto degli affari, e ci si affida a sistemi empirici, là dove un'indagine accurata, su dati statistici, potrebbe fornire ottimi elementi per disporre un piano di vendita, per il lancio di un nuovo prodotto, per la maggior diffusione di un prodotto già conosciuto, attraverso l'opera di agenti di vendita, di piazzisti, viaggiatori o di succursali.

Il Centro di consulenza e studi per la statistica aziendale ha raccolto in una pubblicazione pratica, destinata agli

uomini d'affari, un buon numero di serie statistiche che possono servire per avere un'indicazione abbastanza approssimativa sul valore commerciale delle singole province e regioni d'Italia, e ha calcolato, per ogni serie statistica considerata, rapporti-indici, sotto forma di percentuali che stanno a indicare il tanto per cento che ogni provincia, ogni regione rappresentano sul totale del regno per ciascuno degli elementi presi in esame. Il dirigente d'azienda è posto così in condizione di rendersi conto nel modo più facile, rapido e semplice dell'importanza dei vari mercati.

Fra le serie statistiche che figurano in questa pubblicazione, alcune riguardano la popolazione complessiva, distinta a seconda dell'età e del sesso (elementi indispensabili, come facilmente si intende, per valutare le possibilità di vendita dei prodotti); altre si riferiscono al settore rurale (popolazione addetta all'agricoltura, superficie agraria, terreno seminato, numero dei capi bovini, consumo di fertilizzanti); altre riguardano alcuni importanti indici di consumo (tabacco, telefono, auto-veicoli, ecc.) e il gettito di alcune imposte e tasse di larga base, attraverso i quali indici si mira ad avere una misura comparativa sul grado di benessere e sul tenore di vita della popolazione nelle singole zone verso le quali si deve indirizzare la vendita dei prodotti.

Il prossimo censimento della distribuzione

Infine vogliamo ricordare che un'indagine della massima importanza per lo studio veramente approfondito del servizio di distribuzione verrà compiuta nel 1940 dall'Istituto centrale di statistica. Avrà luogo infatti in tale anno il censimento commerciale e della distribuzione, in base a un provvedimento legislativo già adottato e a studi che sono in corso.

Il censimento del 1940 darà modo di conoscere in ogni particolare il complesso meccanismo attraverso il quale le merci passano dal produttore al consumatore, servendosi di parecchie centinaia di migliaia di aziende dislocate in ogni parte del territorio nazionale, con forme diverse di organizzazione mercantile, con entità commerciali di varia dimensione, per adattarsi ai multiformi bisogni del consumo.

Saranno raccolti ufficialmente, per la prima volta in Italia, importanti elementi, come l'ammontare dello smercio, i salari pagati al personale addetto alla vendita, i principali elementi di costo (affitto, imposte e tasse, ecc.) che gravano sul passaggio delle merci.

Con gli studi qui ricordati, che negli anni più recenti si sono effettuati in Italia per rispondere specialmente al bisogno dell'ordinamento corporativo italiano, anche il settore dell'attrezzatura mercantile, del funzionamento dei mercati di consumo e dei relativi costi è stato efficacemente esplorato, promovendo e agevolando, pure nell'attività d'intermediazione rivolta al servizio di distribuzione delle merci, l'impiego di metodi sempre più razionali.

DISTRIBUTION

SESSION }
SITZUNG } III
SESSIONE }

Costing and Pricing

Détermination des Frais et des Prix

Kosten- und Preisbestimmung

Determinazione dei Costi di Produzione e dei
Prezzi di Vendita

Costing and Pricing

A Critique Prepared by
M. P. McNAIR,* *Rapporteur*

The title for this Session of the Distribution program, implies a relationship between the problems of cost and the problems of price in the field of distribution. That such a relationship exists broadly no one will seek to deny. It is only when the view of these problems is narrowed to envisage particular cost-price relationships that serious differences of opinion arise. But these problems of costing and pricing in marketing are so ample in scope that many different approaches are possible without hampering the investigators for lack of elbow room.

There are many students of marketing who seek primarily to understand the anatomy and behavior of distribution costs. In the category of efforts directed to this end belong the papers of F. L. van Muiswinkel and V. Sada. Dr. van Muiswinkel has concerned himself with the interrelations of gross margin (gross profit), total expense, and stock-turn in retail businesses in Holland as revealed by the investigations of the Economisch Instituut voor den Middenstand. His point is well taken that the study of costs alone is insufficient, that costs cannot be understood except in relation to such other factors as gross margin and stock-turn. High gross margin he finds usually to be accompanied by high distribution costs, with the gross margin generally higher for those lines of trade handling commodities which are further removed from prime necessities. The close relation between gross margin and distribution costs accords with common-sense expectation; but the hypothesis that the gross margin tends to vary according to the necessity or luxury characteristics of the items requires further examination. Here the element of stock-turn (not sales turnover, but the rapidity of sale and replacement of an average stock) enters the picture. Dr. van Muiswinkel notes that high rates of gross margin commonly are accompanied by low rates of stock-turn, and vice versa, and again surmises that the luxury or necessity characteristics of the merchandise afford a clue to the differences.

In considering such problems as these, one may well make a distinction between natural differences and managerial differences. There are natural differences between meat markets and jewelry stores which account for a stock-turn rate of perhaps 30 or 40 times a year in the meat business as compared with one time a year in the jewelry business. Similarly there are natural differences between meat and cigarettes which make the gross margin substantially higher in the first case than in the second case. At the same time, within any one of these three branches of trade will be found concerns having different rates of

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stock-turn and different rates of gross margin wholly attributable to managerial differences. Obviously therefore the relationships of gross margin, stock-turn, types of merchandise, and management policies are essentially complex and do not lend themselves to the making of easy generalizations.

There is also the fascinating problem, which Dr. van Muiswinkel does not undertake to attack in the short compass of his paper, of the relationship between the rate of stock-turn and the total expense percentage, with interest centering particularly on the effects on total expense of the managerial differences in stock-turn. But that is a long story.

Dr. van Muiswinkel devotes a brief part of his paper to emphasizing what we in America should call the problems of merchandise control. He alludes to the numerous factors which, if not properly controlled, tend to reduce the gross margin. In conclusion he emphasizes, quite properly, the necessity that studies of distribution costs should include not merely data on costs but also a broad range of information on gross margin, net profit, rate of stock-turn, financial ratios, and personnel statistics as well. On the basis of American experience, this conclusion can be heartily applauded.

Before leaving this paper, however, the rapporteur must express some doubt on another of Dr. van Muiswinkel's conclusions—namely, that *average* figures for gross margin and distribution costs for any branch of retail trade are of little value. Granted that there are numerous causes of difference among individual concerns, it still seems desirable to pursue the objective of experimenting with various classifications of companies in a particular line of trade with a view eventually to arriving at significant types of averages. This is a line of thought which might well lead to an examination of the propriety of the concept of the representative concern in marketing.

In his paper, "The Changes of Operating Expense Ratios at Different Price Levels," Dr. V. Sada concerns himself with the dynamic aspect of retail operating expense ratios. In the studies of the Czechoslovak Statistical State Office of operating expenses in retail hardware stores and retail drug stores, a sharp increase is disclosed between the percentage cost of doing business in 1928 and the percentage cost of doing business in 1935. This period comprised mainly the depression years; and over these years there was a rapid shrinkage of money sales volume. This shrinkage, according to Dr. Sada, did not represent primarily a decrease in physical volume, but rather a decline in the price level and consequently a drop in the money value of the average sales transaction; and precisely here

is to be found the reason for the rise in operating expense ratios. Retail expenses may be segregated into two groups: those which are elastic or variable, that is, those which keep pace with the growth or decline in sales; and those which are inelastic or fixed, those which do not change in money amount as sales increase or decrease. Dr. Sada shows that, if the proportionate size of these two groups of expenses can be determined, it then becomes possible by the use of a simple formula to determine how much the expense rate will rise with a given decline in money sales volume brought about by a drop in the price level.

Unquestionably Dr. Sada is correct in his diagnosis of the major cause of an advance in retail operating expense ratios during a business depression. Such a formula as he proposes clearly has some serviceability for facilitating the comparison of expense ratios at different price levels. How far such a device would be useful to a retailer in budgeting expenses during a time of declining sales, or how far it would be useful to a manufacturer in figuring what trade discounts to offer during a period of price declines, is perhaps more questionable.

The situation in reality is not quite so simple as Dr. Sada's formula suggests. During the downswing of a cycle there are some declines in physical volume of goods purchased at retail, and these declines affect different classes of goods unequally. Also, there are shifts by consumers to cheaper articles of merchandise, and new and cheaper goods are introduced by manufacturers to meet these shifts. Furthermore, the factors of elasticity of demand and change of demand must be considered. And then, on the expense side, outlays must be budgeted in money amounts rather than in percentages, and these money amounts must be calculated with reference to expected physical sales volume, number of transactions, and so on. Although some expenses for a particular period can be readily classed as variable and some others as fixed, there are between these two groups a number of classifications that may be more or less variable or more or less fixed, depending on the length of the period, the particular circumstances in the individual establishment, and the like. The only practical procedure for a concern which wishes to have some guide other than rule of thumb seems to be a thoroughgoing application of the flexible budget, that is, a set of expense plans formulated for several different possible physical volumes with due consideration of the variable, semi-variable, and fixed expenses.

It might be supposed that if retail operating expense ratios advance during the depression phase of the business cycle, they would invariably exhibit a declining tendency during periods of prosperity. Dr. Sada expresses no view on this point, but it may be remarked that experience in the United States over the period from 1921 to 1929 does not support this conclusion. The expense rate in department stores, for instance, was about 27 per cent of sales at the beginning of the cyclical upswing of the twenties in the United States; and at the top of this movement in 1929 it had advanced to 33 per cent. To be sure, this was a period in which the general price level did not advance, but neither did it decline greatly; and it was a period when dollar sales volume was tending to increase from year to year. Quite evidently the explanation of the dynamic movement of retail operating expense ratios over periods

of time is an exceedingly complex one. Dr. Sada has contributed one element to it, but only one.

There are numerous other problems of distribution costs which belong broadly to the same category as those raised by Dr. van Muiswinkel and Dr. Sada. For instance, how are the marked discrepancies in expense ratios in the same lines of business in different countries to be accounted for? In Dr. van Muiswinkel's paper the total expense ratio for chemists and druggists in Holland for 1934 is indicated as 31.71 per cent of sales, whereas in Dr. Sada's article the operating cost of retail drug stores in Czechoslovakia is reported as 21.46 per cent of sales in 1935. Similarly, American department stores have at the present time an expense rate of approximately 35 per cent of sales, whereas English department stores exhibit a total expense ratio of about 25 per cent of sales. Then there is also the important problem of the effect of size of concern on distribution costs. Are there any economies in large-scale marketing? Some American data for retail stores imply that the total cost of doing business is high for very small concerns, lower for medium-sized concerns, and highest of all for the very large companies. British department store figures, however, tell a different story for the largest enterprises. Also there is some evidence that the operating expense ratios in wholesale firms have relations to sales volume which are different from those obtaining in retail concerns. But a study of costs alone will not lead us to the optimum size of concern. As Dr. van Muiswinkel suggests, we must look also at the variations in gross margin, rate of stock-turn, and size of investment, all in relation to volume of sales.

Then there is the exceedingly significant problem of the effects of functional integration on distribution costs. Is it correct to suppose that new groupings of marketing functions may give important promise of cost reductions? One may mention likewise the problem of the relation of size of city to distribution costs; the problem of quality and service as related to distribution costs; the effects arising from variations in the productivity of space employed in distribution, with particular reference to differences in location; the effects traceable to differences in the productivity of personnel in different types of distributive enterprise; the problems growing out of the effects of variety of goods handled on distribution costs; the problems related to seasonality. One might catalogue a long list of problems of this order.

Light on these problems is needed not only from the academic standpoint of completing our knowledge of the distribution process and equipping our university teachers, but also from the standpoint of the business executive who needs a broader background of understanding in order to manage his affairs successfully. Although there are still many unanswered questions, it must be remembered that over a period of 25 years our knowledge of distribution costs has increased enormously. Following the initial undertakings in this field by the Harvard Bureau of Business Research, in 1913, in America, and by Dr. Julius Hirsch in Germany at about the same time, there has been a great growth in the collection of distribution cost data of the type exemplified by the studies which Dr. van Muiswinkel and Dr. Sada have referred to. There remains, nevertheless, a large task of comparison, correlation, classification, and analysis before we can finally

achieve a passable understanding of the behavior of distribution costs.

With the paper by Dr. Robert Caussin, "The Limits of Profit Seeking," the transition is made to the problems of managerial action as contrasted with those of academic research. Dr. Caussin addresses himself to the general problem of maximizing profit, and sketches a philosophy of management directed to that end. He points out that, for a distributor, selling price, cost of doing business, and volume of sales are interrelated factors which cannot be treated separately (a thought which Dr. Sada seemingly has overlooked in his implied recommendation that mark-up percentages in a period of depression should be increased to any point necessary to cover the rise in the ratio of operating expenses to sales). With this general thesis there can be no quarrel. Dr. Caussin distinguishes between fixed and variable costs; but he does not follow this thought to its logical conclusion—namely, that the managers of a retail or wholesale concern should direct their attention to maximizing for the appropriate period the contribution to fixed cost and profit, this contribution, of course, consisting, for such an enterprise, of the difference between the gross margin and the variable costs. At one point Dr. Caussin throws out the interesting implication that distribution may be subject to the law of increasing costs:

Many industrial enterprises, for having neglected these simple precautions and undertaken the distribution of their products on too wide a basis, have learned to their cost, and not without bitterness, that *if it is the last piece of merchandise that costs the least to produce, it is that last piece which costs the most to sell.*

The author recommends a thorough analysis of costs, involving allocation to lines of merchandise, to classes of customers, and to sizes of orders. It is urged also that the factor of stock-turn be kept in mind. Such a study, says Dr. Caussin, "cannot fail to suggest a line of action infinitely more judicious and more profitable than a drastic curtailment of expenses."

The idea that a distributive enterprise should undertake to allocate operating expenses to lines of merchandise leads directly to the next paper, that of Dr. Frank M. Surface, on "Distribution Cost Analysis." This paper describes in detail a method of approach to the problem of cost allocation based to a substantial extent on procedures developed by the United States Bureau of Foreign and Domestic Commerce in connection with the Louisville grocery survey and the St. Louis drug survey. Briefly the procedure is, first, to shift the conventional accounting classification of expenses to a thoroughgoing functional classification and then to determine for each of these functional classes criteria which can be measured and which fairly reflect the differential expenses incurred for particular commodities or groups of commodities. Warehousing expense, for example, is a functional expense category for which the suitable criterion is the area of space occupied. Dr. Surface proceeds to give a practical example of this general method of approach and indicates that a broadly similar procedure might be applied to the companion problem of allocating costs to customers or groups of customers.

It is gratifying to observe that there is no implication here of any idea of using the cost data determined by such

an analysis for the purpose of setting prices—a misapplication of ideas not infrequent in some of the writings on this subject. Dr. Surface apparently visualizes the practical benefits of distribution cost analysis as taking two forms: First, management is enabled to exercise better judgment with respect to items or lines of merchandise to be added or discontinued, expanded or curtailed, as the case may be. Second, management is enabled to effect reductions in operating costs; ". . . it is easy to see just which expenses are relatively out of line for any given item, and this very frequently enables something to be done to decrease these expenses." These two policy objectives are the crux of the matter. Space does not permit adequate discussion, but the rapporteur is constrained to raise two questions:

- (1) When decisions are to be made with respect to adding or discontinuing, expanding or contracting lines of merchandise, is it not essential that the pertinent cost data be cast in a somewhat different form—namely, a breakdown of the expenses into fixed and variable categories with reference to the time spans involved?
- (2) In what ways do cost data allocated to commodity lines contribute to the ability of management to reduce expenses beyond what is possible on the basis of suitably segregated and functionalized expense data?

The last paper in this section, Dr. Willard Thorp's treatment of "Pricing Policies and Customer Classification," carries the general line of thought on costing and pricing beyond the confines of the individual distributive concern and into the troublesome area of manufacturers' pricing policies with reference to various channels of distribution. In this area, partly by legal duress, the concepts of cost and price come more closely together.

Dr. Thorp points out that uniform prices to all buyers do not prevail in manufacturing industries; that there are, *per contra*, numerous schemes of customer classification for pricing purposes based broadly on four groups: (1) other manufacturers, (2) those who resell to other distributors, (3) those who sell to the ultimate consumer, and (4) customers who are in fact consumers. (The last is not a very satisfactory type of classification.) Elements which form the background for customer classification are listed as: (1) location of the performance of various functions, (2) special interests of the manufacturer, (3) differences in the costs of selling to various types of customers (differing operating costs of the customers themselves are an equally important consideration), (4) peculiar conditions in special markets, (5) particular competitive conditions among buyers.

Dr. Thorp goes on to note four forces which may cause the existing price pattern in a given industry to deviate from the ideal: (1) inertia, (2) the fact that competitors force each other into new and inconsistent customer classes, (3) the impact of buying groups, (4) the increasingly prominent force of law, notably the Robinson-Patman Act, which adopts the basic criterion of cost in establishing limits beyond which a manufacturer's prices may not go in the preferential treatment of any favored group.

These are exceedingly important matters, and they lie in an area in which business and economic thought have made only limited explorations. It is to be regretted that the space at Dr. Thorp's disposal permits only a cursory treatment.

It is clear that the complexity of the marketing structure makes the pricing problem complex and in a majority of

instances rules out a one-price policy, in any narrow interpretation of the term. Competitive forces press in the direction of individual bargaining. Customer classification is a device for administering prices in such a way as to escape the necessity for this individual bargaining and so to facilitate the smooth flow of merchandise from manufacturer to consumer. Nevertheless, the pressure of competition is always in the direction of breaking down such devices, or of causing classification changes primarily calculated to permit discriminatory pricing; and in recent years the notable shifting of distribution functions, as well as the submergence of conventional commodity groupings by the tendency toward scrambled merchandising, makes the administration of any simple classification of customers increasingly difficult, if not impossible.

From an economic standpoint the notion of price based on cost in the short run—and these are typically short-run problems—has no place. It is therefore not clear what Dr. Thorp implies by the statement, "As a matter of fact it is frequently impossible to justify the existing price pattern in any given industry on strictly economic grounds." In spite of the fact that the controversy between "just" price and "market" price was supposedly settled in favor of market price some hundreds of years ago, some business men, not infrequently under the influence of "rationalization" doctrine and enamored of the specious idea that profit—the essence of which is uncertainty—can be insured, have eagerly embraced the notion of price as being determined in the short run by cost. On occasion some members of the accounting profession have aided and abetted this same notion; and now legislators, in part egged on by those who conceive it to be to their interest to maintain the status quo in marketing by preserving rigid institutional groupings, have sought to establish short-run cost as a criterion of fairness in competition. Many observers think that these signs point in an ominous direction.

All these pricing and costing problems in the area of distribution constitute a notable challenge to management. In the immediate background are the significant facts that distribution expenses now require roughly half of the consumer's dollar spent in retail trade, that economy in distribution is as important a factor in increasing the standard of living as is economy in production, but that because of the relation of production and distribution costs the essential problem is one of determining the balance between them which is most advantageous to the consumer, and finally that modern developments have conspired greatly to increase the complexity of channels of distribution. Against this background there is the challenge to management first to develop cost analyses in the field of distribution, not with a view to basing prices on cost but in order to understand more fully the behavior of distribution costs. In the second place, it is essential that data be made available to managers in that form which will promote the wisest merchandising decisions and bring about reductions in the cost of doing business. There is the challenge to recognize that from a managerial standpoint the problem of profit is essentially the problem of maximizing operating contribution for the appropriate period and that this objective requires not only study of demand but careful analysis of variable and fixed costs. There is the challenge to liberate pricing from artificial restraints, whether legal or otherwise, and at the same time to develop price structures which will promote a smooth flow of merchandise. And there is the challenge to recognize that the concept of market price is fundamental to the existing system of private capitalism and that those who seek to substitute for it any notion of price as determined by short-run costs are either ignorant of the essential nature of the profit and loss system or actuated by a short-sighted desire to reap monopoly profits by halting or turning back the functional evolution of the marketing process.

Distribution Cost Statistics and Gross Profit

Dr. F. L. VAN MUISWINKEL*

SUMMARY

As a result of the investigations made by the "Economisch Instituut voor den Middenstand" (Economic Research Institute for the Retail Trade and the Minor Industries) not only the problems connected with distribution costs, but also the problem of gross profit in the retail-trade has had special attention in Holland during the last few years.

Attention has been paid to:

- a) Gross profit and distribution costs
- b) Gross profit and rate of stock turnover
- c) The influence of errors in financial stock management.

A comparison between various branches of retail trade shows that a high gross profit is usually accompanied by high distribution costs (see table 1). As the articles dealt with move further away from prime necessities, gross profit becomes generally higher. A similar relation is shown between gross profit and distribution costs concerning shops operating in the same branch (see table 2). In this case the relation is inter alia based on differences in the qualities of the goods dealt with; also the purchasing power of the consumers is of great importance. Also in some cases a remarkable relation exists between gross profit and rate of stock turnover (see table 3).

The gross profit made in a shop is, moreover, influenced by errors in the financial and the stock management.

All this should be considered when setting up distribution cost statistics; this being neglected, the statistics will be practically worthless. (See final observations.)

IN ONE of the resolutions taken at the ninth Congress of the International Chamber of Commerce, Berlin, 1937, the following observation is made with regard to "The Distribution of Consumer Goods":

The problem of improving the distributive system is many sided and while its solution depends very largely, and should thus depend, upon producers and distributors themselves, all sections of the consuming public are concerned with it. Moreover, since a large part of the effort involved is not only valuable but common to the community as a whole, every effort should be bent towards assisting producers and distributors to meet it successfully. Governments' research institutes and institutions of learning, therefore, have a particularly important part to play in this connection in the compilation of information and statistical data.

In Holland back in the year 1930 the underlying idea led to the establishment of the "*Economisch Instituut voor den Middenstand*" (Economic Research Institute for the Retail-Trade and the Minor Industries).

The Institute in question owes its existence to the co-operation between the Minister of Economic Affairs, the Chambers of Commerce and the national Retail-Trade Associations.

Since its establishment, in the year 1930, the Institute has published about 40 reports covering over 3500 pages.

The activities concern private shopkeepers as well as small industrials.

Within the scope of this report, special attention should be asked for the activities of the Institute with regard to the compiling of distribution cost statistics enabling retailers inter alia to check their results and working ex-

penses in detail with those of fellow-shopkeepers. We will revert to the way in which the figures in question are published. For the present, it may suffice that the publications of the Institute are annually distributed in thousands of copies amongst retailers and that, in the short time of its existence, the Institute has already received numerous proofs of the effectiveness of the methods applied.

For full particulars regarding the "*Economisch Instituut voor den Middenstand*," we beg to refer to the report presented to the "Sixth International Congress for Scientific Management," London, 1935.

To begin with, experiences gained in Holland during the last few years with regard to the problem of gross profits require investigation.

Falling Profits and Rising Distribution Costs

According to investigations into the course of costs and profits in the retail-trade in the period 1928-1934, a sharp disparity between gross profit and distribution costs existed at the end of this period practically everywhere in Holland. This disparity resulted from the fact that the amount of gross profit in the period named was subject to a much stronger decline than distribution costs.

For instance, in the 5 municipalities in which investigations were made a decline was found in gross profit varying from 36 to 45 per cent, whilst the reduction in distribution costs during the said period only varied from 13 to 22 per cent. Notwithstanding decreased turnover and greatly reduced incomes of retailers, the number of persons employed was higher in 1934 than in 1928. The setback in the remuneration of the retailers concerned was, therefore, accompanied by an expansion in the services rendered.

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It is well known that the wage-factor in general represents the most important cost-factor of the distribution apparatus; together with rent, it forms in all countries more than one half of the distribution costs. It is evident that the fact that it was practically impossible to economise on these items led to serious results.

The expenses of the distribution apparatus must for the greater part be brought under the heading of "fixed costs," and it is, therefore, not surprising that the decline in the actual amount of gross profit during the years after 1929 was only for a small part compensated by a reduction in these distribution costs. Also in other countries—especially in Germany—this phenomenon has been found. There, too, attention has since been concentrated on *distribution costs*.

Meanwhile, it may be described as remarkable that, since this fact was stated, so little attention has been paid in the circles of retail-trade to the other side of the problem, viz., that of *gross profit*.

However, owing to the publications of the "*Economisch Instituut voor den Middenstand*," there is a growing interest in Holland as far as this latter point is concerned. This interest is *inter alia* being concentrated on investigation of:

- a) Gross profit and distribution costs
- b) Gross profit and rate of stock turnover
- c) The influence of errors in financial and stock management.

The proportion between gross profit and distribution costs in Holland is reflected in table 1 as far as the chief branches of retail-trade are concerned (averages in percentages of the turnover—1934).

TABLE 1

Branch	Gross Profit	Distribution Costs*
Jewellery.....	40.96	46.99
Bread and pastry.....	39.96	42.16
Chemists and druggists.....	37.20	31.71
Ladies fashions and hats.....	35.74	39.32
Various textiles.....	28.78	32.44
Household furniture.....	27.39	33.52
Shoes.....	24.06	29.44
Fuel (1935).....	23.26	24.05
Dry goods.....	22.75	24.54
Meat and meat-products.....	20.67	21.41
Tobacco and cigars.....	19.04	28.36
Groceries.....	16.24	17.46

* Including an estimated salary for owners and members of their family working in the trade. This salary has been estimated on the basis of local wage-standards and the number of working hours; the estimated salary does not include any indemnification for the undertakers risk.

With the exception of "Chemists and druggists" the proportion existing between gross profits and distribution costs in Holland was, therefore, very disconcerting in the retail-trade in the year 1934. The favourable figures for "Chemists and druggists" may be attributed to collective agreements in the trade in question.

As already stated, distribution costs as given above include an estimated salary for the owner and the members of the family working in the trade. It may be argued,

from the fact that distribution costs compiled in this way exceeded gross profits, that the remuneration of the shopkeepers, for the year 1934 in so far as there was actually any question of this, was considerably lower than that to which they may be considered as being entitled on the strength of their activities.

With this state of affairs, the demand for increasing the efficiency of the process of distribution gains a very special accent. Efforts in this direction should cover both gross profits and distribution costs. A maximum result may only be expected where the parties concerned have the disposal of *reliable* statistics of distribution expenses.

We give below the requirements which these statistics should meet in order to arrive at the above aim.

Gross Profit and Distribution Costs

The branches for which the percentages with regard to the gross profit have been given above, are ranked in the sequence of the gross profit. This was done in order to make it clear that the distribution costs—with a few exceptions—also form a declining scale. According to these figures, therefore, a high gross profit is accompanied by high distribution costs. In itself, this phenomenon is not altogether surprising. As a matter of fact, it may be said that higher distribution costs require a higher gross profit.

Nevertheless, the factors which are decisive for the amount of gross profit, should be carefully investigated. In this connection it can, for instance, be pointed out that *the nature of the articles dealt with* plays an important part. The figures given above for a number of branches of the retail-trade in Holland seem to warrant the conclusion that the gross profit increases according as the goods are further removed from first necessities of life.¹ The same may be observed with regard to various qualities of one and the same article. The better the quality, the higher is the gross margin of profit in most of the branches.

The gross margin of profit for "bread and pastry" seems to contradict this conclusion. It should, however, be noted that the operations in this branch—at least in Holland—are a combination of production and distribution. This branch, therefore, covers two links in the chain between raw material producer and final consumer. The gross margin of profit, therefore, covers two elements which explains the high total figure.

After these short remarks it is not difficult to find the relation between the amount of gross profit and working expenses. As the articles dealt with are further removed from the first necessities of life and have a more luxurious character, the circle of possible buyers becomes smaller. Consequently, the places of sale of the articles of luxury are found either in the center or along the chief highways of the towns. This entails high expenses for the operation and equipment of the building and is in most cases also accompanied by high outlays for staff. Also, the service to the public increases. All this causes an increase in working expenses all along the line.

An analogous reasoning can in general be followed for *various qualities of one and the same article*. Also the standing of the customers plays a part.

¹ The place occupied by "tobacco and cigars" may be taken as a striking evidence of the leading position which these articles occupy in the sale of necessities of the Dutch population.

Finally, if one or more elements of the production process can be found in the distribution process, higher expenses will be found. (For instance, higher depreciations on the stock and higher items for wages.)

If gross margins of profit and working expenses of individual establishments in any special branch of retail-trade are examined in the light of the above, many seeming contradictions will find an explanation. As an illustration of the contradictions which may arise within the limits of one branch, we give in table 2 some figures from

TABLE 2

Grocers			Butchers			Dry Goods		
Case	Gross Profit	Working Expenses	Case	Gross Profit	Working Expenses	Case	Gross Profit	Working Expenses
1	26.47	28.80	a	30.22	27.06	I	41.94	35.56
2	22.50	21.58	b	25.78	25.52	II	35.38	32.09
3	16.59	15.17	c	20.51	19.38	III	26.28	27.16
4	12.42	10.81	d	15.28	16.17	IV	20.75	17.87
5	9.13	8.16	e	11.43	12.33	V	13.90	15.47
Branch average	16.24	17.46	Branch average	20.67	21.41	Branch average	26.82	27.72

the statistics for distribution costs published by the "Economisch Instituut voor den Middenstand" (in percentages of turnover 1934).

In judging the individual establishment, attention will, therefore, always have to be paid both to gross profit as well as to working expenses. As to the consequences resulting for the composing of statistics for distribution expenses, these will be recapitulated at the end of this report.

Gross Profit and Rate of Stock Turnover

The relationship between the amount of gross profit and the rate of stock turnover is similar to that between gross profit and distribution costs. If, for instance, the commodities dealt with are further removed from the first necessities of life, or represent a better quality, the possibilities of sale of the goods concerned will decrease. The same reasons, which under these circumstances will lead to operating expenses and gross margin of profit being on the high side, will cause relative slackness in turnover for this category of articles.

In general, therefore, a high gross profit is accompanied by a slackness in turnover, and a low gross profit by an increased rate of stock turnover.

For the purpose of illustrating the above, we give in table 3 the outcome of an investigation of the E.I.M. with regard to the rate of stock turnover in the retail dry goods trade (averages—financial year 1934).

A connection as set out above, is also found in other branches of the retail-trade.

From this it also follows that in no single branch of retail-trade can an ideal rate of stock turnover be constructed. The rate of stock turnover should be considered separately for each establishment and this in connection with the amount of gross profit and working expenses. An increase in the rate of stock turnover will in general practice only be possible by making changes

in the composition of the stock to be sold. This may very strongly influence the character of the business and may give rise to the danger that the commodities offered for sale are no longer in conformity with the purchasing power of the customers who have to be served. Moreover, it will always have to be realised that a change in the composition of the stock usually also changes the operating expenses. An increase in the rate of stock turnover in the distribution apparatus has, therefore, in certain circumstances a tendency to increase operating expenses.

As it is usual to advocate increase of this rate in economic business-literature, it may be useful to draw special attention to the outcome of the investigations of the E.I.M.

TABLE 3

Rate of Stock Turnover	Number of Shops	Gross Profit in Per Cent of Turnover	Working Expenses in Per Cent of Turnover
0.65	2	35.6	45.0
0.86	7	27.4	30.9
1.14	16	28.4	32.6
1.38	12	27.6	29.9
1.60	16	24.8	28.3
1.87	9	28.0	25.3
2.08	9	22.6	27.0
2.34	5	26.1	26.6
2.62	7	22.3	23.8
2.89	5	25.7	25.5
3.24	5	21.8	22.9
1.65	93	26.0	27.7

Errors in Financial- and Stock-Management

The remunerativeness of the distribution apparatus is based on the relation between gross profit and operating expenses.

As we have already previously observed, since 1929 special attention has been paid to the possibilities of reducing distribution costs.

It is remarkable to note that the other side of the problem of remunerativeness, viz., the amount of gross profit has not received the attention which it deserves.

If this problem was considered from the point of view of divergencies between the wholesale- and retail-prices in many quarters the possibility of errors in financial- and stock-management was usually overlooked. This lack of insight seems to be characteristic of small shopkeepers in the retail-business.

In the publications of the "Economisch Instituut voor den Middenstand," therefore, special attention is paid to a keen control of gross profit.

Under the multiple factors which adversely influence gross profit, experience has shown that especially the following features should be considered:

1. Price competition with shopkeepers in the same branch
2. Unfavourable buying-terms
3. Incorrect stock policy
4. Theft of money and/or of goods
5. Careless debtors-administration (collection of accounts)
6. The giving of overweight
7. Inexpert handling of merchandise.

Within the scope of the present note we confine ourselves to setting out the above causes. Points 2 and 7 contain elements which may not be neglected when studying questions pertaining to the expenses of the distribution apparatus. In our opinion, therefore, statistics for distribution costs should be drawn up in such a manner that they draw attention to the presence of faults.

Final Observations

We pointed out in the above that the phenomenon found with regard to the connection existing between gross profit, working expenses and rate of stock turnover is also of importance for the drawing up of statistics for distribution expenses.

a) *The first conclusion which we draw is that cost statistics may be called worthless if next to the actual operating expenses the gross profit is not given.* For the gross margin of profit reflects the influence of kind and quality of the articles dealt with, whilst it may also throw light upon the purchasing power of the customers.

Distribution costs are also influenced by the last named factors, hence, these expenses may only be judged in the light of gross profit.

It will only be possible to draw attention to errors in the financial- and stock-management by comparison of the gross profit of individual shops.

The number of variations occurring on this score in each branch of retail-business is practically unlimited.

b) This leads to the *second conclusion, viz., that the calculation of averages with regard to gross profit and distribution costs for any branch of retail trade is practically useless.* The averages referred to above can hardly be considered as a trustworthy criterion for any individual establishment; they only have a problematic value.

c) Statistics concerning distribution costs, in our opinion, have great practical value, but only if *the establishments investigated are one by one taken up in the statistics.*

Only if the material is published in this way can the figures be judged in the right manner. Moreover, the publication of averages has the disadvantage that the businesses which are being best conducted do not serve as an example. Present day effort aims to arrive at a better efficiency, so that for this reason also individual statements of separate cases are to be preferred.

d) Finally, the phenomenon mentioned in this report also gives rise to consequences with a view to the questionnaires to be used for expense statistics. By means of these schedules, it will be necessary, in consideration of the foregoing, to collect details with regard to:

- a) Turnover, buying and gross profit
- b) Distribution costs.

In calculating the turnover and the gross profit, attention should inter alia be paid to the state of debtors, creditors and stocks of goods. Under operating expenses, items should be taken up for interest on invested capital and for depreciation on certain business equipment.

These particulars show a close connection and can only be obtained by enquiring on the questionnaires into the balance sheet position of the shops.

Needless to say, control in these particulars is impossible if the connection of the figures does not appear from the questionnaires.

Questionnaires for costs statistics must, therefore, be drawn up in such a manner that the accounting-system of the shops which are being investigated appears in big outline. It would be advisable for the order of the questions to agree with the accounting system, viz.: turnover, purchasing, gross profit, operating expenses, net profit, balance sheet, enquiries as to staff. An example of such a form applied in practice by the "*Economisch Instituut voor den Middenstand*" will be found in the above mentioned report presented to the "Sixth International Congress for Scientific Management," London, 1935.

Changes of Operating Expense Ratios at Different Price Levels

Ing. VILÉM ŠÁDA*

SUMMARY

According to the findings of a statistical study in Czechoslovakian retail industry, retail operating expense ratios have risen to a considerable extent during the depression period. The problem of rising expenses during a period of declining prices seems to be a problem of the inelastic expenses in retailing. Knowing the ratio of inelastic and elastic expenses at a certain price level in a line of business, it is possible to compute mathematically the expected change of operating expense percentage at a new price level by means of a price level quotient. By means of a few examples, taken from business practice, the practical application and usefulness of the price level quotient is shown. This represents a very useful tool in budgeting and price fixing. It explains also the discrepancy between the development of wholesale and retail prices and shows that the problem of decreasing the costs of distribution is not only a question of an efficient and economical business organization, but also a problem in proper economic balance between production and consumption. This appears in the light of price relations.

FOR many years expense ratios computed on the basis of sales have been used as a yardstick for measuring the efficiency and economy of retail establishments. Every retailer has been striving to keep this expense ratio as low as possible and has been proud of every tenth of one per cent he succeeded in cutting down.

But the economic depression, which we went through in the years 1930-1935 taught us a different lesson. In spite of all the striving on the part of retailers, operating expenses rose to an extent which, in many cases, threatened the profitableness of retailing.

The Czechoslovakian Statistical State Office, at the instigation of the Institute for Business Management at the Masaryk Academy of Labor, made a thorough study of the development of operating expenses during the depression period in different lines of retail trade. Below are quoted the most important findings discovered about operating expenses in retail hardware stores (table 1) and in retail drug stores (table 2) in Czechoslovakia.

The study disclosed a very important fact, namely, that operating expenses in retail hardware stores rose from 9.89 per cent in 1928 to 15.35 per cent in 1935. During the same period, operating expenses in retail drug stores rose from 16.32 per cent to 21.46 per cent.

There is no doubt that the rise of operating expenses has been caused by the rapid shrinkage of sales, which can be clearly seen from the respective index-numbers in the tables. This enormous shrinkage of sales is usually explained as the result of the reduction of consumption, which is considered a natural phenomenon accompanying economic depressions.

However, a closer study of the number of people active in the respective retail trades, of the value of stock and of other different aspects statistically computed, shows that the reduction in consumption cannot be considered the only cause of the enormous shrinkage of sales in retailing. There seems to be another cause, to a certain degree much more important. This is the decline in wholesale prices.

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The decline of wholesale prices, which practically began in 1929 (see chart 1), was followed by the fall of retail prices. Since the decline of price level was of a general character, it did not lead to an increase in consumption.

TABLE 1

Czechoslovakian Retail Hardware Stores Operations in 1929-35
(Index numbers: 1930 = 100)

Year	Number of People Active	Value of Stock	Sales	Expenses				
				Occu-pancy	Sala-ries	Pub-licity	Other Ex-penses	Total Ex-penses
1929	102.9	109.9	108.8	96.7	94.9	96.5	105.6	100.6
1930	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1931	99.1	97.5	87.0	102.1	98.2	109.6	95.1	97.4
1932	95.9	93.7	79.4	105.4	95.9	96.7	90.0	94.7
1933	93.1	89.2	69.3	120.4	90.6	83.0	87.4	91.4
1934	89.9	86.4	64.2	117.7	86.2	82.1	85.3	88.3
1935	93.1	83.3	62.0	120.4	85.7	84.6	79.9	85.1

TABLE 2

Czechoslovakian Retail Drug Stores Operations in 1929-35
(Index numbers: 1930 = 100)

Year	Number of People Active	Value of Stock	Sales	Expenses				
				Occu-pancy	Sala-ries	Pub-licity	Other Ex-penses	Total Ex-penses
1929	107.5	101.2	100.9	98.9	96.1	100.4	102.5	99.4
1930	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1931	100.0	97.5	94.2	104.8	107.1	96.2	100.0	101.9
1932	98.1	95.1	86.6	107.2	104.1	96.4	96.8	99.7
1933	96.4	93.0	80.0	107.9	99.3	99.4	95.5	98.6
1934	97.1	92.0	78.9	109.8	98.3	101.4	92.4	97.5
1935	96.9	92.7	77.6	110.1	97.0	94.8	89.6	96.5

For this reason, the decline of wholesale prices resulted in decreasing retail sales, which were used as the basis for computing the expense ratios, although the quantity of merchandise handled and the quality of service given to the customer did not undergo any significant change.

The result of this situation has been a constant rise in operating expense ratios in retailing. The rise of retail expenses has slowed down the fall of retail prices as can be seen from chart No. 1, on which in 1929 the retail price index crosses the wholesale price index, showing that the decline of retail prices did not keep pace with the collapse of wholesale prices. Though the retail price index on the chart refers only to foodstuff prices, there is no doubt that an analogous situation exists in manufactured commodity prices as well.

The reason for the discrepancy between the development of wholesale and retail prices is quite obvious to every retail store manager. However, it does not seem to be generally acknowledged on the part of manufacturers

(i.e., those which do not keep pace with the development of sales).

The problem of rising expenses during a period of declining prices is the problem of inelastic expenses in retailing. Study of operating expenses in different branches of Czechoslovakian retail trades shows that a large part of the operating expenses of retail establishments cannot be reduced while sales decrease. The relation between elastic and inelastic expenses in a retail establishment varies with the line of business. The relation between inelastic and elastic expenses in the Czechoslovakian retail hardware stores in 1930—according to the above mentioned study—seemed to be approximately 70:30 (i.e., 70 per cent of all operating expenses were inelastic

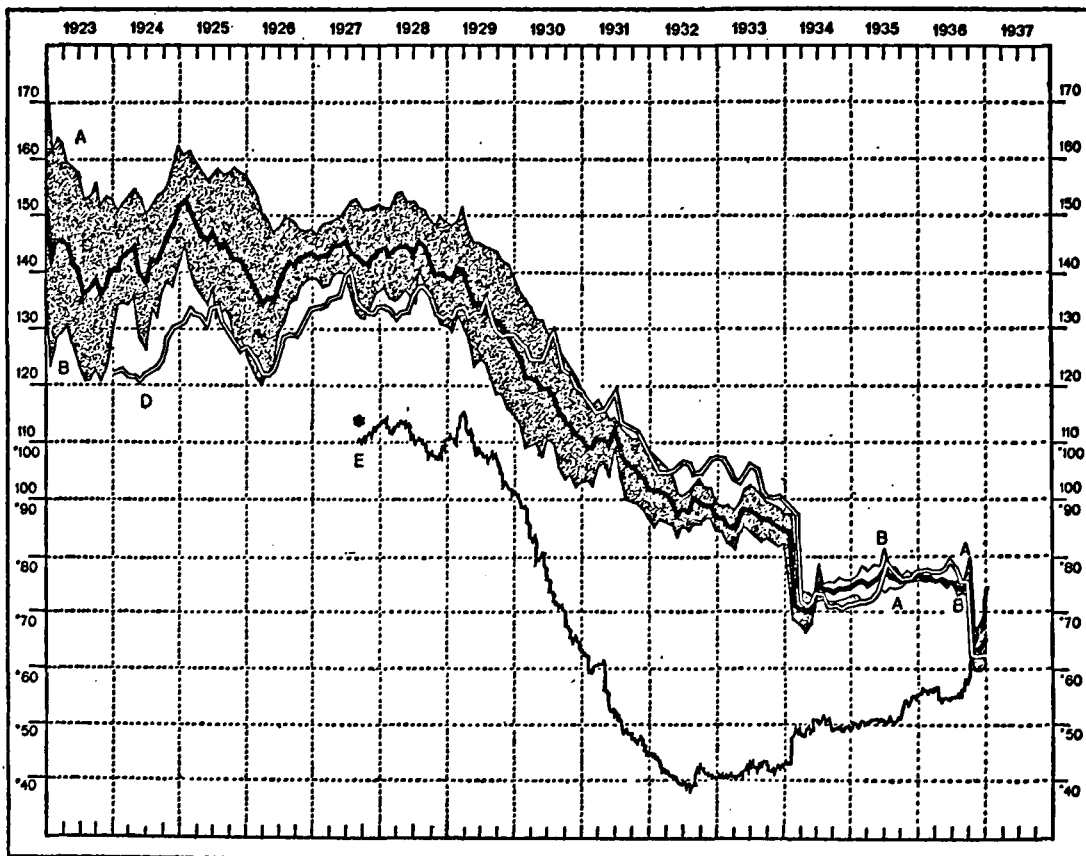


Chart 1. Movement of Prices in Czechoslovakia

(Index numbers: VII. 1914 = 100.) A. Index of manufactured commodities wholesale prices. B. Index of foodstuff wholesale prices. C. Total wholesale index. D. Index of retail foodstuff prices. E. Index of sensitive prices.

and consumers, who very often make the retail trade responsible for the constant rise in distribution costs. This—they say—is a serious obstacle to the growth of production and to a rise in the standard of living.

The real cause of the rise of operating expense ratios in retailing has to be looked for in the character of retail expenses. Very often operating expenses are divided according to their nature into proportionate, progressive or degressive expenses. This differentiation is correct as long as sales are growing—perhaps because of the growth of business or because of the rise of prices; but it proves to be untenable during a time of sales decline. It seems to be more appropriate to differentiate retail operating expenses into *elastic expenses* (i.e., those which keep pace with the growth or decline of sales) and *inelastic expenses*

and only 30 per cent elastic). This ratio remains by no means stable, because the proportion of inelastic expenses grows with falling sales and diminishes with increase of sales.

When the ratio of inelastic and elastic expenses at a certain price level is known, it is not difficult to compute mathematically the expected change of operating expense percentage at a new price level, by multiplying the basic expense percentage by a *price level quotient* according to the following formula:

$$\text{Price level quotient} = PLQ = \frac{E_i + E_e \frac{NPL}{100}}{NPL}$$

In the formula Ei represents the proportion of inelastic expenses, Ee the proportion of elastic expenses ($Ei + Ee = 100$); NPL is a new price level, for which we would like to know the corrected expense ratio and which is expressed in percentages of the basic price level, which has been taken as the basis for computing the relation of inelastic and elastic expenses.

To show the practical application of the price level quotient, the results of the statistical study in Czechoslovakian retail hardware stores may be reexamined. In table 3 are listed the actual expense ratios corresponding to the sales in different years. It can be seen, e.g., that the sales dropped down by nearly 30 per cent between the years 1930 and 1933; during the same period the expense ratio increased from 11.18 to 14.73 per cent.

TABLE 3

Year	Index of Sales	Actual Expense Percentage	Price Level Quotient	Computed Expense Percentage	Deviation
1929	108.8	10.34	0.943	10.54	+0.20
1930	100.0	11.18	1.000	11.18	0.00
1931	87.0	12.51	1.104	12.34	-0.17
1932	79.4	13.33	1.181	13.20	-0.13
1933	69.3	14.73	1.310	14.64	-0.09
1934	64.2	15.38	1.390	15.54	+0.16
1935	62.0	15.35	1.429	15.97	+0.62

Taking for granted that the shrinkage in sales was caused principally by the decline of prices, and that the ratio between inelastic and elastic expenses in this line of business is 70:30, the increased expense percentage can be computed very easily by means of the above mentioned price level quotient:

In this case:

$$Ei = 70, Ee = 30, NPL = 69.3$$

$$Plq = \frac{70 + 30 \frac{69.3}{100}}{69.3} = \frac{70 + 20.79}{69.3} = 1.31.$$

By multiplying the original expense ratio 11.18 per cent by the price level quotient 1.31, a new expense ratio 14.64 per cent is obtained, which corresponds to the new price level. The deviation of the computed expense ratio from the actual expense ratio, found by the study, is thus only 0.09 per cent, so that this method shows a high degree of accuracy. The same is also true of other cases listed in the table, because the deviations ranging from -0.17 to +0.62 per cent are insignificant for the practical application of this method.

The method of computing the changed expense percentage at different price levels can be very useful to every retailer in budgeting gross margin. For example: a retailer maintained a gross margin of 18 per cent covering 13 per cent of expenses and 5 per cent of net profit. When he expects that his sales for the coming period will decrease by 20 per cent, because of the decline of wholesale prices, he must consider in budgeting the gross margin also the inevitable increase of operating expenses. Taking for granted that in his line of business the ratio of inelastic and elastic expenses is 80:20, he can easily figure out

the price level quotient corresponding to the decrease of prices:

$$Ei = 80, Ee = 20, NPL = 80$$

$$PLQ = \frac{80 + 20 \frac{80}{100}}{80} = \frac{80 + 16}{80} = 1.2$$

By multiplying the expense percentage by PLQ , he obtains a new operating expense ratio of 15.6 per cent. If he wants to maintain the 5 per cent net profit, he has to budget on the basis of a gross margin of 20.6 per cent instead of 18 per cent.

This method has the same value for correct price fixing in the case of brand commodities, where the gross margin is represented by the trade discount granted by the manufacturer to the retailer. The discount has to be sufficient to cover retail operating expenses and leave to the retailer an adequate net profit. If this is not the case, the manufacturer runs the danger that his article will be neglected by retailers, who will foster another brand carrying more profit.

For instance, a manufacturer of radio sets sells his products through retail outlets at a discount of 20 per cent. If the expense percentage of this line of business were 15 per cent, a discount of 20 per cent leaving 5 per cent of net profit for the retailer would be sufficient. But this situation would change if the price of a radio set, which was sold for 150 \$ was reduced to 100 \$. The result of this would be that the sales of the radio retailer would drop down by 33 per cent. In case the ratio between inelastic and elastic expenses in this line was 70:30, a decrease in sales of 33 per cent would result in an increase of operating expenses from 15 to 21.76 per cent. This increase can be figured again by means of the price level quotient as follows:

$$Ei = 70, Ee = 30, NPL = 66$$

$$PLQ = \frac{70 + 30 \frac{66}{100}}{66} = \frac{89.8}{66} = 1.451;$$

$$15\% \times 1.451 = 21.76\%.$$

The increased expense percentage would not only eat up the whole discount, but also lead to a net loss of 1.76 per cent. In such a situation, the radio manufacturer cannot expect retailers to be interested in promotion of his brand.

There is still another case in which the method of computing the change in operating expense percentage at different price levels can be very useful. As was said at the beginning, the expense ratio based on sales has been used as a yardstick for measuring the efficiency and economy of retail establishments. The growth of expense ratio during the period of declining prices made this measuring impossible. It was difficult to say whether the operation of business has been more efficient, because the savings in operating expenses have been overbalanced by the increase of expenses due to the decline of sales.

In order to be able to compare expense ratios at different price levels, it is necessary to reduce them to the same basis. This again can be done by means of the above mentioned price level quotient.

For example: a retail store, having a relation between inelastic and elastic expenses 70:30 shows an expense ratio of 24 per cent. While the sales are declining, the expense ratio increases up to 30 per cent as seen in table 4. To find out whether the store made any progress in decreasing its expenses, it is necessary to reduce the actual expense ratios to the original basis by multiplying them by the reciprocal value of the price level quotient $\left(\frac{1}{PLQ}\right)$

TABLE 4

Indexes of Sales	Expense Ratios	
	Actual	Reduced
	<i>per cent</i>	<i>per cent</i>
100	24	24
80	26	22.12
70	28	21.53
60	30	20.49

To reduce, e.g., the expense ratio 30 per cent corresponding to the sales index 60, compute as follows:

$$\text{Reduced expense ratio} = 30 \frac{1}{PLQ} = 30 \times 0.683 = 20.49$$

$$PLQ = \frac{70 + 30 \frac{60}{100}}{60} = \frac{88}{60} = 1.466; \quad \frac{1}{PLQ} = 0.683$$

The constant decrease of reduced expense ratios listed in the third column of the above given table shows that

the store operations have been made more efficient in spite of the increase of actual expense percentage.

In a few examples, taken from business practice, was shown the practical application and usefulness of the price level quotient in determining the adequate expense ratio. The price level quotient represents a very useful tool, which helps to improve budgeting and calculations, exactly at times when sudden price changes make any budgeting very difficult.

The mathematical accuracy of the results obtained by this method depends entirely upon the extent to which one succeeds in determining the correct relation between elastic and inelastic expenses in the respective lines of business.

But even there, where it is not possible to determine the exact relation between inelastic and elastic expenses, the mere fact that retail operating expenses rise in the face of declining prices—a circumstance that cannot be denied—characterizes the method as one of utmost importance for the whole retail trade.

The Czechoslovakian study of retail operating expenses shows very clearly that the rising costs of distribution to a large extent are caused by circumstances for which retailers cannot be held responsible. The study shows very definitely that the problem of decreasing the costs of distribution is not only a question of an efficient and economical business organization, but in the first instance a problem in the proper economic balance between production and consumption, as now appears in the light of price relations.

Les Limites De La Recherche Des Bénéfices

ROBERT CAUSSIN*

SUMMARY

Distributors wishing to improve the financial results obtained in business cannot always expect more profits from an indefinite increase of selling prices, from a drastic cutting of costs, or from an extensive development of sales.

Any of these actions, pushed too far, may bring unfavourable results. The problem must be considered as a whole; and prices, costs and sales have to be thoroughly analysed with due regard to their respective reactions.

A careful move, based on a scientific study of the involved factors will bring increased profits with more certainty and less effort than any empiric method.

PERSONNE ne conteste plus aujourd'hui que la fonction sociale des distributeurs doit s'accomplir dans des conditions économiques qui procurent au consommateur le maximum de valeur et de service pour le moindre prix, de manière que chacun participe aux avantages de la production industrielle en masse et retire de ses dépenses la plus grande satisfaction.

Mais si, en Europe, les distributeurs se rendent compte que l'amélioration du pouvoir d'achat du consommateur est un but altruiste et généreux vers lequel ils doivent tendre et dont la réalisation aura, du point de vue économique et du point de vue social, les conséquences les plus heureuses, ils sont toutefois guidés en ce moment par un autre souci, d'ordre plus immédiat: ils relèvent d'une crise grave et leur premier objectif est de restaurer la marge de bénéfice qui doit leur permettre de vivre.

Comment peuvent-ils restaurer cette marge de bénéfice en tenant compte des leçons de la crise et des circonstances nouvelles qu'il leur faut envisager? C'est ce que nous allons nous efforcer d'examiner rapidement.

Trois possibilités, que nous aborderons successivement, s'offrent aux distributeurs:

1. Augmenter les prix de vente;
2. Réduire les frais;
3. Vendre davantage.

Augmenter les prix

Pour améliorer le rendement de la vente—ce qui, pour les distributeurs, veut dire "réaliser un bénéfice net" plus considérable—la première solution, la plus simple, consiste à majorer les prix de vente de manière à avoir une *marge* plus forte, couvrant la totalité des frais de vente et un certain surplus qui sera le bénéfice proprement dit.

La plupart des distributeurs font le calcul suivant: "Voilà un article qui me coûte 100 francs, prix d'achat; j'ai 35 frs. de frais; j'ajoute mon bénéfice, 15 francs; il faut donc que je le vende 150 francs."

Ce raisonnement est, en apparence, parfaitement logique et légitime. Dans des circonstances normales, il ne soulève pas d'objections. La clientèle achète l'article et paie le prix; le distributeur est remboursé de ses frais, encaisse son bénéfice, prix de son travail, et renouvelle sa marchandise.

Mais les conditions économiques viennent à changer:

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une crise survient, la clientèle se trouve privée d'une partie de ses ressources—est réduite au chômage, n'encaisse plus de dividendes, subit des pertes en Bourse—et, obligée de limiter ses dépenses, ne consacre plus celles-ci qu'à se procurer des objets de première nécessité.

Elle va donc supprimer toute dépense afférente à des objets de luxe relatif, et, pour les choses dont elle ne peut se passer, va se tourner vers des articles de prix moins élevés, sacrifiant même souvent l'avantage de la qualité à l'avantage du prix. Elle n'achètera plus l'article à 150 francs, mais cherchera un article similaire à 120, 100 ou 80 francs, auquel elle donnera sa préférence.

Or, notre distributeur a en magasin un article qui lui coûte toujours le même prix, et ses frais sont restés les mêmes. Il ne se résigne que difficilement à abandonner son bénéfice d'abord, sa marge de frais ensuite, et il doit même se résoudre, à un certain moment, à vendre sa marchandise en-dessous de son prix de revient.

Quel enseignement doit-il tirer de sa mésaventure?

Mais tout simplement que son raisonnement n'était pas exact, et qu'il n'y a entre le *prix de revient* et le *prix de vente d'un article aucune relation de cause à effet*, aucun lien de causalité.

Il n'est pas vrai de dire "ce qui coûte tant doit être vendu tant," en appliquant mentalement un coefficient que l'on estime équitable.

En réalité, comme l'a fort bien dit M. Landauer,¹ le *prix de revient*, c'est le total des dépenses qui ont été faites pour fabriquer et aussi pour *distribuer* une marchandise. Le *prix de vente*, c'est la somme que le consommateur est disposé à payer pour la dite marchandise.

Le premier est une simple addition. Le second est la résultante de nombreux facteurs très complexes dans lesquels interviennent le pouvoir d'achat de l'acheteur, sa psychologie, l'action de la concurrence, celle de la loi de l'offre et de la demande et beaucoup d'autres encore.

Si un mauvais industriel produit une bicyclette à un prix très élevé, ce n'est pas une raison pour que le public paye la rançon de son incapacité. Par contre, si un autre est parvenu à établir une bonne bicyclette à un prix de 30% inférieur à celui de ses concurrents, ce n'est pas une raison pour qu'il se contente d'un bénéfice de 3% s'il vend tout ce qu'il peut produire.

Le *prix de vente* doit être établi en étudiant le marché, le client et ses possibilités. Une fois établi, *mais alors seulement*, il doit être comparé avec le *prix de revient* afin

¹ Edmond Landauer—*Note sur l'étude du prix de revient.*

de voir si l'article est susceptible ou non de laisser un bénéfice.

Ce n'est donc pas le prix de revient qui sert à fixer le prix de vente des produits de grande consommation; ce n'est pas non plus le vendeur qui fixe ce prix. C'est en réalité l'acheteur, le client, le consommateur qui, d'une façon générale, fixe le prix qu'il veut payer.

Les prix de vente résultent notamment du *pouvoir d'achat* et de ce que l'on pourrait appeler le "*vouloir d'achat*" de la masse des consommateurs.

Lorsque le pouvoir d'achat baisse, il faut que les prix s'adaptent et diminuent aussi, sinon la clientèle se tourne vers d'autres articles. Lorsque le pouvoir d'achat se rétablit, les prix peuvent à leur tour augmenter.

Il importe donc, quand on détermine le prix de vente d'un article, de choisir entre deux politiques. La première consiste à fixer un prix un peu moins élevé que le prix habituel pour des produits analogues, de manière à donner l'impression que le produit en question est d'une qualité supérieure à la moyenne, et à attirer la clientèle de cette petite catégorie d'acheteurs qui apprécient une chose en proportion de son prix.

L'autre politique consiste à vendre à un prix moins élevé que l'on en a l'habitude pour des produits de qualité similaire, de manière à attirer la grande masse des consommateurs et élargir ainsi considérablement son marché.

Qu'une politique de réduction des prix élargisse le marché, permette d'atteindre de nouvelles couches d'acheteurs et contribue ainsi à développer les ventes, est bien démontré par l'exemple grandiose de Ford, qui n'a cessé de réduire le prix de vente de sa voiture modèle "T" et a ainsi vu s'accroître ses ventes dans des proportions considérables.

Il semble donc qu'entre les deux politiques: *vendre cher à un petit nombre de clients* ou *vendre bon marché à la masse*, la plus sûre pour réaliser des bénéfices, soit de fabriquer ou de vendre un article d'une qualité convenable à un prix aussi bas que le permettent de saines méthodes commerciales.

Il faut donc avant tout une connaissance approfondie des prix de revient et des dépenses, de manière à savoir jusqu'à quel point il est possible d'augmenter ou de réduire les prix de vente et quelle est la limite qu'il ne faut pas dépasser, dans un sens ou dans l'autre.

Réduire les frais

Si l'on veut se trouver dans la disposition d'esprit convenable pour juger du résultat des méthodes susceptibles d'améliorer le rendement d'une entreprise de distribution, le moyen le plus simple semble être de s'installer pendant quelques instants, par la pensée, dans le fauteuil du chef de maison à qui, pour la première fois, le chef de comptabilité vient de présenter un bilan soldant par un déficit.

Si c'est un de ces optimistes insouciantes, dont la race tend malheureusement à disparaître, il se dira:

"C'est bien ennuyeux... mais, après tout, c'est la crise! Mes concurrents sont logés à la même enseigne, il n'y a qu'à attendre; cela ira mieux l'an prochain."

Mais, le plus souvent, la mauvaise nouvelle suffit à éteindre cette belle insouciance, et notre chef de maison, justement alarmé par le retournement d'une situation jusque là favorable, va prendre des mesures énergiques et

décréter un régime d'économies à outrance. Il va se faire apporter par le comptable le détail des frais généraux, et armé d'un crayon rouge, se livrera à des coupes sombres dans les postes les plus importants, qu'il qualifiera de "frais improductifs":

Personnel. Il y en a trop; on en supprimera une partie. Il y a d'anciens employés qui coûtent cher, on les remplacera par des jeunes à meilleur marché; les autres, on les diminuera.

Représentants. On renverra ceux dont le chiffre n'est pas suffisant.

Succursales. Il y en a qui ne donnent pas assez de ventes, elles seront supprimées.

Entretien—réparations. Cela peut attendre, on verra plus tard.

Loyer—impôts. Là, rien à faire, c'est ennuyeux!

Publicité. Ah, ici on peut faire des compressions. On biffe tout simplement à grands coups de crayon rouge, et ce sont des milliers de francs d'économies!

Dépréciation sur stocks—amortissement. Ce n'est pas indispensable, on s'en passera!

Et arrivé au bas de la page, après une récapitulation rapide, notre chef d'entreprise relèvera la tête satisfait. Il aura fait de la bonne besogne, redressé une situation menacée.

S'il fallait choisir entre la méthode du chef d'entreprise qui "ne s'en fait pas" outre mesure, et celle du patron nerveux qui, d'un coup de crayon, bouleverse toute l'organisation de sa maison, croyant faire oeuvre saine et utile, on pourrait se demander si ce n'est pas encore celle de l'optimiste qui est préférable. Sans doute, il est en train de laisser mourir son entreprise, mais l'autre en croyant réformer sa méthode de travail court tout aussi sûrement à sa perte.

Il ne va pas tarder à s'apercevoir qu'il a moins d'employés, d'agents, de succursales, qu'il fait moins de publicité, et qu'il a moins de frais, mais en même temps, comme ses clients sont moins visités et moins sollicités par ses réclames, et comme ses succursales font moins d'efforts, il récolte aussi moins de ventes. La courbe du chiffre d'affaires, après s'être maintenue quelque temps par la force de la vitesse acquise, tombe plus rapidement que la courbe des frais.

Cette solution sommaire—on serait tenté de dire: cette exécution—si elle peut être utile dans le cas d'une affaire qui a été mal dirigée, lorsqu'un "nettoyage" est nécessaire, n'est donc pas, dans la plupart des cas, la solution rêvée.

Il convenait cependant, de la signaler afin d'illustrer la nécessité, pour le chef d'entreprise, d'aborder l'étude de ses frais de distribution avec un esprit constructif.

On parle trop souvent de l'obligation impérieuse de réduire les "frais," et l'on prend, pour prononcer ce mot, un accent péjoratif, en oubliant que *ces frais ne sont pas des éléments nuisibles qu'il faut éliminer à toute force* ou qu'il faut diminuer par tous les moyens, mais que ce sont, en réalité, des "dépenses d'exploitation," c'est-à-dire des éléments d'activité de l'entreprise, *des moyens d'action* à l'aide desquels celle-ci réalise son programme.

Pour le chef de maison, le mot "frais" doit être pris dans un sens positif et, comme sa traduction anglaise "cost" (coût) doit impliquer l'idée d'une contre-partie, évoquer un effort vers un but. Ce qui compte pour le chef, ce n'est pas tant de limiter son effort, d'économiser

sur la dépense, mais d'atteindre le but visé. Son premier souci doit donc être de tirer de ses frais le meilleur rendement possible, de guider ses dépenses avec le plus grand effet utile.

Pour cela, il devra se mettre à scruter son entreprise en détail, à l'ausculter comme le médecin ausculte son patient pour découvrir la cause de son mal, c'est-à-dire qu'il devra étudier les ventes et les frais de vente en apportant à cette étude tout le sang-froid et toute la méthode que le médecin met à établir son diagnostic.

1. Il analysera les frais en eux-mêmes et cherchera à se rendre compte de leur importance relative.

2. Il distinguera entre les frais fixes et les frais variables, ce qui lui permettra de déterminer quel doit être le volume des ventes pour un certain montant de frais.

3. Il les répartira le plus exactement possible entre les divers articles et les diverses catégories de ventes, afin de faire la distinction entre celles qui lui procurent des bénéfices et celles qui entraînent des pertes.

4. Il étudiera la vitesse de circulation du capital engagé, de manière à éliminer les pertes dues aux immobilisations prolongées de certains articles.

Pareille étude ne manquera pas de lui suggérer une ligne d'action infiniment plus judicieuse et plus profitable qu'une brutale compression des frais.

Développer les ventes

Il reste un troisième facteur sur lequel le distributeur peut agir: le *volume des ventes*, dont l'influence sur les bénéfices a été signalée plus haut.

Ce troisième facteur n'a-t-il pas, lui aussi, ses inconvénients.

Certaines marchandises comportent plus de frais que d'autres: il est donc indispensable, si l'on veut développer ses ventes par l'adjonction de nouveaux articles, tout en ne prenant qu'une marge raisonnable, de ne choisir que des marchandises à frais peu élevés. On évitera également les marchandises qui, à bénéfice égal, ont une rotation trop lente, etc.

De même, la vente dans certaines régions et à certaines époques cause plus de frais qu'à d'autres endroits ou à d'autres moments. Par conséquent, en abordant de nouveaux territoires, il importe de veiller à ce que l'extension du volume des ventes n'entraîne pas un accroissement du pourcentage des frais, et de ne pas étendre son activité uniquement à des territoires où la vente est onéreuse, à moins de les travailler suivant des méthodes plus économiques.

Lorsque la difficulté de vente s'accroît, ce qui est le cas lorsqu'on s'attaque à de nouveaux produits, à de nouveaux clients ou à de nouveaux territoires, il faut faire plus de publicité, plus de visites, accorder plus de crédit, d'escomptes, de commissions... et les frais de vente augmentent.

Beaucoup d'entreprises industrielles, pour avoir négligé ces simples précautions et avoir entrepris la distribution de leurs produits sur une base trop large, ont appris à leurs dépens, et non sans amertume, que *si c'est la dernière pièce qui coûte le moins à produire, c'est cette dernière pièce qui coûte le plus à vendre.*

Du point de vue du distributeur, le problème se pose en pratique de la façon suivante: Y a-t-il des clients qu'il est avantageux de servir et d'autres qui sont moins

intéressants? Quels sont ceux dont les achats laissent le plus gros bénéfice? L'analyse des frais et des ventes va, une fois de plus, donner la réponse à ces questions.

La première chose à faire sera de classer la clientèle par catégories et de calculer, pour chaque catégorie, le volume des affaires traitées, de manière à connaître l'importance relative de chaque débouché. Ceci suffira parfois à montrer que l'on risque de mécontenter une clientèle importante en voulant servir directement un débouché relativement minime.

Puis, étant donné les prix différents appliqués à chaque catégorie, il convient de mettre en parallèle le chiffre d'affaires avec les marges brutes prélevées et surtout avec les frais de vente, de manière à dégager le bénéfice net qui résulte des transactions avec les divers groupes.

On voit ainsi qu'à mesure qu'on passe de la clientèle de gros à la clientèle de détail, c'est-à-dire d'un stade de la distribution à l'autre, la marge de bénéfice brut augmente, mais qu'elle est généralement absorbée par les frais correspondants, et procure finalement des résultats moindres pour un effort beaucoup plus grand.

Un autre aspect du même problème est celui des commandes qui ne rapportent pas, parce qu'elles sont trop peu importantes.

Lorsque les commandes sont petites, elles sont souvent nombreuses, mais la place qu'elles prennent dans le chiffre d'affaires ne semble pas être bien importante.

Nous avons rencontré le cas d'une maison dont 45% du nombre des commandes formaient seulement 12% du chiffre d'affaires.

Lorsque la direction de cette maison eût déterminé ce qu'il en coûtait de vendre à cette catégorie de clients, elle cessa entièrement la vente aux clients qui achetaient pour moins de 3.000 francs par an, retenant seulement les clients dont la situation géographique permettait des visites et des livraisons aisées et peu coûteuses.

Le résultat fut que les frais de vente pour toute l'entreprise tombèrent à 4.75% du chiffre d'affaires, exactement la moitié de ce qu'ils étaient auparavant, tandis que le chiffre d'affaires total, enregistrait une chute de 23%. Cette chute ne causa aucun mécontentement à la direction, car elle permit de transformer le déficit d'exploitation antérieur en un bénéfice substantiel.

Il ressort de cet exemple que le distributeur avisé évitera de se laisser dominer par la hantise du chiffre d'affaires; il saura voir avant tout le résultat que procurent les ventes. Ici encore, comme pour les prix et comme pour les frais, il importe en premier lieu d'analyser, de mesurer et de savoir, avant d'agir.

Conclusion

Si le distributeur veut améliorer le rendement de son entreprise, il ne doit pas chercher d'emblée une solution dans la majoration des prix de vente, ou la compression arbitraire des frais, ou le développement exagéré des ventes.

Chacune de ces actions peut avoir des résultats fâcheux. Il faut qu'il étudie le problème dans chaque cas et qu'il l'étudie en s'inspirant de la méthode scientifique.

Une action raisonnée, basée sur l'analyse systématique des ventes et des frais, avec toute la rigueur des méthodes scientifiques, conduira à des résultats favorables avec plus

de certitude et une dépense d'efforts moins considérable, c'est-à-dire avec un rendement meilleur, que n'importe quelle méthode empirique.

En matière de distribution, s'il est nécessaire, comme partout ailleurs, de lutter sans cesse pour atteindre de meilleurs résultats, il faut apporter dans cette lutte la discrimination la plus attentive. Il ne faut jamais perdre

de vue la réaction des ventes par rapport aux prix, ne jamais oublier qu'une dépense représente un effort pour atteindre un but. Si l'on supprime aveuglément la dépense, on annule l'effort; si l'on vise à un volume de vente peu proportionné aux possibilités, on fait des efforts exagérés ou vains. De toute manière, on s'écarte du but que l'on s'est fixé: *Augmenter les bénéfices.*

Distribution Cost Analysis

FRANK M. SURFACE*

SUMMARY

Methods of cost analysis have been available to the manufacturer for many years which enable him to know with reasonable accuracy how much it costs to produce individual products. Corresponding methods in the field of distribution have never been developed to anything like the same extent. The problem is far more difficult in distribution because a so much larger proportion of total costs must be allocated to commodities by more or less arbitrary methods.

The present paper describes in detail and with an example one method of approaching this problem. Briefly this method is first to break down the ordinary accountant's record of expenses into groups which represent functions that are performed. The next problem is to find readily measurable criteria which may be used to allocate these functions to commodities. For example, the per cent of total warehouse space occupied by any commodity may be assumed to measure the amount of the total expense of maintaining that warehouse which should be charged to that product.

Once a reasonable allocation of expense to commodities is obtained, we are in a position to determine which commodities are making a net profit and on which we are losing money. Experience has shown that such details frequently enable management to change their methods of handling certain items so as to render them more profitable.

A companion problem equally important is the allocation of cost to customers or groups of customers. Space does not permit a detailed discussion of this latter problem but a few suggestions are given.

IN a relatively free economy men engage in business primarily for the profit they hope to secure. That these hopes are not always realized is clearly shown by readily available statistics. For example, even in the highly prosperous years prior to the 1929 depression, Standard Statistics compiled figures showing that only 41 per cent of the corporations in the United States making public reports showed a net profit.

Records of business mortality, particularly in the distribution field, show a surprising number of failures. Data compiled some years ago by the University of Buffalo showed that 60 out of every 100 retail grocery stores lasted less than one year and that there were only five chances out of 100 for a grocery store to continue in business for ten years.

The records for other lines of merchandising may not be quite so bad, but failures are still so large as to constitute an enormous burden on society. Furthermore, even in those firms that survive, uneconomic methods cause vast losses which ultimately are reflected in the cost of commodities to the ultimate consumer.

The causes of these failures are far too numerous to discuss at this time. Suffice it to point out here that one of the chief causes of these losses is the failure of management. The rule for making money in merchandising is the simplest thing in the world. All that has to be done is to sell goods at a margin greater than the cost of handling them.

The difficulty is that in the field of distribution we have no good criteria to tell us when our margin is greater than our costs. True, most reputable merchandising establishments have financial records which show their

total volume of sales, their total gross margin and their total expense of doing business. From these we can determine the average gross margin and average total expense per dollar of sales. Although this is useful, we know that the handling of some commodities involves much more cost per unit of sale than others. Hence, if we attempt to apply an average cost to these commodities we would be losing money on them. Average costs may frequently be more misleading than helpful.

What we need, therefore, is some method of allocating expenses to individual commodities. Since distribution costs are also materially affected by customer characteristics, we need to have some method of knowing what it costs to serve individual customers or classes of customers.

For many years manufacturers have had available to them fairly satisfactory methods of determining what it costs them to produce individual products in their line. Few manufacturers today would attempt to carry on their business without some knowledge of what it costs to produce individual items.

Yet in the field of distribution almost the reverse is true. It is the rare exception to find a wholesale or retail firm which has any conception of how much more it cost to sell and handle one item over another. Furthermore, the manufacturer who has the most detailed system for determining the cost of producing each item in his line probably has no information as to what it costs him to sell and distribute each of these items. And yet, where such studies have been made it has been found that these distribution costs differ widely for different items. Take for example my own company in the handling of petroleum products. Up until a few years ago, it was assumed that it cost the same to handle a gallon of one product as of another and all policies were predicated on that basis. Yet in the matter of delivery costs by truck very careful

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studies involving data from thousands of transactions show the following average delivery costs:

	<i>Cents per Gallon</i>
Product A.....	0.45
Product B.....	2.52
Product C.....	4.51
Average all bulk products.....	0.63

It is clear, therefore, that if products B and C cost from 6 to 10 times as much to deliver as product A, then the former must carry a much wider gross margin if we are to handle them at a profit. Likewise, if we assume that the average cost of handling all bulk products is applicable to each item, we find that we are in serious difficulty.

The problem of allocating distribution costs to individual commodities is much more difficult than the corresponding problem of determining production costs of manufactured products. In a manufacturing operation the cost of raw material, semi-manufactured material or parts usually make up a fairly large proportion of the total. Such costs can usually be determined very accurately for any given product.

Labor, the next most important item, can also usually be very definitely allocated. At any given time individual workmen are usually engaged on one or a few products and simple time studies are sufficient to give quite accurate allocation. There remains, therefore, chiefly factory overhead, administration and financial costs which have to be allocated on more or less arbitrary bases.

In the case of a merchandising establishment the problem is usually much more complicated. Take a wholesale grocery for example. Such a firm will usually handle from 500 to 1,000 or more individual items purchased from 20 to 50 different sources. Each of these items has to be bought, received and stored in the warehouse, sold by salesmen, assembled in individual customer orders, delivered to the customer, billed and collected for. No two orders are likely to be made up of the same items in the same proportions. Wages and salaries make up the predominant portion of total expense. It is no easy problem to determine how much of a warehouseman's time should be allocated to each of these items and when it comes to a salesman's time the problem is even more complicated. Since no one person is ordinarily engaged for any length of time on any one of these items, it is necessary to use more or less arbitrary methods of allocation for a very large portion of the total costs. Experience has shown, however, that fairly accurate costs can be obtained, but these require very careful study of a great many details and, of course, the problem is different for each kind of business and usually for each individual firm.

In order to give some concrete idea of what has to be done we propose first to outline the principles of one approach to this task and then to follow this with an illustration of a simplified case of actual cost allocation to commodities.¹

¹ To a very large extent the methods outlined here are based upon pioneering work in this field by the U. S. Bureau of Foreign and Domestic Commerce in the years prior to 1933. Much of this fundamental work was done in connection with two important studies known as the Louisville Grocery Survey and the St. Louis Drug Store Survey. Much of the credit for developing these methods

The average accounting record of a firm is usually not arranged in such a way that expenses can be directly allocated to commodities. While, of course, the accountant's record of expenses will be set up differently for different businesses and different firms, the following may be regarded as typical of the general headings under which expenses can usually be assembled from such records. Of course, under each of these headings details are available showing wages by classes of employees, traveling expenses, rent, interest, repairs, telephone and telegraph, taxes, etc. These details will have to be used in breaking many of these groups down into functions as explained later.

The main groups of expenses shown by the typical accounting record may be set down as follows:

1. Office and Administrative Expense
2. Selling Expense
3. Buying Expense
4. Warehousing Expense
5. Delivery Expense
6. Financial Expense

Our next problem is to determine criteria which can readily be measured and which can be assumed to vary in proportion to expenses incurred by commodities. For example, the cost of warehousing for individual items may be expected to vary in proportion to the space occupied. If one item occupies twice as much space as another it ought to bear twice as much of the expense of maintaining that warehouse. However, when we come to examine the accountant's group of warehousing expense, we find that he has included not only the rent and maintenance of the warehouse, but also the wages and expenses of the warehousemen. It is obvious that these wages do not necessarily vary in proportion to space occupied. So we see the necessity of breaking down the accountant's expense record into functional groups before we can proceed.

Without going into detail and with the full recognition that other businesses or other conditions will require different grouping, we may set down the following as typical of the functional expense groups in a fairly simple merchandising business:

Warehousing (Space)
Handling
Delivery
Selling
Clerical
Investment
Promotion
Reimbursement

The *Warehousing* function as we interpret it here would include the rental or its equivalent in depreciation, interest, repairs, etc., heat, light, power, cleaning, etc. All of these expenses can be prorated to commodities on the basis of the per cent of total floor space occupied by each commodity.

By *Handling* expense is meant the cost of receiving goods in the warehouse, storing it, assembling orders, breaking cases and other physical handling. The method of allocating these expenses to commodities will vary

belongs to Mr. Wroe Alderson and Mr. J. W. Millard during their connection with the Bureau in those years.

somewhat. In any event it will require a careful time study usually over a week or more. From this we can determine the amount of time each man spends on each commodity and these figures weighted by the wage rates for each man will give a series of percentages upon which this group of expenses can be prorated. Another method is to determine the time of handling some standard unit such as a case of canned goods in a wholesale grocery. Then all other items are expressed in terms of this standard unit and expenses are prorated to commodities on the basis of the percentage of equivalent standard units handled over a given period of time.

Delivery expense includes the cost of handling commodities after they leave the warehouse door. The expenses included are wages of the men engaged in driving the truck or delivering, the depreciation, interest, insurance, taxes, etc. on the trucks as well as repairs, products used, etc. In the case of hired trucks this expense would be included. Here again, a time study showing the time consumed in loading, traveling, with the customer and the make-up of individual orders can be utilized, but in most instances the proration of trucking expense between commodities will need to be on the basis of the pounds hauled. In the case of small high-value items some other provisions will need to be adopted. If the method of standard handling units is used in connection with "Handling" expense these can frequently be used for delivery expense and these two groups of expenses can then be allocated to commodities in one operation. (See table 4.)

Selling expense should include the salaries, traveling and other expenses of salesmen engaged primarily in commodity selling. It should not include the salaries or expenses of missionary or other promotional salesmen or of demonstrators or of general advertising. Even with this limitation, the proration of this expense presents many difficulties. If the salesmen are essentially order takers and do little promotional selling, their expenses can be prorated to commodities on the basis of the number of items ordered. This can be determined by a line count of invoices, say over a month or two months. The percentage of the total number of invoice lines will give a fair division between commodities for this type of selling.

If, however, the salesmen are accustomed to pushing certain items or are doing educational or other types of promotional work along with order taking, then it will probably be necessary to use a more involved technique. Fairly satisfactory results have been obtained by making a time study of a group of representative salesmen. In doing this it is important to win the salesman's cooperation by assuring him that we are interested only in costs and are not checking on his efficiency as a salesman. Otherwise, he can put on a show that will be quite different from his normal procedure. Such a time study should be carried on for two weeks with each selected salesman, if possible.

Another method is to determine from observation and consultation the approximate per cent of time spent on order taking and prorate that on invoice lines throwing the remainder under promotion as discussed below.

By *Clerical* expense is meant the cost of invoicing, checking goods received, preparation of accounting and statistical records and all similar work except that connected with reimbursement discussed below.

Clerical cost can best be allocated to commodities on the basis of the percentage of total invoice lines. Where a line count is used to allocate salesmen's expense these two groups can be allocated in one operation.

Investment expense should include interest on the money invested in merchandise stock, all items of insurance, licenses, taxes, etc. Such expenses can best be allocated to commodities on the basis of percentage of total inventory value represented by each item.

Promotion expense includes advertising expense, any portion of selling expense which is of a promotional nature, all institutional promotion, etc. Since in theory at least such promotional efforts are made for the purpose of increasing the total gross profit, it has been customary to use the per cent which each item contributes to total gross profit as a basis of allocation. In many instances some modification of this will be needed. For example, if promotional salesmen are devoting all or most of their time to one or a few items this should be charged direct to those items. Similarly, direct commodity advertising

TABLE 1
Profit and Loss Statement

	Amount	Per Cent of Sales Value
Sales Value.....	\$600,000	100.0
Cost of Goods.....	490,000	81.7
Gross Profit.....	110,000	18.3
Expenses.....	100,000	16.7
Net Profit.....	10,000	1.6

TABLE 2

	Amount	Per Cent of Total Expense
1. Office and Administrative.....	\$10,000	10.0
2. Selling Expense.....	32,800	32.8
3. Buying Expense.....	3,400	3.4
4. Warehousing Expense.....	19,000	19.0
5. Delivery Expense.....	5,800	5.8
6. Financial Expense.....	29,000	29.0
Total.....	\$100,000	100.0

might be so charged unless it is judged that it also helps to sell the entire line, in which case perhaps only a part should be charged direct to the products advertised.

Reimbursement is the cost of receiving payment and collecting accounts. It is the cost of maintaining a return flow of money for the commodities distributed. It should include all costs of maintaining ledger accounts, a credit department, billing, cashier's office, bad debt losses, interest on accounts receivable, etc. This group of expenses should be allocated to commodities on the basis of the per cent of total sales value represented by each item.

With this explanation of a set of functional expense groups which can be allocated to commodities on the basis of readily measurable criteria we are ready to see how this might work out in practice. To do this, let us take a theoretical merchandising establishment for which the profit and loss statement is as shown in table 1.

Expenses broken down by the six accounting groups previously mentioned show the results in table 2.

Let us assume further for simplicity that three items

A, B and C show the sales and gross margin given in table 3 and it is our problem to allocate the proper amount of expense to each item in order to determine whether we are making a net profit on them or not.

TABLE 3

	Sales Value		Gross Margin	
	Amount	Per Cent of Total Sales	Amount	Per Cent of Sales Value
A	\$72,000	12.0	\$8,000	11.1
B	60,000	10.0	12,000	20.0
C	60,000	10.0	9,000	15.0
All Other	408,000	68.0	81,000	20.4
Total.....	\$600,000	100.0	\$110,000	18.3

The next step is to attempt to break down the accounting expense groups into the eight functional groups as outlined. Since we propose to use standard handling units for the allocation of both handling and delivery expense,

invoice lines accounted for by each item, etc. For our hypothetical firm we tabulate the results of these several studies (table 5).

As indicated earlier we are showing the detailed figures for only three major items in this firm's business. In practice, of course, there would be many other individual items or groups of items which we have covered under "all other."

We are now ready to allocate to these commodities the grand total expense classified by functional groups as shown in the next to the bottom line of table 4. The details of this allocation are shown in table 6.

The next and final step is to compare for each item the sales, gross margin and allocated expense and to show the net profit or loss on each item. This is done in table 7.

These results show that Item A lost money for the company largely because it did not carry a large enough gross margin. Item B was a good profit maker largely because it carried a larger gross margin than the average and because its expense ratio was about normal for the company. Item C, however, carried less than the normal

TABLE 4

The Distribution of Accounting Expense Groups to Functional Groups

Accounting Expense Group	Total Expense		Functional Expense Groups											
			Warehousing		Handling and Delivery		Selling and Clerical		Investment		Promotion		Reimbursement	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
Selling.....	\$32,800	32.8					\$23,500	23.5			\$9,300	9.3		
Buying.....	3,400	3.4					1,200	1.2	\$2,200	2.2				
Warehousing.....	19,000	19.0	\$6,000	6.0	\$8,000	8.0			5,000	5.0				
Delivery.....	5,800	5.8			5,800	5.8								
Financial.....	29,000	29.0							9,000	9.0			20,000	20.0
Total Distributed.....	90,000	90.0	6,000	6.0	13,800	13.8	24,700	24.7	16,200	16.2	9,300	9.3	20,000	20.0
Administrative.....	10,000	10.0	667	0.7	1,533	1.5	2,745	2.7	1,800	1.8	1,033	1.0	2,222	2.2
Grand Total.....	\$100,000	100.0	\$6,667		\$15,333		\$27,445		\$18,000		\$10,333		\$22,222	
Per Cent Total Expense.....		100%		6.7%		15.3%		27.4%		18.0%		10.3%		22.2%

these two can be grouped together. Likewise selling and clerical expense will both be allocated on the basis of invoice line count and can be considered together. There will thus be six functional expense groups to be considered.

If we take the accountant's group of selling expense for this firm amounting to \$32,800 we find first that this includes \$9,300 for advertising of a promotional nature and the remainder of \$23,500 represents the salaries and expenses of salesmen engaged essentially in order taking for the full line.

In table 4, we have shown how each of the accounting expense groups is broken down into functional groups. Perhaps, the only further explanation of this table that is needed is to say that office and administrative expense is distributed to functional groups in the same proportion as the total of all other expense. In some instances it will be possible to determine some method of distributing part of this directly to functional groups.

The next step is to assemble the data from such special studies as it has been necessary to make, show the per cent of warehouse space occupied by each item, per cent of

ratio of gross margin, but because its expense ratio was low it proved to be the best money maker for the company.

By reference to earlier tables, it is easy to see just which expenses are relatively out of line for any given item and

TABLE 5

Item	Per Cent of Total					
	Ware-house Space Occupied	Standard Handling Units	Invoice Lines	Inventory Investment	Gross Margin	Sales Value
A	18.3%	8.8%	7.2%	3.5%	7.3%	12.0%
B	8.5	12.9	6.2	12.4	10.9	10.0
C	4.2	6.7	3.0	4.8	8.1	10.0
All Other	69.0	73.9	83.6	79.3	73.7	68.0
Total.....	100.0	100.0	100.0	100.0	100.0	100.0

this very frequently enables something to be done to decrease these expenses.

Although the case chosen to illustrate this method is relatively simple, it is believed that anyone with a reason-

able amount of ingenuity could apply a similar method to any individual firm.

There are, of course, other methods of approaching this problem. In one form or another a considerable number of companies are experimenting with some method of distribution cost allocation and the results so far attained

characteristics. Among these are size of order, frequency of order, distance from plant, special services demanded, etc. We know from studies made by many firms that ordinarily around 80 per cent of the business is obtained from about 20 per cent of the customers. This inevitably means that some portion of this other 80 per cent of

TABLE 6
Allocation of Expense to Items

	Total Expense	Item A		Item B		Item C		All Other	
		Per Cent	Expense	Per Cent	Expense	Per Cent	Expense	Per Cent	Expense
Warehousing.....	\$6,667	18.3	\$1,220.06	8.5	\$566.70	4.2	\$280.01	69.0	\$4,600.23
Handling and Delivery.....	15,333	8.8	1,349.30	12.9	1,977.96	4.4	674.65	73.9	11,331.09
Selling and Clerical.....	27,445	7.2	1,976.04	6.2	1,701.59	3.0	823.35	83.6	22,944.02
Investment.....	18,000	3.5	630.00	12.4	2,232.00	4.8	864.00	79.3	14,274.00
Promotional.....	10,333	7.3	754.31	10.9	1,126.30	8.2	847.31	73.6	7,605.08
Reimbursement.....	22,222	12.0	2,666.64	10.0	2,222.20	10.0	2,222.20	68.0	15,110.96
Total.....	\$100,000	8.6	\$8,596.35	9.8	\$9,826.75	5.7	\$5,711.52	75.9	\$75,865.38

TABLE 7
Computation of Net Profit or Loss by Items

Item	Sales Value	Gross Margin		Allocated Expense		Net Profit or Loss	
		Amount	Per Cent of Sales Value	Amount	Per Cent of Sales Value	Amount	Per cent of Sales Value
A	\$72,000	\$8,000.00	11.1	\$8,596.35	11.9	(-\$596.35)	(-0.8)
B	60,000	12,000.00	20.0	9,826.75	16.4	2,173.25	3.6
C	60,000	9,000.00	15.0	5,711.52	9.5	3,288.48	5.5
All Other	408,000	81,000.00	19.9	75,865.38	18.6	5,134.32	1.3
Total.....	\$600,000	\$110,000.00	18.3	\$100,000.00	16.7	\$10,000.00	1.6

promise to affect materially many merchandising practices and to decrease our costs of distribution.

Only the problem of allocating distribution costs to commodities has been dealt with here. The companion problem of allocating costs to customers is of equal importance, but the limitations of space will not permit us to deal with that at this time. The chief problem here consists in finding factors which measure customer

customers is unprofitable and cost more to serve than they return to the company. Some of these customers will have to be continued in any event for other reasons but once the facts are known it has been found possible to convert many of them to profitable accounts while still others need to be dropped or at least their business solicited in some other manner.

Pricing Policies and Customer Classification

WILLARD L. THORP*

SUMMARY

In organized markets and in retail trade, prices are usually uniform to all buyers, but in manufacturing industries discounts frequently vary according to some schemes of customer classification. Customers may be grouped broadly into four types—other manufacturers, those who resell to other distributors, those who sell to the ultimate consumer, and customers who are, in fact, consumers. On this simple skeleton an elaborate structure may develop with innumerable sub-classes.

Certain fundamental elements which form the background for these complicated classification structures include the location of performance of various functions, variation in costs among types of customers, peculiar conditions existing in special markets, and groupings which arise primarily out of competitive conditions among buyers.

It is frequently impossible to justify the existing price pattern in any given industry on strictly economic grounds. Four forces may cause it to deviate from the ideal— inertia, the fact that competitors force each other into new and inconsistent customer classes, the impact of buying groups themselves, and the increasingly prominent force of law.

Customer classification determines to a large extent business life or death. Our legal insistence on independent action is intended to provide a defense against arbitrary control over economic evolution by groups of sellers or buyers. Legal restrictions do not provide guides, but rather establish limits beyond which a business man may not go. Tradition and competitors' behavior impose additional limits, but there frequently remains an appreciable area for the exercise of his judgment. Customer classification is one method for capturing and maintaining his place in the market. His price structure should be directed at the channels of distribution which he wishes to reach.

Customer classification is one way of escaping from the process of individual bargaining, but to be effective it must be clearly defined and carefully maintained.

THERE is a principle taught in every elementary economic class known as "The Law of Single Price." This "economic law" declares that in any given market at any given time, a given commodity can sell at only one price. The logic back of it is that it must be so, because no buyers will enter the market at a higher price and no sellers will consider a lower price than that which prevails at the moment. This law cannot be disproved, but it can easily be shown that its necessary assumptions are so narrow that it does not establish universally the simple price situation which it appears to imply. The phrase "given commodity" must be interpreted to mean not only an identical product but also identical terms, conditions and considerations involved in the contract of sale; and the phrase "given market" is not solely a geographical concept but also must be narrowed down to refer to more or less similar buyers. The fact is that many commodities have extremely elaborate price structures, so that at a given moment of time very wide differentials may exist. One of the main types of differential is according to classes of customers.

In the case of those raw materials where organized markets exist, and also in most retail establishments, no distinction is made between customers. The product is placed in the market for sale and the price is no respecter of persons. There is no individual bargaining looking toward an adjustment of price in connection with some

individual transaction or particular buyer. Of course, there are important exceptions even within these areas, such as the case of automobiles and radios, where the flexible character of the trade-in allowance opens the door to old-fashioned bargaining. However, for nearly all products at retail, the law of single price controls—one price at a given moment at a given point of sale.

This is not true of the price patterns in many manufacturing industries. Here, customers are frequently classified on one basis or another and price differentials or discounts according to class are recognized and even traditional. Thus, at any given moment of time a manufacturer may be selling an identical product at ten different prices, even without including the further complications which may arise from freight, delivery, packaging, credit terms, and other possible causes of variation.

There is no standard form of customer classification. Wide differences appear in various industries. However, the form taken is usually some variation or development of the basic distinctions among four types of customers. First, and usually receiving extremely favorable treatment, are other manufacturers who use the product as an integral part of their final products, such as tires for automobile manufacturers, electric flashlight batteries for toy manufacturers, flexible cords for wiring device manufacturers, radio tubes for radio manufacturers, and electric motors for refrigerator manufacturers. The second level includes those who take the product for resale to other distributors, such as wholesalers, jobbers, dealers

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and the like. The third level includes retailers, those who sell to the ultimate consumer. The fourth level includes those customers who are, in fact, consumers. This consumer group would include such cases as the sale to institutions, as hotels or the Government, as well as direct sale by manufacturer to individual consumer. There are a few additional classes which do not come within this general pattern, but which appear only in special cases as, for example, special discounts to educational institutions in the case of products such as electric motors and arc welding apparatus.

On this simple skeleton, a most elaborate structure may develop with the creation of innumerable sub-classes. Classes may be created with the only distinction that of location (at one time radio tubes carried a special discount for dealers in the New York metropolitan area). Wholesalers who carry stock may be distinguished from those who purchase only for direct delivery to their customers. Frequently, sub-classes provide a concealed form of quantity discount (flexible cords at one time had a distinction between chain stores A and chain stores B; radio tubes distinguished between dealers selling 600 per year and those below). Sub-classes may be based on various other distinguishing characteristics, such as consignment purchasing, warehousing, activity in promotion, and the like. In one unusual case, a customer classification was based on whether or not the buyer had been a customer for more than ten years. The user of this classification claimed that it made a fairly accurate distinction between more desirable customers, and a new and relatively unstable group of buyers.

It should not be assumed for a minute that customer classifications are always exact and neat devices. They may appear to deal clearly with all problems of price differentials, while still permitting considerable flexibility. A class such as "large dealers" or "mass distributors" leaves many border-line cases where the seller can enter into individual negotiations. In other cases, the structure may not be complete, but may leave some of the more important customers unclassified, permitting special discounts. Where publicity was required in connection with mandatory price-filing under certain NRA codes, some recalcitrants filed such blind entries as "50 per cent discount at manufacturer's option." Nevertheless, even in such cases the classification scheme does at least provide a base from which individual bargaining must proceed.

Back of these complicated classification structures lie certain basic considerations. To the superficial eye it might look as if the manufacturer's job was the same regardless of who the customer might be—the product has to be made and either made available at the shipping door or delivered at destination. However, the fact is that there are a number of functions involved in the movement of commodities which can be performed by any one of several people involved in the process. Thus, for example, the warehousing of goods at central distribution points may be handled by the manufacturer or by a wholesaler, or the product may require installation or servicing. Obviously, the manufacturer can afford to pay in the form of a discount whenever the wholesaler undertakes any one of these variable functions.

Another element in the establishment of differentials relates to those functions in which the manufacturer has a special interest, such as a special discount to customers

whose promotion activity warrants special encouragement. A third consideration enters when the manufacturer finds that his costs are regularly different in connection with sales to various types of customers. One class may involve a greater credit risk. Some other group may not require the same amount of selling effort. Under this same heading are classifications which are, in fact, concealed quantity discounts, such as the recognition of a customer class of "mass distributors." Fourth are the classifications which apply to special markets in which peculiar conditions may exist, as in the sale of automobile tires to automobile manufacturers, or in sales to municipalities. Finally are the groupings which arise primarily out of competitive conditions among the buyers and their demands to be able to compete on a fairly equal basis for the support of the final consumer, as well as their demands to be given special advantages.

The underlying factors listed above should be sufficient to demonstrate that customer classification does not necessarily evolve according to any rational plan for the wisest price structure, in terms of an equitable or efficient organization of the distribution process. As a matter of fact, it is frequently impossible to justify the existing price pattern in any given industry on strictly economic grounds. At least four factors bear on the development of customer classification and, unfortunately, may help to make it depart from what might seem to be the most desirable setup. The first is the factor of inertia. Customer classifications tend to become traditionalized and frequently continue year after year without variation, even though the character of the customers and their activity may change. The second is the fact that competitors force each other into establishing new and inconsistent customer classes, for whenever a special concession is made to some group of buyers by one seller, the tendency is for it to be generalized quickly throughout the industry. Thus, two manufacturers, each with a rational customer classification, may force each to adjust to the other, creating an absurd net combination of the two systems. The third is the impact of the buying groups themselves. Their success, and even survival, may depend upon the differential of their purchase prices, and where bargaining power exists they may try their best to impress it on the price structure. Finally, there is the force of law. Only in recent years has the problem of customer classification been subject to specific legal requirement, but the Robinson-Patman Act now sets very definite limits on the differential treatment of classes of buyers.

The Robinson-Patman Act neither requires nor prohibits the establishment of price differentials. Rather it fixes limits beyond which preferential treatment of any favored group may not go. The basic criterion adopted is that of cost, the burden of proof being placed on the seller to show that his discounts do not exceed savings which he obtains from the particular class of customer in terms of manufacturing, selling or delivery outlay. The detailed application of the law must await the outcome of judicial decision, but the emphasis which it places on cost must be recognized by all those concerned with the defense of any particular scheme of customer classification.

One added limitation on one's approach to this general problem stems back to the Sherman Act itself which, with the aid of court decisions, establishes the impropriety of group action whereby an industry might agree on the

general price pattern to be followed. The prohibition of price-fixing by concerted action appears to have been extended to cover agreements which relate to any part of the price structure. In fact, a number of recent actions by the Federal Trade Commission have arisen out of attempts to define or control distribution channels. This means that an industry with a confused and disorganized customer classification situation, cannot deal with it in combination, but must hope that the situation will gradually clear, through the processes of individual and independent action.

In this connection, it is important to realize that the power of business life or death lies in customer classification. Our legal insistence on independent action is usually justified as a protection against arbitrary control over our economic evolution by groups of sellers, or even by pressure exerted by some strong buyer group. If sellers were allowed to agree that wholesalers, who customarily received a 10 per cent discount, were to receive only 5 per cent, it is obvious that many wholesalers would find life exceedingly difficult. Or some industry might decide that it would encourage middlemen, placing a high cost on all direct sales, thus forcing the product to flow through wholesalers' hands. Under our present principles of economic operation, such arbitrary adjustments cannot be permitted, but rather the interaction of independent judgment is assured to keep price structures in fairly reasonable form.

From the point of view of management policy, the legal

restrictions described above do not provide guides, but rather establish limits beyond which the business man may not go. Further limits may be imposed by tradition and by the behavior of his competitors. Nevertheless, there frequently remains an appreciable area for the exercise of judgment. Basically, he must recognize much more than the legally sanctioned factor of costs. He must concern himself with more or less intangible values. After all, customer classification is one of the methods of capturing and maintaining one's place in the market. A decision must be made as to preferred channels of distribution, and then the price structure must be modified accordingly. If he wants to develop chain-store distribution, then his price structure can assist. If he prefers small independent retail distribution, he must favor the wholesale-retail channel. A wise customer classification can help develop the enterprise toward whatever ends seem desirable.

Finally, customer classification can provide an escape from the process of individual bargaining. However, if it is to do so, it must be clearly defined and strongly held. It should not be subject to whim or continual shift. Of course, it should have occasional revision. But above all, once any classification is established, it should be carefully maintained. Otherwise, concessions based on short-run expediency will destroy the value of any attempt to establish and maintain an orderly price structure.

DISTRIBUTION

SESSION }
SITZUNG } IV
SESSIONE }

Advertising and Sales Promotion

Réclame et Avancement des Ventes

Reklame und Vertriebsförderung

Publicita a Pagamento e Promozione Vendite

Merchandising—Advertising and Sales Promotion

A Critique Prepared by
F. K. DOSCHER,* *Rapporteur*

A summary of the papers presented in this group clearly indicates the quickening tempo of advancement in modern promotional technique to influence consumers to a higher standard of living. To Management this means the purchase of more goods in greater variety and the expansion of markets so that the producer may benefit from the savings of mass production and increase employment for the worker. Because business has employed the best available brains, we have today highly specialized methods to stimulate sales by scientific analysis of the functions of advertising and sales promotion and the coordination of these elements into a plan of procedure that aims to accomplish the maximum result in terms of profitable sales expansion and service to the community. This objective emphasizes the responsibility of Management to eliminate waste, and control the expense ratio to the profit contribution for each phase in the cycle of product promotion by seeking standards of effectiveness through extensive research.

To alleviate economic distress of nations, industry today should be prepared to take the initiative and learn more of human needs, and then, with our vast production facilities, provide more and better goods at prices the consumer is willing to pay.

In examining these various techniques let us consider the education of consumers as outlined in the paper by Mrs. E. Lilliehöök which relates specifically to Sweden, but has its counterpart in other countries. Here we find the practical question concerning the limitations of modern advertising and promotion technique where the consumer has a limited appreciation of the qualities and services of the product. Likewise, where the effectiveness of any marketing plan is limited in proportion to the competence of the retailer to understand the value and utility of the product plus his opportunity to merchandise it. Accordingly, we have the problem of educating the consumer to an appreciation and understanding of new products before advertising and promotional methods can create the urge to acquire them. Taking a long-range viewpoint, this requires a program of consumption education to be taught to the youth in schools, and beyond that, close cooperation between producers and voluntary groups of consumers on the premise that people generally want to gain knowledge and possess more of the world's goods. Unless Management recognizes this need, the increasing variety of products will be perplexing indeed to the masses of potential customers who are unqualified to make a selection.

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In those countries where there is a high standard of living and the process of consumer education has been progressing over a period of years as a result of advertising and advanced systems of education, let us examine the influence of the modern package as discussed by Mr. I. D. Wolf. Long ago we recognized the physical requirements of the package unit from a utility standpoint; today we find the modern package a vital force in influencing the consumer at the point of sale, not only because of its convenience, but more because of its impulse selling appeal. As a result, new types of retail outlets have sprung up such as the self-service super-markets where the package through its attractive design and easily understood sales message sells the product without the aid of personal salesmanship.

This transition has far-reaching effects upon the entire distribution structure. To Management this is a constructive trend because it makes an increasing variety of goods more accessible to greater numbers of consumers over wide market areas. Through the use of new packaging materials and the development of automatic packaging machinery new industries have been created thereby increasing employment and purchasing power. However, Management should weigh carefully the effect of the present trend toward smaller package units which not only add considerably to the manufacturing cost, but also decrease the unit of sale at the point of purchase; the result must necessarily increase the cost to the consumer and possibly awaken a feeling of resentment that he is paying more for the enclosure than the product!

Today, no producer can deprive himself of the full use of modern packaging technique if he is to survive in a highly competitive market. The design of a package is often more stimulating to the urge to purchase than the product itself. Therefore, Management is faced with the necessity of having correctly designed packages and also of accepting the frequent changes necessary to keep abreast of the rapid advances being made in the use of new materials and technique. Management must recognize that good design of the product and the package is a stimulant to the entire marketing program. Therefore, it becomes apparent that the marketing executive is faced with a new dilemma; regardless of the quality of his product, its convenience and utility plus good reputation, a mediocre design or one which is "old fashioned" will stifle sales and have a negative effect on every phase of his promotional activity. Conversely, if he employs good design he will accelerate his volume, give more interesting material to his advertising and promotional departments, and add to his prestige.

But, can Management be self-sufficient in a function which is so highly specialized and where the risk of error is so costly? Mr. W. D. Teague shows that the art of industrial design reaches not only the product and the package, but also packing cases, labels, delivery trucks, and every item within a business that has any form of public contact. This requires that Management seek the professional industrial designer who has a business conception of the need to reduce costs through better methods to increase profitable volume; he must be a combination of artist, engineer, and salesman, and one who will pre-test ideas through consumer research before substantial expenditures are made in product changes, or promotional appropriations. It is obvious, even to the casual observer, how readily Management might add costs to the distribution of merchandise. Justifiable criticism is directed toward business today on the basis that too large a part of the price paid by the consumer is represented in distribution costs.

Management is accepting that challenge and shares the interest of the consumer in lowering costs to make more goods available and increase production with its attendant employment and economic prosperity. One phase of this question is covered in the Swedish report on the "Rationalization and Standardization of the Distribution of Goods," by Mr. R. Rausing. The methods employed to standardize the distribution of flour in packages are commendable because they followed factual results of a character that could readily be interpreted into a workable procedure that meant profit to the producers, time saving for the retailer, satisfaction on the part of the consumer, and an opportunity for advertising to promote the product and establish brand preference.

Notwithstanding the high degree of specialization in each segment of the marketing plan, Management must be increasingly aware that no one element can be considered as an entity unto itself. As Mr. Frank R. Coultant states, Scientific Management must correlate each function into a well rounded plan of procedure based, not upon opinion, but upon standards which have been tested. It is significant that one author expresses his opinion that only a limited number of firms base their advertising on clear-cut facts concerning the markets, the habits, and identity of present and prospective customers and thus keep up to date through scientific fact-finding. Such an observation infers that the great majority of producers who spend vast amounts on advertising appropriations (which must necessarily be reflected in the cost to the consumer) are merely guessing the profit relation of their advertising budget to sales effectiveness. If successful, it is more a matter of good fortune than expert management!

Those who urge a more scientific approach to the problem of measuring the sales results from the advertising dollar set forth a method that begins with the premise that, "it is easier to produce merchandise in abundance than to sell it profitably to a mass market." Accordingly, they give emphasis to the need for salability tests of the product itself before it is given advertising support. Then, attention is focused on the market itself and the advantages of a market analysis by segments so as to disclose characteristics which have a direct relationship to

sales potentials to the extent that some markets cannot justify the expense of intensive development through the medium of advertising. Like the market, the consumer mass is also segregated and classified under headings useful in arriving at workable standards.

The objective of Advertising Management must be continuously directed toward better control through expense analysis to eliminate waste and find practical standards to measure effectiveness. Advertising is judged by its usefulness to influence consumers; there is little relationship between the result of the idea presented and the amount of money spent for circulation media, or methods. Numerous methods of testing to measure the effectiveness of advertising technique have been proposed, as shown by Professor Neil H. Borden; but the critics are many who question the reliability of any tests to predetermine the sales contribution of the advertising dollar. Apparently, there is no scientifically correct method. However, there appears to be a group of advertising minds who believe that a new art is in the making whereby scientifically controlled advertising will eventually produce results on a predetermined basis. Their problem is one of extreme difficulty because advertising does not stand alone like production; it is but one integral part of the complicated function of marketing. We see a recognition of this in the development of the advertising agency which no longer limits its scope to the selection of media, and the production of the advertisement.

On the contrary, Mr. Stanley Resor brings out that the modern advertising agency assumes a professional relationship with the client and offers an ever-increasing number of specialized services, each under the direction of an expert. As an example, consumer and market research facilities have been greatly advanced by the modern advertising agency as the most efficient method to assist the client in product development (either new or improved design), sales territory analysis, and the segregation of consumer groups in relation to purchasing power and buying habits. There are business men who question the position of the advertising agency as to whether or not the agency is the agent of the advertiser, or the agent of the advertising media. However, Scientific Management expects more from the modern advertising agency than a professional service limited to the scope of advertising as such. It is expected that the progressive agency will continue to expand its services and facilities so as to assist the advertiser in every detail of his marketing plan by the application of scientific methods to maintain the necessary profit ratio for the sales results obtained. Forward thinking minds in the agency field look beyond the creation of human desires for better things so as to pave the way for the sale of particular products. There is a new perspective which recognizes in the force of advertising technique a vast opportunity to create mass understanding in terms of human tolerance and cooperation to counteract social unrest which inevitably leads to economic distress and a severe drop in the sales curve.

There are times when Management is faced with the problem of influencing the consumer mass but where usual advertising and promotional technique would either be ineffective or too expensive. In such instances, Scien-

tific Management often successfully employes propaganda. This medium can be highly effective if guided by the expert and supplemented by consumer and market research. An illuminating example is outlined in the paper "The Sales Promoting Activities of the Svenska Sockerfabriks Aktiebolaget." In this case consumer research quickly discovered a natural resistance on the part of the public because of an inherent idea that the product was a luxury and therefore unnecessary in daily life. It is interesting to note how the intensity of the propaganda was varied in direct proportion to the seasonal movements of the sales curve. Here we have an indication of the capability of modern Management to employ those scientific methods which promise results with a high degree of certainty.

The extensive activities which have been prompted by Management in an attempt to distribute more goods and at the same time reduce selling costs have brought great emphasis to the unlimited possibilities of what is called sales promotion. As a result, Scientific Management includes in the technique of sales promotion, as set forth by Mr. W. Göransson, the coordination of all the elements within the function of marketing which have a direct or indirect bearing on the efficient and economical movement of goods from the factory through the various channels of distribution to the ultimate consumer. Some business men still think of sales promotion as a subdivision of advertising. But, a review of all that is included in modern

sales promotion technique indicates clearly a function so broad and far-reaching that it stands out as a dynamic force—well beyond the experimental stage—in the marketing plan.

The two papers by Messrs. J. C. Aspley and C. B. Larabee deal so inclusively with this essential aspect that they establish their own challenge for enlightened Management and formulate the primary questions which should underlie any progressive marketing program.

In conclusion, if Business Management is to be called "scientific," it must be relentless in the search for better and proved methods for the effective control of every function of the business enterprise. Notable accomplishments have long since been made in the fields of production and accounting. Now, there is a vast opportunity within the function of the marketing plan to discover, through research and experiment, reliable methods to measure the sales effectiveness of the various methods so as to keep each element involving expenditure under control in proper relation to its profit contribution. This element of Management control is vital to the progress of creative marketing—and definitely in the public interest. Without it, the severity of ruthless competition may so pyramid advertising and promotional costs that the consumer will lose all faith in the producer and his goods.

Educated Consumers—Improved Production

ELEONOR LILLIEHÖÖK*

SUMMARY

It is a generally accepted rule that the producer should know the requirements of the consumer. That rule is contingent, however, on consumers themselves knowing what they want and considering their requirements in their wider social and cultural connexion. If an unenlightened body of consumers should inform the producer of its "requirements" by the goods they demand, this may contribute to keeping production on a low level. Information regarding products, now increasingly disseminated by modern industry, falls short of maximum result as long as the consumer, who has the last word in the matter of buying, fails to appreciate the value of the goods, or to discriminate between goods of high and inferior quality.

Consumers themselves ought, of course, to be the first ones to insure that instruction regarding choice is made available. The National Federation of Housewives in Sweden, and to some extent also the consumers' associations, have long been doing just this. In recent years the Federation of Social Democratic Women has also taken up such activities, and several of the large organizations are planning similar work. With the support of the Swedish Society of Arts and Crafts—the object of which is to stimulate manufacturers to produce high quality goods and the public to consume them—large groups of consumers might agree to study their requirements thoroughly, and to inform the manufacturers respecting them. The movement for the voluntary education of the people, which is strongly developed in Sweden, should be increasingly utilized for the same purpose.

Proper education of the consumers, however, should also be included in all civic training, and form part of the school curriculum beginning with the last year in elementary schools. The Housewives' Federation has made recommendation to the Central Board of Education to that effect. Some of Sweden's numerous People's High Schools and rural schools of domestic economy have done excellent pioneering work in this respect. Instruction, which directs the thought of pupils to their future homes, may well prove stimulating and fruitful to the younger generation. Furthermore, inasmuch as such studies contribute to a fuller appreciation of the needs of daily life, and to a critical examination of customs and habits of life, they will have direct educational value.

THAT the producer should know the consumer's requirements is a fundamental rule to which both producers and consumers agree. But that rule is contingent on an assumption, which is not always correct, viz: that the consumer knows his own requirements and their wider cultural, hygienic, and social aspects. If he does not, the consumer helps to keep national production on a low level. The consequence of deficient culture in a consumer-group is reflected in the goods demanded by and supplied to that group.

The enormous variety of goods produced by modern industry, and effectively distributed to all parts of even sparsely populated countries, would seem to make selection and buying a very easy task. Actually, however, that task is very difficult, and very few indeed have mastered it. Frequently the bulk of the consumers have received no training whatever in the important subject of consumption. In Sweden, instruction in articles of food and their preparation forms part of the Domestic Economy course that is now part of the curriculum in one-third of our elementary schools, and will eventually be included in all popular education. But no universally available in-

formation is provided respecting any other goods needed in the home. Hence, very large groups of consumers must be definitely unqualified for their task of selecting and buying. It may be that this large body of people (who inform producers of their "requirements" by their demand for some article, and insist on having that demand satisfied) helps to keep production on a low level, or to swell imports of undesirable, low grade goods.

Another contributory cause is the fact that distributors—the shopkeepers—are likewise not qualified to select and buy the stocks they are to offer the consumers. Thus, in small places, where there are relatively few shops supplying domestic necessities—furniture, household utensils, textiles, clothing—the consumers' chances of seeing and selecting high grade goods may be much restricted in the first instance by the fact that the shopkeepers are not properly qualified for their task.

A good deal of work is being devoted to effective education of consumers through publicity campaigns of many industrial enterprises, coöperative establishments, and merchants' associations, and above all through the Swedish Society of Arts and Crafts, the object of which is to induce producers to manufacture high quality goods; and consumers to buy these high quality goods. But

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that work cannot go beyond a certain point as long as those with whom the final decision rests (the people who accept or refuse an article in the market) are not competent to appreciate its value correctly.

The consumer corporations have great opportunities of influencing the homes towards better consumption, and, consequently, towards better hygiene and a higher standard of living. They have usually gained the confidence of the small homes, especially those of the industrial workers. Being members of these organizations and having confidence in them, these people will frequently accept goods or residences, offered by the organization, that they would perhaps not have selected in the open market. Consequently, these coöperative organizations have excellent opportunities to raise the standard of the smaller homes, provided the coöperatives always offer high quality goods, and take their educating and taste-improving mission as seriously as it merits. Very important work has been done in this way to improve the hygiene and culture in Swedish workmen's homes. But that opportunity will always be limited to these organizations, and is built (at least it was originally) only on the confidence of the individual consumers in the producer and distributor (in this case one and the same), not on the consumers' own knowledge and judgment.

What agencies and institutions, then, ought to undertake the general education and training of consumers? One solution might well be: to persuade consumers to create from their own ranks educational organizations which would conserve consumer interests and promote the standard of culture. Such educational work has been initiated in many places. Apart from consumers' associations attached to coöperative organizations, such work has long been carried on by the National Federation of Housewives in Sweden, in recent years also by the Women's Social Democratic Federation, and to some extent by the Federation of Young Rural People, the Federation of Young Social Democrats, and the temperance organizations.

Ever since its formation in 1919, the National Housewives' Federation has disseminated information on home rationalization, home decoration and equipment, and knowledge of materials. Owing to the rapid expansion of the housewives' associations in different parts of the country, this informative activity has reached many homes. Apart from large exhibitions of furniture, utensils, and household appliances, small exhibitions comprising, for instance, table decoration, napery, glass, china, and the like, or textiles and handicraft work, have also gone the round of the associations. A large part of the monthly Federation Bulletin deals with the equipment of the home and articles consumed there. These subjects have formed part of the large number of courses arranged by the Federation both in towns and in the country. Finally, the advanced theoretical courses for mothers and wives, recently started by the Federation, include a course of instruction for consumers in general on the rationalization of home work, on home equipment, and on knowledge of materials. These courses have been arranged to assist housewives in their individual studies, and to form part of the comprehensive instructional work undertaken by the Federation in recent years. The most usual and effective form of that work has been the establishment of study-circles, in which child education, theory of nutrition, work

rationalization, and home equipment, have been taken up for individual study and discussion.

The Women's Social Democratic Federation began this kind of work relatively late, but has, by intelligent and effective propaganda, achieved good results very rapidly. By means of its Bulletin, "Morgonbris," the Federation, in conjunction with certain industries, has attempted to apply its publicity allowances to the publication of a catalogue of goods, in which the Editor, in consultation with producers, recommends such novelties as are considered especially suitable for the particular group of consumers. Comprehensive displays of ready-made clothing, arranged by the Federation in Stockholm and Gothenburg (where for the first time both employers and workmen have been exhibitors) have proved an excellent way of promoting contact between producers and consumers.

Other large national organizations, such as the Federation of Young Social Democrats and the Temperance Organizations, have also attempted to improve the standard of homes and to make their members take more interest in domestic problems by providing better information on materials offered, and on how to furnish and equip their homes. The temperance organizations in particular see in this a positive outlet for women's work, consistent with the ethical aims of the Federation.

The large Federation of Young Rural People has started circles among their members for the study of home furnishing and equipment, and of rationalization of work.

The question of the education of consumers within their own organizations is, thus, under discussion in several large consumer groups. Such education is based upon the special requirements of the various consumer groups. As these organizations procure qualified assistance in this great work, it will offer opportunity for the effective correlation of consumers and producers.

The organization sponsoring these educational activities in Sweden is the Swedish Society of Arts and Crafts, and most of the above mentioned organizations have been in more or less close touch with that Society. The Housewives' Federation, for instance, has for several years been represented on its Committee, and a scheme has even been prepared for carrying on educational work jointly by the Arts and Crafts Society and certain popular organizations, which are keenly interested in making use of the ambulatory exhibitions of the Arts and Crafts Society for such studies.

Support may also be counted upon from the movement for the voluntary education of the people. This is very highly developed in Sweden. The movement ought to direct more of its attention to domestic matters and consumption, however, and will most certainly do so the more these questions are taken up by the larger national organizations, which are keeping in close touch with all popular educational work. These will have to obtain from the Society information on the subjects and questions in which their members may become interested.

It is not sufficient, however, to do nothing but *hope* that an increasing number of consumer groups will, through their trade or other organizations, give effective instruction in these subjects to their members. General information on these important questions should be given in the schools. Education in the schools is now gradually becoming more adapted to meet the practical needs of the pupils in after life. The formation of homes and families

and the purchase and consumption of goods constitute a large portion of the life and work of adults. Direct training for these extremely important civic tasks (which so strongly affect the health and hygiene of the nation, the welfare and happiness of the private individual, and which, if handled ignorantly and irresponsibly, may lead production astray) should, therefore, be demanded from a modern educational system.

As elementary school education is all that reaches the whole of the younger generation, preliminary instruction (not only in the principles of nutrition, but also in domestic hygiene and home equipment) should be given to both boys and girls in the higher elementary school forms. The Housewives' Federation has requested the Central Board of Education to include such instruction in the curriculum of the elementary schools, pending further extension. But it is even more important that these subjects should be introduced in the continuation schools. They should, in fact, be included in all education. Some of the Peoples' High Schools and rural domestic schools have done excellent pioneering work in the country districts by including home management in their curricula. Forces are at work to have these subjects included in all such schools. Although this instruction has been, and still is, primarily intended for the essential improvement of rural housing conditions, it is to be hoped that all the aspects of home

consumption will gradually be taken up in conjunction with the instruction in food values and the training in home crafts now on the programs of several of these schools.

When properly taught, the whole subject of consumption (which must necessarily direct the thoughts and imagination of the pupils to their own future homes) can be made highly interesting to them. This applies primarily to the equipment of the home. And in these days, when beauty in the fittings of the home is hardly recognized apart from utility and suitability, when we are striving to equip our homes to suit our needs, any instruction that aims at a critical examination of habits and requirements, at a differentiation between essentials and unessentials in our daily lives, may be of direct educational significance. The demand for high quality goods, even in the simplest domestic utensils, can only be correctly interpreted in the light of an ethical and rational concept of our habits of life.

In appealing to the consumer to use his goods, the producer would thus meet an enlightened body of consumers, conscious of their real requirements. The quality of the products of any country will ultimately depend on the enlightenment, self-knowledge, and general culture of the consumer.

Packaging and Its Effect Upon the Standard of Living

IRWIN D. WOLF*

SUMMARY

The industrial revolution, in attempting to raise the standard of living, had to learn to deliver its product in a package that would suit the living conditions of the consumer. The progress of packaging indicates the direction which the distribution of merchandise is taking.

Packaging, the handmaiden of industry, has made goods more easily accessible, inviting and understandable to the consumer and has quickened distribution and production.

As cities grew, housing problems became acute—bulk goods had to be delivered to efficiency apartments in small packages. The modern housewife and the working woman do their marketing hurriedly and cook from packaged goods. Identification of quality is provided by the package. The consumer is willing to spend more money to procure commodities that lighten the human burden.

Goods in packages must be as fresh as if consumed at the point of origin. Cans, bottles and packages—using new preserving methods such as frosting—are contributions to modern living. Safety in using poisonous antiseptics, new medical foods and preparations, is possible only through packaging.

The motion picture, advertising and display are effective propaganda for increasing people's desire to raise their standard of living by presenting new ideas to them. Packaging speeds the availability of these new products.

While America has taken the lead in package creativeness, packaging all over the world is not uniform in progress, but there is a wide diffusion of knowledge concerning it adapted to suit the economy of various countries.

On its surface, the modern package identifies, describes and guarantees its contents in accordance with the increasing ethical standards of business. In many cases, transparent wrappings reveal the contents. Seldom is a good looking package able to fool a customer—competition eliminates that.

The retailer and the manufacturer have another point of common interest because of packaging. Time and space and money are saved in packaging, wrapping and distributing.

Packaging has created a new industry and gives employment to many people. Machinery for producing packages has resulted in millions of dollars worth of business.

A look into the future indicates that the package, regardless of changes in diet and living conditions in general, will have to fit the cupboards of the future and continue to have a positive effect upon the standard of living.

IN FORMER times we thought of distribution as the problem of moving bulk merchandise—hogsheads of sugar, carloads of potatoes, crates of this and barrels of that from the point of production to the point of sales. But now comes a further refinement of distribution to make commodities more readily acceptable, more smoothly accessible at the point of sales. And this further refinement in the development of modern distribution is, of course, packaging. The progress of packaging I take to be an indication of the direction which the distribution of merchandise is taking. Modern packaging had its beginnings in satisfying social needs. The industrial revolution, in attempting to raise the standard of living, had to learn to deliver its product in a package that would suit the living conditions of the consumer.

Packaging, unquestionably, has given wings to business. By making goods more easily accessible, inviting and un-

derstandable to the consumer, packaging has quickened distribution which naturally reacts in the speed-up of production. But to consider packaging merely from the standpoint of increasing sales is, I believe, to take the shortsighted view of it. I am reminded of Emerson's shrewd and philosophical tribute to business. He said, "After all, the greatest meliorator of the world is selfish, huckstering trade." Yes, through the scientific development of packaging we have sold more goods. But the net result has been a public benefit—an improvement in the standard of living.

An increasing willingness on the part of the consumer to spend more money to procure commodities that lighten the human burden, that cut down waste and human energy, that smooth the operation of daily living—this surely is an index to progress. It is definitely the prevalent state of the public mind in all progressive countries today. Packaging, the quick-witted handmaiden of industry, plays a big part in this drama of progress, bringing within easy reach of vast numbers of hurrying consumers countless articles which contribute to better

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living—many of which articles could not possibly find their way to the consumer if appropriate packages had not been devised to make these articles distributable.

Modern life has a new tempo. The great thing for us to remember is that all our enterprises must be synchronized to it. What is it that accounts for the quick tempo of this modern age? At the risk of being thought platitudinous, I must name the oft-repeated phrase, *the machine age*. Generally speaking, the machine age is the basis of all our demands, the explanation of all our modern ways of living—and much of our thinking.

The machine age called millions of people from the country to cities. As cities grew, housing problems became acute. Homes and apartments are now planned to house the greatest number of people—in a state of comfort—in the smallest possible space. Even now, prefabricated houses are being built, still further perfecting the modern miracle of maximum comfort in minimum space. Imagine grandmother's *bulk goods* in an efficiency apartment or a modern home built on the new, compact scale! If the barrels and the bins and the great crocks that grandmother used with complacency in her spacious home were to be put into one of our ultra modern homes, the human tenants would have to move out! Is it not self-evident then that modern packaging has been developed to serve the people of today in the manner of living which our modern times have produced? The success or failure of achieving a technique to suit the conditions of the era has been one of the final criteria of the success of society. No society in the future, whatever its form, can evade the implications of solving this problem.

Another phase of the machine age invites our attention with respect to packaging. I refer to the moving pictures and to the fact that today millions of women are working in factories, offices and stores. And what, you may ask, have those two facts to do with each other—or what has any of it to do with packaging? Again I beg a little patience. You shall see. "The Movies" give a picture of current life. They are quick to show the new. Never is a worth-while product invented and produced (especially if it be something that improves life) but it appears in a movie, showing people using it, enjoying it, lifted to a higher plane of living because of it. Such pictures are great propaganda. Millions of Americans are daily subjected to this contagious presentation of new ideas. They demand this new product for themselves. They are impatient to have it quickly and in usable form. Packaging speeds it to them.

And what have the millions of women in industry to do with packaging? Just this: their housekeeping and cooking now claim but a small, compressed part of their time. They do their marketing and shopping hurriedly at noon or after "working hours." Expertly, quickly their eyes scan rows of package-laden shelves. Easily they identify familiar packages, choose convenient ones, prefer above all those which serve them most efficiently. To conserve time, they often buy in quantity. Yet their reserve goods have to fit into very limited storage space. To encourage the economy of quantity buying we must devise the proper packages. This new type of housewife often carries her purchases in trolleys and subways so we must provide her with packages that she can conveniently carry.

Three factors motivate package creativeness in America. First, there is the package planned for preservation

of perishable products. Then there is the package which is mainly functional and cites convenience in use as its main reason. There is also the package designed for eye appeal to create extra sales. Where the three merge, our best package results. Package design in America has been spurred by various competitions staged by interested groups. Each year sees us getting closer to the perfect coordination of design, function and identification for the package.

It is not practical to deliver the harvested grain from the field to the table of the consumer living in the city. The physical difficulty of handling this distribution of nature's goods to a human removed from the immediate source of production has been the same from time immemorial, even though the coefficient of expansion has changed. Consumers have multiplied like the stars, multiplied their needs and multiplied the products necessary to satisfy these needs.

Never will packaging be in the position of the tail wagging the dog, but rather let us say that without it we would have a new kind of dog which would not be acceptable in the best of society. Packaging can only survive or justify its existence as long as it adheres to one of the principles on which industry survives—"Society is not made for industry, industry is made for society." As long as the package fills this place in the scheme of society, it will have an effect upon the standard of living. While packaging all over the world is not uniform in progress, the diffusion of knowledge concerning its physical properties is occurring under pressure of corresponding needs in widely different societies. No matter to what degree the machine age has penetrated into a country's economy, the penetration at some point sets up a parallel of need or new standard of living where all of the corresponding uses and physical methods of distribution are adapted from the experiences of more advanced countries.

Packaging solves the problem of distributing bulk goods in small quantities. This one desire to save space—this modern need to solve health and food problems by concentrated foods, has made the package even more vital in the distribution system. Milk, medicines, vitamin aids, even household tools for cleaning, oils for motor transport, lamps for the electric lights, have to be delivered in this modern society in packages that serve their fundamental purposes—seeing that the consumer receives merchandise intact after its long travels over modern factory assembly lines and transportation systems.

The increasing demand for luxuries, such as foods out of season, develops new packaging ideas and, in the order of society, these ideas eventually filter down to benefit the masses. When one sits down to a meal, many of the tempting dishes or their flavorings are from packages.

The cost to enjoy fruits, vegetables, meats or fish out of season is within reach now of the masses and not merely a luxury of the wealthy. Versatility in diet contributes to the enjoyment of life and to a higher standard of living. Balanced meals, long the cry of doctors and dietetic specialists, are now far more generally used. Give packaging the credit for this improvement in living!

Baby's milk is available in concentrated, easily stored packages. The containers themselves and the closures are so constructed as to aid the consumer in the dispensing or use. Better living is thus achieved for our newcomers to this world.

Even safety in the home has been aided by packages. We have asbestos covers, dust-proof covers and poisonous antiseptics are bottled and labeled.

It has not been my intention to discuss the elements of packaging which concern the individual manufacturer but rather the broader aspects of this field. Yet we cannot fail to see that readily identified packages on shelves save the time of salespeople by allowing the consumer to name her purchases quickly and the salesperson to avoid the necessity for measuring and wrapping these purchases. Thus greater stocks can be carried and quicker filling of orders by the manufacturer is possible. New products can easily be introduced. The factor of appeal by color—open face packages protected by transparent materials—is also to be considered.

But we are most concerned with the effect of packaging upon the standard of living. From the first, the package has included, even in its primitive state, a sound approach to consumer satisfaction and a foreknowledge of the increasing governmental and consumer demands for content identification. For the package alone, among all elements of distribution, has found room on its surface to speak the language of the consumer with direction for use, advantages of use, an introduction to new products, and has even provided an education in taste. It speaks for itself to the consumer. And so retaining this element of consumer satisfaction, it is able to meet with equanimity the new demands made upon industry by the consumer—to be more definite and more explicit in its discussion of the quality of the merchandise itself.

The modern package carries in its cardboard, or metal or glass or plastic composition, within its own area in space, a concentration of the progress that time and invention have brought to mankind. Just as books hand down the knowledge of by-gone ages and allow students of modern industry to study each other's methods, so the package delivers the products of this civilization from one part of the world to the other.

Canning is one of the great industries that owes its development to the solving of a packaging problem. Quick or hard freezing foods have now joined canned or glassed foods as a staple on the table of the average American household. Many foods are thus made available to places where they would otherwise be inaccessible. By this new frosted method, the freshest of fruits, vegetables, fish and meat are selected at just the right moment, with only the most edible and choicest parts selected for preserving. Frozen by special process, packaged and placed in refrigerators at the factory, they are shipped in refrigerated cars to a refrigerated warehouse in a city many hundreds of miles away. From the warehouse to a refrigerated show case in a department store, grocery store or chain store is the next step before consumer use. The consumer may carry this package with her because it is perfectly safe in any kind of air for three to four hours. Placed in her household refrigerator, this food may be kept indefinitely in the proper temperature.

On the package there is a simple statement of weight and contents. In the package is a complete set of instructions. All of which means that the consumer is taught how to preserve and how to cook the food so that the most food value is received. Thus, as in canning, in one package we have eliminated waste of material and loss of time all down the line. Time has been saved in packing,

wrapping and distributing this food through various methods at the point of local consumption. One packaging step at the beginning has become standard for use anywhere in the world, simply because all of the scientific knowledge of food preservation and packaging has been combined under one manufacturer's guidance. His label is a secondary guidepost of reliability to the customer whose confidence has been gained by the manufacturer's advertising. It is most important in this case that the guarantee of satisfaction promised by the manufacturer be adhered to in every ounce of food distributed.

Before packaging was prevalent, food was too often unclean and it was seldom uniform in quality. There was no sponsor for its quality. Most Americans are familiar with various versions of this old yarn.

Time—the pre-package era. Place—the village general store.

A hard-fisted deacon lives above his store. Calls down the stairway to his hard-working assistant:

"John."

"Yes sir."

"Have you watered the rum?"

"Yes sir."

"Have you sanded the sugar?"

"Yes sir."

"Have you dampened the tobacco?"

"Yes sir."

"Then come up to prayers."

With perhaps less show of piety but more ethics, we apply ourselves today to the design of packages which safeguard the purity of the contents. In many cases a transparent wrapping *reveals* the contents. It is scarcely exaggerating our contribution to better living to claim that we who sponsor more scientific packaging are helping quite specifically to raise the standard of life.

Diabetics have benefited by improvements in packaging—not that the specially prepared foods and medicines could not be carried in bulk by the distributing agencies, but that packaging them in small, easily shipped quantities has made it possible for almost any corner grocery store to carry these life savers in reasonable quantities for long periods of time at moderate prices. The hazards of spoilage, too large stocks and the necessity for making unreasonable profits are removed by the simple solution provided by free packaging. And since it is a medical preparation, it is all-important that the trade mark be a guarantee of reliability and that the instructions be definite. No word-of-mouth instructions or guarantees can replace this safeguard on the printed package. Thus again a higher standard of living is possible to the handicapped.

The retailer's problems in merchandising are so closely related to that of the manufacturer that packaging becomes another point of common interest between the two. After quality, price and terms have been arranged between the manufacturer and retailer, it is most important for both of them to consider a package that will make it easier for this merchandise to be handled in the store and delivered to the consumer at the least cost. In large stores where many millions of dollars worth of merchandise is sold, every second of time saved in the handling and the selling adds up to many thousands of work hours and salary dollars each year. To lower the price of overhead in distribution so that the standard of living can be raised

is one of the social contributions of the package as it advances.

While consumers often say concerning certain products with lavish packages, "We pay as much for the package as we do for the merchandise," this statement is generally not founded on fact. As is often the case in the history of society, sometimes the glitter is mistaken for the gold. In a few examples, it may be true that advertising and packaging combine to misrepresent the intrinsic merit of a product, but the common denominator of value is ever in force. Sometimes a lavish package can hide poor merchandise, but not for long. The essence of competition in today's economy is a constant effort to provide better merchandise for less money. The package is no contradiction but an affirmation of this principle.

Packaging, itself, has created a new industry and gives employment to many people. Automatic packaging machinery, canning machinery, carton marking machinery, case filling machinery, glueing, folding and sealing machinery, labeling machinery, stapling, stitching, stencil cutting and wrapping machinery—all are part of the cap-

ital investment necessary to make modern packaging possible. Standard equipment is gradually being developed and exchanged between countries. Bottle machines have saved millions of dollars of hand work. But, while machinery in this case has displaced hand work, in turn it has created work both in manufacturing these machines and in operating them.

A look into the future and its effect on packaging would be interesting at this point. Maybe an H. G. Wells could do it better, but I am inclined to believe that health, wealth and happiness will be delivered in small functional packages to fill the cupboards of the homes of future earthly inhabitants. Whether their homes are in planes suspended in mid-air or imbedded in subterranean caverns, and whether they breathe concentrated sunlight-treated air or eat foods which contain in one tablet more vitamins than we can find in a life-time of eating in 1938, packaging will still be a major aid to distribution. The package will have to fit the cupboard of the future, too, and to continue to have a positive effect on the standard of living.

Design as a Constructive Stimulant in Marketing

WALTER DORWIN TEAGUE*

SUMMARY

The business man today is confronted with a factor of new importance in marketing his product—appearance. A changing standard of public taste requires simple, functional design, instead of the heavy ornament that recently characterized our products.

Calling upon the industrial designer to increase the marketability of his product, the business man seeks an understanding of the principles of modern design. Is it a style, to be superseded in time by another? If not, what basic principles insure its permanence?

Every product made by the hand of man is art—good or bad as the case may be—but it has within itself the potentiality of beauty. The function of the artist, working in industrial design, is to evoke this latent beauty. This he does by designing the finest possible product with the materials and tools at his disposal. When the full potentialities of these resources have been realized, the product achieves a visible rightness; form and function are so expertly welded that beauty arises unbidden to proclaim the job well done.

We lost our standards of beauty when the Industrial Revolution swept away hand craftsmanship, and we tried to imitate the work of the hand craftsman with the machine, a tool with an entirely different characteristic of workmanship—precision. Mathematical exactitude, which the machine is able to give us, has a beauty of its own of the most exalted quality—and it is to this type of beauty that the public, with instinctively sound judgment for that visible rightness which proclaims the superior product, has turned.

Backed by the public's sound instinct for rightness, the business world is confronted today with its greatest challenge and economic opportunity—that of rebuilding the world and making it an orderly, delightful and healthily stimulating place in which to live.

THE business man today, in placing his product upon the market, finds that one factor has assumed a far greater importance than ever before in his experience. That factor is appearance. Confronted on every hand with evidence that products of pleasing shape and line and color are outselling their competitors, he quite naturally hastens to see that his own products are pleasing in the same way.

Time was, and not so long ago, when appearance was merely a matter of covering the product with the greatest possible amount of ornament. We built homes that resembled nothing so much as a French pastry. We filled them with objects whose utilitarian purpose could hardly be discerned through the forest of scrollwork and tassels in which they were disguised. Even such humble articles as our stoves and furnaces crawled with inorganic gingerbread. I doubt that anyone ever thought these things were really beautiful, but at any rate, we were content with them.

Today, as we all know, the public taste has changed, and simplicity characterizes the marketable product. "But how very easy" we are apt to say at first. "All we have to do is scrape off the frosting, and there we are." Unfortunately it is not so simple as that. Knowing this, the business man calls upon the artist, or more properly, the industrial designer. Quite rightly, he asks first of all that industrial design increase the sale of his product. And knowing that his designer is an artist, and primarily interested in the creation of beautiful things, he senses a

possible conflict between these two aims. There is none, but unless the business man thoroughly understands the function of industrial design, he finds himself at the mercy of the designer, in much the same relationship as a patient to his surgeon.

What is this function? Is it the determination of a style, the fashioning of a garment that the product shall wear, so to speak, in order to keep in step with the current mode? What is this "modern style," for want of a better term? Is it a fashion, to be superseded in time by another, as do the styles in women's clothes? What has brought about its acceptance by an artistically untutored public? If it is here to stay, what are the underlying principles that insure its permanence? The modern business man, for business reasons, requires the answers to these questions, and to answer them we must delve a bit into aesthetic theory.

To begin with, we should bear in mind that our products, whoever designs them, are works of art, and every man who plans the shape and color and form of a solitary thing—a vase, a bridge, a house, a statue, a street or a locomotive—is, strictly speaking, an artist. He may be a good artist, or he may be a very bad one—the chances are today, for reasons which I shall later try to explain, that he is a bad one,—but he is engaged, none the less, in an artistic pursuit. For every object made by the hand of man is art, and has within itself the potentiality of beauty. The function of the artist is to plan his product so well, from every practical standpoint, that its latent beauty is evoked, for beauty is but the by-product of a

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job well done. The beauty of any object may be used as a measure of the success of its designer as a craftsman.

There are but two kinds of art—good and bad. If an object is made well enough, it is fine art, and beautiful. If it is made badly, crudely, clumsily, it is vile art, and ugly. Why, then, is our world today filled with so much ugliness? Does this mean that we are working badly, crudely, clumsily? The answer is simply that not until now have we known how to use the new tools given us by the Industrial Revolution.

Whatever other charges may be leveled at the ages which preceded the Industrial Revolution, they were not ugly. When the individual craftsman did what factories do now, he was motivated by the same governing impulses that spur us on today—pride of workmanship, the delight in the skillful making of things and in things skillfully made, the knowledge that the good workman prospers more than the poor one. And instinctively he used his tools to make the finest possible product that could be made with the materials and methods at his disposal. He strove for efficiency, rightness. He did his job as well as he possibly could—he had to stay in business—and when he achieved rightness, that rightness became visible in beauty, which is rightness' corollary.

But the beauty of the pre-industrial ages was not achieved overnight. For centuries, craftsmen sought to evoke this perfect harmony of form and function. They attained it, ultimately, because they understood the proper use of their tools, the potentialities of the materials with which they worked.

And suddenly, a hundred and fifty years ago, the Industrial Revolution swept over the world, and all these ancient crafts were brushed aside and replaced by a vast complex of machine and mass production. Our technologies grew faster than any man could keep pace, and we had no time to experiment patiently with the perfecting of forms as our ancestral craftsmen had done. We attempted to do the things they did by new methods, taking infinite pains to imitate the appearance of their handiwork by means of our new tools, the machines.

The need for utterly new products arose, too, to meet changing conditions—radios, typewriters, automobiles. How should they look? We didn't know, and there was no time to find out. So we concealed our bewildered lack of knowledge under the gimcracks of a hundred other times and places, and along came period furniture, Olde Englishe Coffee Shoppes, rococo bathtubs, Louis Quatorze gas heaters, Gothic washing machines and Early Renaissance fire hydrants. In embarrassed desperation, we even tried to make things look like other things, and we built pianos that turned out to be folding beds, radios that looked like bookcases, bars that looked like radios, and electric lights that looked like candles. Isn't it time that we ask ourselves whether we are doing our job as well as it can be done, that we begin to search for that visible rightness which has always served as the index of fine craftsmanship, that latent beauty which when evoked we shall instinctively recognize as the right style of our own day?

This is the job of the industrial designer—that of a patient craftsman, seeking with all the resources at his command for that perfect harmony of form and function, whether he be working on a common pin or a battleship. If he is successful, beauty will be in it, rising unbidden to

proclaim that here is a job well done. The beauty of rightness is self-evident and convincing, and no argument or persuasion is needed to win it favor.

But rightness in a machine age must be achieved by methods quite different from those which served the craftsmen of old; handicrafts progressed by trial and error, experimentation; machine production by meticulous planning and prevision. The chief characteristic of hand craftsmanship is endless variation; of machine production precision and exactitude. In the simple past a craftsman could shape his work literally under his own hands; ours are put together by hundreds of workmen the designer may never see, operating intricate machines with which he has only a nodding acquaintance, by processes he only theoretically understands. And while the old-timer could alter his second job if the first one did not suit him, the modern designer must accept the appalling responsibility for ten or a hundred thousand identical units in which no revision is possible.

Obviously, then, the kind of beauty we evoke will be quite different from the beauty of the old handicrafts. Out of the tools and materials and processes we use, out of the very functions which our products must perform, but guided by the basic, unchanging laws of design, the same yesterday, today and forever, will grow this modern style of ours.

How shall we achieve this rightness, from which a new kind of beauty is to spring? Let us examine our tools. The essential fact about a tool is that it is adapted to do one thing, or one kind of thing, better than it does anything else. If used in a certain way, which means a skillful way, it gives a predictable result. Now machines are tools, and as a class they have one common characteristic: and that is precision. The work they do is exact, of a mathematical exactness, and they can repeat themselves endlessly, practically without variation. This, it is surprising to reflect, is a wholly new characteristic in the whole history of human tools.

The craftsman of old worked with hand tools by which precision was only approximated and exact repetition occurred by accident more than effort. The eighteenth-century cabinet maker produced furniture for a softly candlelit world, and furniture in which the faintly varying lines constitute its greatest charm. But our machine methods cannot give us that quality of subtle variation, no matter how hard we try. Our machines, however, can give us the precision which the old craftsmen sought but never attained; and that precision has a beauty of its own of the most exalted quality, if we are capable of realizing it.

It was precisely here that we stumbled when first we began to use machines. We were so dumbfounded by the machine's capacity for production that we completely overlooked its aesthetic potentialities, and we turned loose upon the world such a blight of hideousness as has never before been seen.

We shall never again, so long as we continue to use machine-made products, be surrounded with the kind of beauty that the hand-craftsman gave us. But in its place we can have, if we wish (and the public has indicated that it does so wish), the beauty the machine can give us, the beauty of the exactly straight line, the perfect circle, the precise arc, the definite curve.

After floundering about in the appalling upheaval of the

past century and a half, we have recovered an appreciation of line and proportion. We have again begun to sense that the relationships of lines, masses, areas, to each other, like the relationships of tones in music, are the basic elements in all design on which all other factors are superimposed. We reject ornament because we know we have none of any validity or meaning, and we are satisfied to play with essential lines and forms and colors. And out of our machines themselves and the things our machines can do best, we are producing a new and thrilling style so right and so easy and so natural that there is no reason why we should not make over in its image the world which we have inherited and so shamefully defiled.

And this new style has been recognized by the public. Call it a reawakened appreciation of beauty, or a recognition of rightness (they are the same thing), the fact remains that when a housewife goes out to buy a new gas range or an electric washing machine, or when a man buys a new car or a heating plant for his house, an unerring instinct for the right thing guides his choice. This holds true for all the great number of modern mechanical products which form so large a part of our purchases today. And we, the people who plan and build these products, after having our standards knocked galleywest for a hundred and fifty years, are struggling to our feet to discover that the same old rule holds true today that held before the machine age—prosperity smiles on the job well done.

It is not so very clever of us to have discovered late in this age of machine and mass production that an attractive product sells better than an unattractive one, that rightness arouses the desire to buy. We are not particularly brilliant because it has dawned on us that ugliness is a mistake, a blunder, a waste, unacceptable and unforgivable, a confession of poor workmanship and problems unsolved. The human race has acted on this knowledge from its very beginnings. We could have mislaid such basic truths only in the confusion of adapting ourselves to the new technique of manufacture.

Today we have come back to the realization that it pays to turn out the well-made, well-organized, good-looking product, and that this is just as true now that we are making our products by the million on an assembly line as it was when they were made one at a time on a workman's bench. This is perhaps the most important and certainly the most heartening discovery that our post-war generation has made: in a world which gets 99.9 per cent of its art machine-made from factories, a world whose economic system decrees that these artistic activities must pay or perish, it is exhilarating to know that in a fair contest the best artist wins.

Of course not every one judges rightly, since manufacturers of pretty poor wares manage to stay in business. But the very size of the markets available today, the great sections of the population to which a manufacturer can appeal, work in the interests of justice; the law of average

has a chance to operate and percentages favor the honest product. It is a remarkable fact too that the public, judging largely by appearance—"the eye is the sovereign judge," as a Greek philosopher said long ago—is not misled by meretricious pretenses or elaborate camouflage. The public instinct for sound quality has led to an almost complete abandonment, by progressive manufacturers, of decoration and ornament on their products. Today our gas ranges, furnaces, refrigerators and washing machines are vying with each other in classic simplicity, a chaste perfection of line and form which represents the very highest standard of beauty possible in these mechanical utilities. They look exactly like what they are, and like nothing else; they conceal nothing and pretend to nothing. Their designers have striven to reduce their functional forms to the simplest possible terms, relying on the fundamental aesthetic values of line, form and proportion, and the inherent qualities of necessary materials, for the high order of beauty attained. We are seeing in these products today as sure and fine and successful classic design as the world has seen in many centuries.

Inspired unquestionably by this clean, classic simplicity of our machine design, we are going much further in our application of critical standards. As we advance in mastery of our new tools, we—and by we I mean hardheaded industrialists rather than artists—are beginning to realize that a dirty, disorderly factory, one which blights the landscape it invades, is a poorly run and uneconomic factory. We are even beginning to question every man's inalienable right to make his own property as hideous as he pleases in his neighbor's eyes. We are beginning to wonder if there are not places where it is improper and antisocial to put filling stations, hot-dog stands, and sign boards. We are beginning to ask ourselves if the ugliness so rife in our towns is not a reflection on our intelligence and a just cause for shame and remorse.

Out of this critical spirit may come a new world redesigned for human living. By eliminating waste, confusion and blunders, we shall eliminate ugliness. By creating instead economy and efficiency, we shall substitute beauty. Attacking the heart of our common problems, we may under favorable conditions devise new forms of mass living; that is, create a new scheme for community life which can be substituted for all the horrible waste and stultifying ugliness of the present machine-age town and city. To me this idealistic and inspiring objective seems, happily, the greatest challenge and economic opportunity that has ever been placed before the business world. Backed by the public's sound instinct for rightness, there is no reason why we cannot make this world an orderly, delightful and healthily stimulating place to live. The privilege of which Omar sang is ours, if we will grasp it. Will we not be the ones to remold it nearer to the heart's desire?

Rationalization And Standardization Of The Distribution Of Goods

RUBEN RAUSING, M.S.*

SUMMARY

Originally, Scientific Management embraced only the functions of production.

If, for simplicity's sake, it is conceded that distribution cost is the difference between the price paid by the consumer and what it costs the manufacturer to make an article, then a large part of the price paid by the consumer is made up of distribution costs.

This consideration justifies applying to distribution functions a type of research similar to that which has produced important results in reducing production costs, viz.: correct analyses and estimates of cost, analyses of working methods and of the channels of distribution, standardization of qualities, and suitable types of retail packages.

A case-study based on the distribution of flour in Sweden.

THE movement which has been called "Scientific Management" was chiefly, or perhaps entirely, a movement which aimed at rationalizing work in engineering shops. For the originators of the movement—Fred. W. Taylor and his assistants or successors, Barth, Gant, and others—only production existed as a subject of rational study, and their work was directed solely to this end. (Taylor: "A Piece Rate System" and "Shop Management"). This was probably due to the fact that Taylor and his collaborators were engineers and worked in the iron and engineering industries. Taylor himself saw and studied the problems which affected his daily work and sphere of interests. Generally speaking, it may be said that the problems of distribution did not arise in Scientific Management.

It is very easy to see how considerable a part of the price paid by the consumer for the most ordinary commodities is made up of the distribution cost if, for the sake of simplicity, we assume that the distribution cost is the difference between the price paid by the consumer and that obtained by the manufacturer for a given commodity. We should be able to obtain important results if the views and methods that have given such important results in production were adopted also in distribution, viz., correct analyses and estimates of costs, analyses of working methods and of the channels of distribution, standardization of qualities and suitable types of retail packages.

The writer is making and selling paper packings, cartons and containers. In order to sell these products successfully it is necessary to investigate, jointly with the manufacturers and the distributors of goods that can be suitably distributed in paper packings, the costs of various methods of distribution. In order to elucidate working methods as well as results, I shall give a brief account of the changes introduced by the large Swedish flour mills in the retail distribution of flour in Sweden in the last five years. So far as I have been able to find out, e.g., by investigations in Europe and America, the distribution of flour in the retail trade is better and more cheaply organized in Sweden than in any other country. This is principally due to the rational methods adopted in the planning and carrying through of this change. In this short account I shall not enter at all into technical and manufacturing

questions, but shall deal exclusively with the saving of costs in distribution and, in conjunction with that, the standardization of the consumers' requirements.

Prior to 1932 flour was almost entirely delivered to the retailers in jute or cotton sacks of 100 kilos. These sacks were emptied into flour-bins or barrels, and the flour was afterwards weighed out in the quantities demanded by housewives and placed in paper bags, which were sometimes tied with string.

Such distribution is obviously irrational, expensive, and frequently unhygienic. A 100-kilo package can only be handled with difficulty in the distribution and in the retail trade, as it is three or four times too heavy. The flour is often exposed to dirt, infection, mealworms, and may become tainted in smell and taste from other goods when kept in open bins or barrels. Above all, the division and weighing of the flour by hand is far too old-fashioned and expensive a mode of working.

The modern milling industry is extremely up to date technically. Indeed, it is so well developed that hardly any workers at all are seen in a large mill. It seems preposterous that the commodity, flour, in the production of which the most rational methods are adopted, under the strictest hygienic control, should at a later stage, before reaching the consumer, be treated by expensive manual methods under hygienically unsatisfactory conditions. As far as Sweden is concerned, this also applies to a great many other commodities, such as sugar, coffee, butter and margarine, milk, meat, etc. The commodity can certainly be divided and packed into standardized retail quantities much more cheaply by the manufacturer, in this case the mill, in automatic machines, than by the manual methods of the retail or wholesale trades.

What then do we need to know of the trade in flour before introducing standardized flour packings packed by the manufacturer, and how do we acquire the necessary knowledge?

1. In what quantities do the housewives buy the flour?
2. What does it cost the retail trade to handle and weigh the flour, compared with the cost of handing over to the customer a packet of flour done up by the manufacturer?
3. What does it cost to pack the flour at the mill?

* Sweden.

I shall now give you a brief account of the methods of investigation adopted by us, and of the results attained. The investigations of the retail trade were planned and directed by Professor Gerhard Törnqvist of the Stockholm School of Economics. The aim of the first investigation was to establish in what quantities housewives bought their flour from the retail trade. As practice might differ in different parts of the country, and the habits of urban and rural housewives might also differ, eleven representative shops in all, in towns and country districts, were chosen for the investigation. For a period of one month, the weight of every order executed for all kinds of flour was noted in these shops. The percentage ratio of each weight to the total sales of each kind of flour was then tabulated, and also the ratio of every weight to the number of orders executed of every kind. I think it will be sufficient to give here the final results of our investigations.

If we designate the total sales in kilos of each kind of flour 100, the ratios of the different weight-classes (the median, not the arithmetic mean) were:

	10 kg.	5 kg.	3 kg.	2 kg.	1 kg.	$\frac{1}{2}$ kg.
Wheat flour.....	23	36	17	19	5	0
Rye flour.....	34	21	19	19	7	0

The above figures thus denote the percentage ratios of what was sold of each weight to the total number of kilos sold. If we take the number of retail sales of each weight, the relative figures will be as follows:

	10 kg.	5 kg.	3 kg.	2 kg.	1 kg.	$\frac{1}{2}$ kg.
Wheat flour.....	8	24	19	32	17	0
Rye flour.....	11	14	21	31	23	0

These figures clearly indicate the housewives' buying habits. The sizes of the standard flour packages required for the trade were to be decided on the basis of them. In order to reduce as much as possible the stocks kept by the mills, the wholesale trade, and the retail dealers, it was naturally of interest to make the sizes of the packages as few as possible consistent with a reasonable ability to meet all requirements. After many trials and interviews with housewives it was decided to keep the following standardized packages of wheat flour for sale:

- 5-kilo original packages to meet the demand for the two highest weight classes. A person wishing to buy 10 kilos would receive 2 5-kilo packages.
- $2\frac{1}{2}$ -kilo, to meet the demand for 2 and 3 kilos.
- 1 kilo, to meet the demand for 1 kilo or less.

These sizes were very rapidly and generally accepted as standard flour packages in Sweden.

When the Coöperative Wholesale Society, which owns two large mills and has an important share in the Swedish flour trade, proposed to introduce similar packages, an investigation was made in its Stockholm shops on the lines indicated above, arriving at practically the same result, with the difference, however, that in Stockholm the 1-kilo packages constituted a larger proportion of the flour sales in the Coöperative shops. The Coöperative Society decided to adopt the same sizes as the private mills, and the flour trade in Sweden thus became standardized.

The object of the second investigation was to ascertain the time required for, and the consequent cost of, handling and weighing the flour in the retail shops, and the time needed to serve a customer with a made-up package of

flour. This investigation was restricted to one large shop, which was considered representative, where for 26 several days the time required for weighing and handing out every package was taken by a stop-watch and noted. As in most large shops, all flour was weighed by a special staff in a separate room, to avoid flour dust in the shop. All packages of 2 kilos and upwards were tied with string. The final result may be summed up as follows:

A. *The actual handing out* of the flour, i.e., passing it from the salesman to the customer, *in packets weighed in advance* takes, practically irrespective of the size of the order (up to 5 kilos), $4\frac{3}{4}$ seconds.

B. When the work of serving includes weighing, the time is affected by the size of the order. Packages of 2-3 kilos can be made up in 55-60 seconds.

While these investigations were being made, one of our men made a journey through Europe and U.S.A. in order to study the methods used in the mills for making up small packages. Europe had nothing of interest to offer in this respect. In U.S.A. every mill kept a large number of sizes; no serious attempts at standardization appeared to have been made, however, or were perhaps impracticable. Relatively simple semi-automatic packing machines, in our opinion too costly in operation, not least because they weighed too inaccurately, were used by the mills. In consultation with one of the foremost Swedish machine manufacturers, an automatic flour-packing machine was designed, with a capacity of 50-100 kilos a minute, automatic control devices, and extremely small variations in weight.

We could now make a full calculation to compare the costs of weighing and packing flour in the shops and at the mill. (See table 1.) The cost of handing out a parcel of flour may be considered the same, whether it is made up in the shop or at the mill. Starting from that point, our investigations have shown that the cost of distributing the flour from the mill to the consumer will be lower if it is packed by machinery at the mill in standardized retail packages, than if the packing is done manually by the retail trade, in spite of the fact that the cost of the packing material used, which is often the only point considered in a superficial examination, is considerably higher at the mill than in the retail trade. The packings have to be made stronger to withstand the stresses of transport, a container of corrugated cardboard to hold a number of flour packages in transportation from the mill to the retail shop is an additional item, and finally a manufacturer's package, bearing his trade mark, is necessarily made more costly.

Similar investigations of other large commodities show that for the manufacturer to dispatch goods in bulk to the retail trade, direct or through wholesale merchants, to be manually made up in suitable packets for the consumer in the shops, is too expensive a method, frequently unsatisfactory from a hygienic point of view, and often detrimental to the quality of the goods, as for instance butter.

Formerly, the manufacturer was often only interested in the cost of the goods up to the point where they left his factory. He frequently made full use of science and every technical resource in the production of his manufactures, applied rational and labour-saving methods, and turned out products of high quality at low prices. He often considered that it was no business of his how the goods

were distributed to the consumers, how the wholesalers and retailers divided and handled the goods he had sold to them.

Many factors have helped to change that attitude. The consumer is becoming more exacting in his demand for quality, not least on account of the educational activities of the manufacturers themselves, effected with the aid of modern advertising. If the money spent on marked investigation and advertising is to yield any return to the manufacturer by creating a demand for his goods, the consumer must be able to distinguish such goods from others, must be sure that he is getting just what he has learnt from the advertisement to demand, preferably in a

will steadily become closer, and he will therefore feel more responsibility for the quality of his products. This implies that he must follow his goods, not only through all manufacturing processes, but also all the way to the consumer, and even right up to the moment when they are actually consumed. There is, for instance, no sense in incurring heavy expenditure to produce butter of the highest quality at the dairy, if that quality cannot be maintained until the butter is actually eaten by the consumer.

The manufacturer will therefore make up and pack his product as far as possible in the way it should finally reach the consumer, and he will do this in such a manner that

TABLE 1
COMPARISON OF COSTS OF PACKING FLOUR

<i>In the Shop</i>	<i>In the Mill</i>
<i>Assuming that the average quantity of flour retailed is = 2 kg.</i>	
<i>Costs of service: Assuming that a shop assistant weighs and packs 1,000 kilos of flour per working day = 118 kilos an hour = 2 kilos a minute.</i>	
Assistant's wages kr. 260:- per month.	
Working time 210 hours per month.	
Cost per minute of assistant..... 2.064 öre	
Wage for 2 kilos flour (bagging)..... 2.064 öre	
Wage for 1 kilos flour (bagging)..... 1.03 öre	
Bag (and string) cost, per kilo of flour..... 0.5 öre	
<i>Cost for loss in weighing, or by evaporation, etc.</i>	
<i>Assuming that 1.5 per cent of the flour is lost in weighing or from other causes (evaporation of water).</i>	
Selling price pr kilo of wheat flour 37 öre	
Cost of loss in weighing per 1 kilo flour..... 0.56 öre	
<i>Costs of weighing machines, space for these and flour bins, light, extra cleaning on account of dust in bagging the flour, etc.....</i>	
	0.3 öre
<i>Total costs per kilo of flour.....</i>	<i>2.39 öre</i>
	<i>In the Mill</i>
<i>Costs of actual packing process when using Arehn's automatic machine.</i>	
<i>Capacity: 20 packages of 2½ or 5 kilos per minute.</i>	
<i>Condition: working in one full shift.</i>	
<i>5-yearly amortization of initial cost of machine,</i>	
70,000 kr.....	Kr. 14,000
Interest at 4 per cent on half the cost of the plant..	Kr. 1,400
Running expenses, power, oil, rent, etc.....	Kr. 2,600
Repairs.....	Kr. 1,000
Labour: 1 man and 3 girls.....	Kr. 12,000
<i>Total costs.....</i>	<i>Kronor 31,000</i>
<i>8,400,000 kilos of flour packed in 2,000 effective hours.</i>	
<i>Cost of packing process per kilo.....</i>	<i>0.37 öre</i>
<i>Cost of packing material:</i>	
<i>Average cost of packing material, consisting of S.O.S. containers of bleached Kraft paper, corrugated cardboard cartons for 25 kilos of flour, and necessary strips, per kilo of flour.....</i>	
	<i>1.82 öre</i>
<i>Total gross cost per kilo for making up in small packages.....</i>	<i>2.19 öre</i>
<i>It has been considered that the cost of packing in 100 kilo sacks, which naturally is eliminated when the mill makes up the flour in small packages, may be ignored.</i>	
<i>Deduct costs for present packing (100 kilo bag) pr kilo.....</i>	
	<i>0.60 öre pr kilo</i>
<i>Ultimate cost per kilo at the mill.....</i>	<i>1.59 öre pr kilo</i>

sealed original packing. Retailers who know their work and are able to calculate their costs, have found that it pays better to serve, quickly and at little cost, a standard commodity packed by the manufacturer and of a brand and quality known to the customer, than to weigh out and wrap up the stuff themselves.

When confronted by new problems in connexion with the reorganization of distribution, the manufacturer—being used to solving his manufacturing problems by proper investigations and rational methods—is ready and willing to apply similar methods to marketing problems. All this means, in my opinion, that the methods of distribution will within the next few years to a great extent be reorganized in Sweden and other countries where the standard of living is high, where industry is well developed, and where the consumers demand high quality goods. The manufacturer's contact with the ultimate consumer

the consumer's demands for hygiene, quality, and price will be satisfied. He will at the same time give to this packing a shape and an appearance ensuring easy identification by the consumer, and conveying to him a definite impression of the high quality of the goods contained in it.

This will naturally simplify the work of the retail shop in dealing with standard articles, which will be more hygienic and more attractive from the point of view of both retailers and consumers. Any change in the distribution of commodities, however, necessitates studies of market conditions, buying habits, and distribution costs, and the application to distribution of those rational methods that have so greatly cheapened production, and have so largely improved the standard of living, especially in Sweden, since the World War. Rationalization of the distribution will allow a further improvement in the standard of living.

Profitable Marketing Through Scientifically Planned Advertising

FRANK R. COUTANT*

SUMMARY

Sound advertising is a combination of art and scientific fact-finding. The executive who plans advertising by intuition *may be* a genius, but he *is* a gambler. Analysis of the product and its market should precede advertising.

The Product. New products must be tested for salability. Old products must be regularly reviewed and improved wherever possible, or their customers may drift away to more satisfactory competitive offerings. This requires that the opinions of customers be sought, rather than relying upon executive opinion.

Package design is an important division of product testing. An old-fashioned dress is as bad for the morale of merchandise as it is for a woman.

If the tests of consumer preference are well planned and executed, sales effectiveness will also probably be high. But this, too, should be checked to find out what qualities should be stressed in the advertising.

The Consumer. Those who have made proper studies preliminary to advertising will know (a) what proportions of present and/or prospective customers are young, old, or middle-aged; (b) how they divide by men and women; (c) and the potentials by the four standards of living that are most important marketwise. Then advertising can be prepared that will appeal to the right people.

The Market. Each market, each village within a market, is a separate marketing problem. There may be common denominators, but these cannot be assumed to be similar to the reactions of those responsible for the advertising.

Markets need measuring for each kind of product, to determine the geographical pattern and competitive handicaps, so that advertising can be placed economically. There must be flexibility in the advertising mediums, so they can be purchased in units that provide the kind of coverage wanted.

Copy Testing. Nearly all of the most successful advertisers have learned to rely upon some forms of copy testing. Sound copy testing can be done better by those who have basic knowledge of advertising. Copy testing has not passed the stage of being an art, but its use will grow as more advertisers are given opportunity to learn at first hand of its advantages and to avail themselves of expert workmanship.

THERE are about 100 firms in this country whose advertising rests securely on the foundation of solid facts about the identity, habits and opinions of their present and prospective customers, kept up-to-date by research. Significantly, these firms are the leaders in their respective lines. Casual opinion attributes their success to "advertising," without realizing how keenly they study and pre-test every phase of selling and advertising.

It is not the *act* of advertising that makes firms successful: sound advertising is a combination of art and scientific fact-finding. "A man's reasoning can be no better than his facts," says Chairman Alfred Sloan of General Motors. So the executive who plans advertising by intuition *may be* a genius, but he *is* a gambler. He may be as lucky as a sweepstakes winner, but the odds are that he will be just another brief visitor in advertising.

Some steps taken in preparing the most effective advertising are here briefly reviewed.

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Product Study

Scientific marketing study begins with the product, because it is easier to make what you can sell than to sell what you would like to manufacture.

Inventors are prolific in ideas. However, only a fraction of 1 per cent of inventions are found by marketing testing to be commercially promising. It is a genuine joy when we can report that a new idea or invention is found to be worthy of advertising support. But many tests, including measurements of salability, must be passed before this conclusion is reached. Thus the element of gamble is minimized; it can never be wholly eliminated.

Old products as well as new must be regularly reviewed to see how well they please their intended markets. Unless this precaution is taken, and improvements in products made whenever possible, customers may drift away to more satisfactory competitive offerings.

Clues to improvements can usually be found by asking buyers, "What do you not like about this product (or service) even though you use it?" Or, by asking former users, "Why did you change to something else?" People may be vague and incoherent when asked why they buy or

like something, but become specific and emphatic when asked what they do not like.

Package design is an important division of product testing. An old-fashioned dress is as bad for the morale of merchandise as it is for a woman. Sometimes as many as 40 or 50 alternative ideas are subjected to competitive tests to find a new dress for the product.

In package testing, it has been found advantageous to separate the elements of the proposed new or old package into component parts and test each part separately. By such practice it may often be revealed that an apparent preference for a package may only be a preference for the color of that package. Conversely, a vote against a good design may be only a vote against some element within the design. By a careful analysis of each part, it becomes possible to determine why some designs are liked better than others, and how the second best (which may have exceptionally good display value) can sometimes be revised into a winner in popular voting.

No tests of packaging are complete without a sales test before advertising starts. If the tests of consumer preference are well planned and executed, the sales effectiveness will also be high. But this should be proved rather than taken on faith.

Identifying the Market

To widely-traveled marketing strategists, talk of national coverage, national distribution, national advertising plans, national anything in regard to marketing, is only loose talk. Each market has characteristics of its own, based upon racial and commercial origins, climate, habits of living, transportation facilities, entrenchments of competition, sources of income and current sales potentials.

Large cities are composed of groups of non-homogenous villages, each worthy of special study. Business villagers of Grand Central District in New York City, for example, know little or nothing about the largest negro community in the world, less than 5 miles away and part of their own city. Two miles away from their offices many become as bewildered by market conditions as though they were in a foreign land.

Each market, each village within a market, is a separate marketing problem. There may be common denominators that can be used in advertising, but these cannot be assumed to be similar to the reactions of those who prepare and approve advertising.

Some markets will prove to be extremely good for the product or service to be advertised. Others might more profitably be left to competition. Old-fashioned management considered increased sales volume a sure measure of progress. Modern management is just learning that a reduced volume can often yield greater profits, through reduced costs. Good sales and advertising strategy requires that analyses be made to find the markets where the sales expense is in profitable ratio to the sales volume.

Markets need measuring for each kind of product. Hartford, Conn., where the per capita buying power is \$830, will buy many items that would not sell in New Orleans, La., with a buying power of \$575. Sometimes it is necessary to study the mental attitude of a market toward a product before one can decide wisely whether to spend or save advertising money.

Competitive advantages require impartial analysis. If a competitor has won a dominating position in a certain section because he makes a product so ideally suited to the needs of its people that yours are at a disadvantage—if he can deliver his goods there at a price below your cost—it may be wise to let him have that territory rather than try to break into a stronghold at a loss. Concentration on best markets is the modern selling and advertising philosophy.

Selection of advertising media can be made intelligently only after the geographical pattern of the market has been studied. Sellers of time (radio) and space (magazines and newspapers) try to force the purchase of inflexible combinations of what they have to sell. Resourceful planners of advertising find ways of circumventing them and of spotting advertising where it will do the most good at the lowest cost. Billboards, newspapers and local independent radio stations are examples of useful and necessary advertising flexibility.

Identifying the Customer

Every company should know (but most do *not* know) what kind of prospective customers are most productive. All executives have opinions on this subject; these opinions are subject to heavy discount when real studies are made. There are articles nationally advertised for years whose makers could not answer accurately the simplest questions about the identity of their customers. Those who have made proper studies preliminary to preparing advertising plans will know (a) what proportions of present customers are young, old, or middle-aged; (b) what proportions are men as compared with women; (c) how the market divides by the four standards of living that are most important marketwise: e.g., high class, upper middle class, lower middle class, low class.

When the market has been identified in terms of evaluating the various strata of customers, the next step is to determine where these prospective customers will be most likely to see and hear advertising.

Yes, it's a lot of work, but is it not wise to take some pains and to spend, say, 1 per cent of the anticipated advertising appropriation to make sure that the other 99 per cent will be invested effectively? The most successful advertisers do follow this course.

Testing the Marksmanship of Advertising

For years advertisers have asked themselves and their agencies, "How will this advertising appeal to the prospective customers we hope to attract?" Great progress has been made in the scientific pre-testing of advertising, both for radio broadcasting and for publication. Technical details of how these tests are conducted are presented in standard text-books written by leading practitioners. They are too lengthy for inclusion in so general a discussion as this paper.

The question that will naturally come to mind is, "If there are scientific methods of pre-testing advertising, why is not all expensive advertising so tested?"

Nearly all of the most successful advertisers have learned to rely upon copy testing. Many of the unsuccessful advertisers content themselves with the assertion that there are no reliable tests. Such divergence of opin-

ion can easily be understood when it is realized that there are not more than 20 practitioners in the country who are thoroughly qualified to make scientific tests of advertising. This little group does not increase rapidly because it requires at least five years of time and an investment of not less than \$100,000 in experimental work to develop a new expert. Naturally, concerns who have made investments in developing such men guard and pay highly for their services.

It takes more than the will to make tests to find available the skill needed for Grade A testing of advertising, but there is a decided advantage to any advertiser in experimenting with Grades B, C, and D copy testing, which will eventually graduate some more executives to the point where they can direct Grade A testing.

Sound copy testing can be done better by those who have basic knowledge of advertising. Obviously, it is easier for one well seasoned in advertising to learn copy testing than to teach advertising to those who have first tried to master copy testing. Leaders in the art are themselves usually skilled, if not brilliant, creators of advertising. They know well that some sales messages can be impressed quickly, while others must seep in slowly. Hurrying the mental processes of the prospect sometimes leads to a decision not to buy, for people instinctively put up defense mechanism when the vendor presses too hard in his anxiety to sell.

Copy testing has not passed the stage of being an art.

It may become a science when we have a fund of accumulated knowledge to pass on through teaching.

Copy testing is one of the fundamentals of scientifically planned advertising, and its use will grow as more advertisers are given opportunity to learn at first hand of its advantages and to avail themselves of expert workmanship.

Conclusion

The advertising profession directly and indirectly has done an immense amount of good in fostering better marketing methods as well as better advertising—for the two are inseparably linked. Better marketing and better advertising are a distinct contribution to the national social welfare. Greater advertising and selling efficiency reduces selling expenses, permitting savings to be used to reduce prices and expand markets by bringing goods or services within the reach of more people. Wider markets and greater consumption of goods promoted by lower prices will lead to expanded manufacturing and more employment, which is one of the keenest needs of this era. So far, only a small minority of companies have taken the necessary steps to bring their selling and advertising up to the plane of their manufacturing efficiency. But the example of these few presents the one argument that all business can understand—they are consistent earners of profits.

The Role of Control and Measurement in Advertising Management

NEIL H. BORDEN*

SUMMARY

This paper outlines the need for control and measurement of advertising and indicates the difficulties that are involved. It reviews the techniques that have been developed, first, to help determine the proper place for advertising in a program through measurement of profit contribution; secondly, to get a control and measurement of the various phases of advertising operations, such as selection of appeal, copy approach, media, and size and frequency of advertisements as a guide to improving them and to getting as much return as possible from an advertising expenditure, even though the profit contribution may not be known.

Only in the mail-order type of business can a management get what might be termed an accurate measurement of advertising's profit contribution to the sales program. For other types of distribution, management must try to evolve sensitive checks upon sales results, expenditures, and competitive position to guide its operations. Upon a comparison of results obtained from different volumes of advertising and from different advertising procedures rests the hope of getting a clue to advertising's sales and profit contribution. When advertising's part is small in a marketing program, or when the sales response to advertising effort is slow, the answer regarding effectiveness is likely to be vague. When advertising's part is large and the sales response is quick, the answer is more certain.

In measuring the aspects of advertising operations, management is greatly handicapped by its inability to measure sales effectiveness. Only in inquiries to mail-order advertisements has it opportunity to guide operations on the basis of the known profit contribution of advertisements. Analyses of sales tests of indirect action advertising campaigns give vague answers because of the difficulties of controlling the numerous variables affecting sales response. Evidence of consumer interest and attention to advertising is found in inquiry, recognition, recall, and consumer opinion tests. Rightly used, these have been helpful in guiding copy approach.

OBVIOUSLY, business management should aspire to have as effective control over advertising as over any operation it employs. In order to know what it is getting for its money and to increase returns from its expenditure, management needs for advertising dependable techniques for measuring results, sensitive records to show accomplishment, and accurate standards against which to judge attainment.

Unfortunately, in its quest for effective and predictable advertising, management cannot hope for any set formula, either for an advertising plan as a whole or for individual advertising messages. Change is of the essence of advertising. Accordingly, the advertiser is forced to proceed to a considerable degree on a basis of continual experiment. He may follow a plan of advertising so long as results are profitable and he appears to be holding his own in the competitive battle; but he should, if possible, have sensitive guides to tell him of changes of position in order to know when it is wise to devise new promotional strategy. Even though he cannot make continuous use of a single advertisement which measured experiment has told him is good, yet he should hope to derive from measured experiments a set of guiding principles to help him

in constructing advertisements that will be effective; and he should have a scheme of continuous measurement of advertisements to see whether his theory of construction remains valid.

The measurement of advertising effectiveness is complicated by the fact that advertising is not a thing apart. Productive advertising emanates not merely from the writing or broadcasting of appealing advertisements in effective media, but from the skillful building and proper direction and coordination of an entire marketing plan in which various forms of advertising are joined with other promotional ingredients to attain a final sales result. Furthermore, the suitability of the product and the price at which it is offered have a vital influence on the sales results. Advertising management really means marketing management.

In devising its marketing plan, management needs an understanding of the part each selling and promotional element might play in the program and the burden that should be placed upon it. As a result of experience and of analysis of consumers' buying habits and attitudes and the buying habits of the trade, advertising is given its rôle in the marketing formula. The part of consumer advertising often must be appraised not merely from the standpoint of its effect on consumers but also from that

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of influencing the trade and giving a sales organization a weapon other than the product's merit to wield in its selling efforts with tradesmen. On this judgment of contribution to a selling plan basically depends the amount of money which will be appropriated for advertising and the way in which it will be spent.

Within the framework of devising a workable marketing plan lies the more narrow phase of advertising management, the aim of which is maximum efficiency in strictly advertising operations. This objective requires a search for:

- (1) Selling appeals most likely to influence those to whom advertisements are addressed.
- (2) Techniques for effectively presenting the appeals to create the desired impression or to induce the desired action.
- (3) The combination of size and frequency of advertisements that will produce the maximum effect.
- (4) The most efficient media available, as judged on a basis of cost in relation to influence upon consumers.

Note then that in its drive for efficiency and elimination of waste in advertising, management must think of measurement and of control on two planes:

- (1) It must seek measurement and control over each individual phase of advertising, as just listed, because only as each individual operation in the entire marketing plan is done well can management hope for maximum efficiency in its operations as a whole.
- (2) It must seek measurement and control over the coordinated marketing program, of which advertising is only a part. It must set up means of checking the functioning of its entire marketing plan, which may be looked upon merely as an operating hypothesis regarding procedures to follow to induce desired behavior of sales organization, tradesmen, and consumers, ending in final sale of merchandise at a profit. It should have some standards to indicate when changes in the marketing formula appear advisable.

This concept of different planes of control is helpful, for it makes evident the desirability of seeking a means of obtaining maximum efficiency in each segment of advertising operations, even though the profit contribution of that operation to a final profitable marketing venture may not be susceptible of exact measurement.

Let us examine now the progress made in evolving techniques: first, to measure and properly place advertising as an element in the complete marketing program; and secondly, to measure, control, and improve the various detailed parts of advertising operations.

The ideal of management, of course, is techniques for measuring the exact profit contribution of each element of a marketing program. If these were available, it would be possible not only to strive for maximum efficiency of each operation, but also to judge whether an element was worth while in the marketing plan.

But for a marketing program composed of many types

of promotional effort, selling a product subject to a constant change of competitive conditions, of purchasing power, and of consumer and trade attitudes, exact measurement of the contribution of various elements of the program to final sales volume and profit is usually impossible. Management is forced to a scheme of carefully measuring the final results of its combined selling efforts, sales and profits, and of appraising as best it can the part played by each type of effort.

Detailed records of sales, the final evidence of the behavior which the marketing plan is to induce, and records of the expenses involved in making those sales, are the sources of facts for appraising advertising's place in the program and for seeking to adjust advertising to the plan's needs. It is not necessary in this paper to go into detail regarding the development of techniques of sales planning, budgeting, and construction of sales potentials, because they are dealt with in other papers being delivered to this Congress. Whatever is brought out there regarding benefits from sales budgeting and development of sales potentials will apply as much to advertising as to other types of selling efforts.

Under a plan of budgetary control by marketing areas, management attempts to adjust the volume of advertising as well as of other selling and promotional efforts to the needs of each sales territory. Such attempts at adjustment should reduce inefficient and wasteful advertising expenditure and bring advertising usage more in accord with its place in a marketing plan, even though management may not know from such records whether the advertising is contributing in sales more than its cost. At least under such a scheme, management will know whether it has, in each of its marketing areas, a profitable marketing formula. Moreover, management has a guide to tell it when to change the marketing formula.

Some large organizations in recent years have found a valuable supplement to their sales figures in the *periodic reports of sales in a sample of retail stores in selected areas*, not only for their own brands of products, but also for competing brands.¹ Or a survey of recent purchases may be taken from an adequate sample of consumers. Such records are valuable because they reflect more accurately what is occurring on the actual sales front than do the manufacturer's own sales figures. They show the degree to which current promotional methods are actually inducing a consumer response, whereas a manufacturer's own sales records do not show this accurately because of the lag between trade orders and consumer purchases. Moreover, they provide a picture of consumer buying behavior not only for a company's own brands but for competitors' brands also. Thus management is in a position not only to appraise the success of its own promotional formula but that of its competitors as well. From a study of current positions and trends, management is in a position to determine whether changes should be made.

Having noted the techniques available for checking the success of a selling plan as a whole and for obtaining a guide to possible difficulties, let us examine how management may attempt to learn something regarding the specific profit contribution of advertising.

¹ For a discussion of this type of market report, see "Profits from Marketing Research," by F. K. Leish, *Bulletin C. M. 24*, American Management Association, New York.

In the mail-order business or in businesses employing advertising for the sole purpose of getting leads to prospective buyers, the *profit contribution of advertising* to the business is readily determinable. For every advertisement, and hence for the whole advertising program, accurate sales results are traceable as a result of keyed responses.² Accordingly the cost of advertising can be compared with the profit that comes from sales. Under such a scheme, advertising is employed only as long as the sales obtained provide a margin that will more than absorb advertising expense. A quick and accurate check on the results predicted for an advertisement can be had. The situation is ideal for controlling advertising and for experimenting to find ways of improving returns or of keeping the cost of returns within the prescribed limits.

For other types of sales programs, the relation between advertising and sales is not so directly evident. In such cases, the advertiser may endeavor to ascertain the profit contribution of the advertising part of his program by experiments in which advertising efforts are varied while other factors affecting sales are held constant, so far as is possible, or are allowed for. The experiments may be carried on in either of two ways: (1) by changing the amount or type of advertising in any given area over a period of time; (2) by varying the amount or type of advertising in different areas for which sales results and expense figures are available.

The results obtainable from such experimentation are not as a rule highly satisfactory. The chief difficulty is that the variables affecting sales, other than mere volume of advertising, cannot be held constant. Accordingly, a management does not know how to appraise the results of the experiments.³ It cannot know how much allowance is to be given to changing factors other than advertising, and the troublesome question persists as to whether all variables have even been considered. Rough approximations may be drawn, but precision in measurement is lacking.

Another troublesome difficulty in such experiments is the time necessary for advertising or the lack of advertising to display its full effect on sales and profit. This difficulty accounts in part for the fact that advertisers proceed for long periods of time with no more than a *a priori* reasoning to guide them in the use of certain types of advertisements which are very indirect and slow in action, such as institutional advertisements.

² For discussion of methods of such businesses, see:

Borden, N. H., *Problems in Advertising* (cases of Rand Company, Harvard Economic Service). New York: McGraw-Hill Book Company, 1937.

Caples, John, *Tested Advertising Methods*. New York: Harper & Brothers, 1932.

Falk, A. T., "Analyzing Advertising Results," *Harvard Business Review*, Vol. VII, pp. 185 and 312.

Gundlach, E. T., *Facts and Fetishes in Advertising*. Chicago: Consolidated Book Publishers, Inc., 1931.

Hopkins, C. C., *My Life in Advertising*. New York: Harper & Brothers, 1926.

Shryer, W. A., *Analytical Advertising*. Detroit: Business Service Corporation, 1912.

³ An analysis which shows the difficulty of tracing the sales effect of varied volume of advertising will be found in *Marketing Policies of the California Walnut Growers Association*, by H. C. Hensley and N. H. Borden, Bulletin No. 10, Farm Credit Administration, Washington, D. C.

Whenever the burden placed upon advertising in the sales program is relatively small, or whenever the number of sales that might be expected in a given period is restricted because of a limited number of prospects or infrequency of purchase, the chances of learning much about the sales contribution of advertising from a differential experiment are small. A variation in advertising effort in such cases does not produce enough effect on sales to permit confidence to be felt in the experimental data, in view of the difficulties met in controlling variables which have a much heavier influence on sales than does advertising.

In those marketing programs in which advertising has a relatively large and a relatively quick effect upon sales, however, the attempt to get light regarding advertising's profit contribution through differential experiments is not so hopeless, even though the measurement of contribution is not exact. For example, in the cases of certain grocery and drug specialties and cigarettes, for which advertising plays an important part in consumer response, the differences in the volume of sales in different periods or in different areas under different volumes and programs of advertising provide clear evidence of advertising's contribution to sales, although it cannot be said that even here management has a refined tool for measurement.

So much for management's control over the sales program and the drive for finding advertising's place. Let us now note what techniques have been evolved to *control the various phases of strictly advertising operations* in order that each may be done well and that management may get the most from its expenditure, even though it may not be certain what the profit contribution of the expenditure is. Since advertisements must be measured as entities, let us consider methods of measuring appeal and techniques of presentation together.

Inasmuch as all consumer advertising is designed in the end to lead to consumer action, the ideal evidence with regard to the effectiveness of advertisements would be found in consumer behavior, the behavior of purchase. To what extent is this evidence ascertainable; to what extent must the advertiser accept less satisfactory evidence?

For advertising of the mail-order type, in which the relationship between consumer response to advertisements and sales, and accordingly profits, is definitely ascertainable, management can attain the ideal of varying the appeal and character of presentation in accordance with sales effectiveness.⁴ In the traceable responses is the basis for measurement of effect of the important variables. All that is necessary when evidence of the effect of any variable is being sought is care either in keeping other variables constant or in making proper allowance for them. It becomes possible under such conditions for management to construct advertisements with a relatively high degree of predictability of responses and profit contribution. The management can check results to learn when changing conditions or continued usage of a certain approach indicate waning effectiveness and thus can be led to new experimentation to find an advertising approach which will induce profitable consumer response. In such a scheme the advertising hypothesis is subject to constant check.

Another category of advertisements employed by manu-

⁴ For references on mail-order methods, see footnote #2.

facturers seeks *direct inquiries from readers for information designed to induce purchases from the trade.*⁵ Responses in these cases can be traced to specific advertisements, but the sales value of such responses is not evident. But even though the sales value of the inquiries is not known, it is evident that, so long as such marketing strategy is employed, it is highly desirable for the management to try to increase the number of responses received for each dollar of advertising expense. In attaining this objective the keyed responses are valuable.

Partly to get evidence as to consumer interest in their advertising, and partly to provide a means for placing samples or sales literature in the hands of purchasing prospects, manufacturers in recent years have turned more and more to the strategy of making some offer calling for direct action in what are essentially indirect action advertisements. This practice raises the issue of the value of such responses as an indication of the effectiveness of such advertisements.⁶

As stated, these advertisements are essentially of the *indirect action type*. The management expects no immediate purchases of its products to be made by the persons who read or hear its advertisements. The direct action offer carried in them is ordinarily not given much prominence. The advertisements are designed primarily to build around a brand mental associations which will be conducive to buying. Subsequent stimulus of some kind must be relied upon to bring buying action, although the mental associations built up may contribute materially to the ultimate buying response.

The inquiries received from advertisements of this kind are not records of sales. The total effect of the advertisements is not limited to their effect upon those who write in. The question raised is whether the number of inquiries received from different advertisements provides an index of their relative sales effectiveness.

As yet no one has given clear evidence that the number of inquiries received from different advertisements is an index of relative sales effectiveness. Yet, whenever in a series of advertisements the offer is not given undue prominence, the number of inquiries would appear to provide evidence of the relative degrees to which the various advertisements had been seen and had induced reading. Often the differences in the number of responses to the same offer in different advertisements are amazing.

Even though it is not definitely established that variation in number of inquiries is certain evidence of the relative sales effectiveness of what are essentially indirect action advertisements, yet many advertisers are using inquiries to guide their selection of appeals and their copy presentation, in the belief that it is better to proceed with this evidence of consumer reading of advertisements than to proceed with no evidence at all. And in this belief I concur, so long as the inquiry producing offers are not given an emphasis which detracts from the main objective

of the advertisements in building mental associations, and so long as the prominence of the offer is uniform in all advertisements.

Another type of evidence regarding *consumer response to indirect action advertisements* is had in reports of the degrees to which consumers recognize having noticed and read advertisements and of the degrees of their recall when name identifying marks have been removed from the advertisements. Under this scheme consumers are asked to indicate in periodicals which they have read the advertisements which they have noticed and the extent of their reading.⁷ Such reader reports are now available for leading magazines on a regular commercial basis; and if desired, recognition or recall tests can be made readily for advertisements in widely circulated periodicals.

As with the inquiry data just discussed, recognition and recall tests are not definitely established as measures of sales effectiveness or profit contribution of advertisements. Yet again we find many advertisers using such evidence on the ground that to build advertisements on the basis of appeals and techniques which are known to attract the attention and interest of readers is better than to proceed with an hypothesis of advertising building against which there is no check.

A related type of measurement which has proved valuable in *guiding radio advertising is the survey as to listening habits of consumers*. Periodic checks of listening are not measurements of sales effectiveness, but they permit the broadcaster to estimate the size of his audience, to know how his program stands in relation to other programs, and whether trend of listening is up or down.⁸ They can guide him in building a program and enable him to check how well he has built.

Still another technique for measuring roughly the effectiveness of different copy approaches and appeals, and one undoubtedly of considerable value for products for which advertising plays an important part in sales and enjoys a quick response, is found in *sales tests* in which the main differentiation in marketing procedures between areas or in time periods is found in the advertising copy approach. The records for such sales tests are generally secured from a check of retailers' sales, as mentioned earlier.

The shortcomings of tests of this kind already have been given. The proper control of the variables or allowance for them is most difficult. Unless the advertising is very quick in inducing response and the differences in sales results are considerable and appear clearly to be attributable to the varying copy approaches, then the test cannot mean much as a measure of copy effectiveness. Thus far such sales tests as a means of checking the relative effectiveness of copy approach have not been highly successful. Their value has lain rather in checking the likelihood of success of a whole marketing plan, particularly in the launching of new products.

In addition to these techniques, which are those most

⁵ For a discussion of such a case, see *Problems in Advertising*, by Neil H. Borden, McGraw-Hill Book Company, New York, 1937, pp. 458 ff.

⁶ For a discussion of the use of inquiries of this type, see: Rudolph, H. J., *Four Million Inquiries from Magazine Advertisements*, New York, Columbia University Press, 1936.

Hensley, H. C., and Borden, N. H., *Marketing Policies of the California Walnut Growers Association*. Washington: Farm Credit Administration, Cooperative Division, Bulletin No. 10, 1937.

⁷ For a discussion of this type of testing, see: Firth, L. E., *Testing Advertisements*. New York: McGraw-Hill Book Company, 1934.

Sandage, C. H., *Advertising Theory and Practice*. Chicago: Business Publications, Inc., 1936.

⁸ For a discussion of such checks, see "Measuring Radio Audiences," by John J. Karol, *Printers' Ink*, November 19, 1936.

widely applied, are certain others, to which only reference can be made.

The method of pretesting by a *consumer jury* still lacks adequate proof of its validity for predicting relative sales effectiveness of advertisements.⁹ The reliability of the consumer jury method as applied to indirect action advertisements has been tested by comparing rankings based on inquiries or reader recognition tests with rankings obtained from consumer juries. But such experiments have not indicated the methods' value for measuring relative sales effectiveness, for neither inquiry rankings nor the consumer reader report rankings are known to be rankings of sales effectiveness. In so far as ratings by the consumer jury test method have correlated highly with the known sales effectiveness of advertisements, i.e., mail-order advertisements, there still remains the question of whether the ability of a consumer jury to rank mail-order advertisements is proof of its ability to rank indirect action advertisements. Moreover, there remains a question as to whether the method is reliable for detecting other than wide differences in effectiveness. In spite of these uncertainties, many advertisers are using consumer jury tests in conjunction with other measuring methods in their search for guides by which to improve their advertising.

Recently much discussion has been devoted to the possibility of developing a technique for *rating advertisements by scoring elements and characteristics which affect sales effectiveness*. Ever since students of advertising began to dissect advertisements to determine how they should be constructed, such formulae have been sought. Books without end tell us the characteristics of a good headline, of good copy, and of good layout. Every serious advertising writer attempts to apply those guides to advertising construction, and in his development of guides tries to emulate advertisements which apparently have been effective. Difficulty has lain largely in getting unmistakable evidence of advertising effectiveness for advertisements other than those of the direct action or mail-order type.

The new wrinkle is to build a list of desired characteristics to each of which is given a mathematical value in accordance with its probable effect in inducing desired consumer response. The total value of an advertisement thus is represented by the sum of the values of the individual characteristics. Thus a grading of advertisements previous to publication is sought, a grading intended to be indicative of sales effectiveness.¹⁰

⁹ For a discussion of such tests, see *A Test of the Consumer Jury Method of Ranking Advertisements*, by N. H. Borden and O. S. Lovekin, Harvard Business School, Division of Research, Business Research Studies No. 11, 1935.

¹⁰ For a description of such tests, see *Advertising Theory and Practice*, by C. H. Sandage. Chicago: Business Publications, Inc., 1936, p. 497 ff.; "Townsend and Townsend, Inc.," by James S. Tyler, *Advertising and Selling*, February, 1938.

Whether a fully satisfactory and valid rating scale of this type has been developed I cannot say, for as yet those who have worked with such a scheme have not disclosed their evidence.

When it comes to measuring *the sales effectiveness of size and frequency of advertisements*, the situation is not a happy one. Most decisions regarding size and frequency are based on *a priori* reasoning regarding the amount of space needed to make the desired impression, or on the dictates of a limited appropriation. Evidence to support or disprove such hypotheses comes primarily from sales records. The answers as to relative effectiveness are usually vague. This condition, of course, does not apply to the mail-order type of advertising where the effect of changes in size and frequency can be determined by test. It must be added also that, in the case of indirect action advertisements, analysis of inquiries and tests of reader recognition and recall may give some evidence regarding the effect of size and frequency.

Only the briefest reference can be given to *methods of measuring the effectiveness of advertising media*. First of all, considerable progress has been made in providing information which will help the advertiser determine to what extent various media will reach those whom he wishes to address. As contrasted with former times, the advertiser has better information also by which to judge the possible reader interest of different media. Hence, a selection on the basis of *a priori* consideration can give considerable promise that media selected will do the desired job, provided an effective message can be built.

When it comes to measuring exactly the part that particular media play in the sales results, the advertiser faces all the difficulties that have been enumerated above. For advertisements providing traceable responses, an idea of relative effectiveness of different media can be given. Otherwise, the advertiser must rely largely upon the differential type of analysis which we have mentioned before with all the uncertainties that this involves.

From this survey of the rôle of measurement in guiding advertising procedures, we can readily understand why there is so much uncertainty and risk involved in the use of advertising. The need for refining techniques of control and measurement is great, and it is heartening to see the amazing drive that has been made in the last 10 years to develop improved methods of measurement and control.

Personal observation leads me to believe that the advertisers in this country who are most successful are those who are making use, when practicable, of the techniques which have been outlined. Their advertising policy is one of constant experimentation with painstaking effort to find actual evidence of consumer behavior by which to judge results.

The Growth and Function of the Advertising Agency

STANLEY RESOR* AND WILLIAM G. PALMER†

SUMMARY

This paper outlines the evolution of the advertising agency from the early stages of "space hawking" and "idea hawking" to the present day status of professional counselor responsible for the long range success of advertising policies.

This evolution has been rapid in the last 20 years because the increasing complexity of distribution and selling problems, the increasing necessity for creating mass desires to make possible economics of mass production, and the introduction of new advertising media—radio, comics, motion pictures—have all sharply focused the attention of management upon the need for balanced counsel of specialists in formulating sound advertising policies, in creating effective advertising and in selecting the most effective media.

The functions and specialized departments of the modern advertising agency are outlined in detail in relation to the growth and complexity of national advertising. Total volume has grown five-fold in 20 years reaching approximately \$550,000,000 in 1937. The battle for attention of the consumer is constantly growing more involved. In four years, 1933 to 1937, the 30,000,000 United States families further divided their attention among:

32,500,000 additional magazine and 85,900,000 additional newspaper copies per month.

32,000,000 additional movie attendances per week, plus many additional hours of radio listening and auto driving.

Selection of the best means of reaching and influencing prospects now requires factual analysis and research.

Unemployment, as a new problem challenging industry and advertising, is discussed in light of the growing realization that new employment for the labor released from the production of necessities through technological improvements depends on the expansion of the wants of the people. Failure to open useful channels for employment is breeding social unrest and distrust of business and finance. Forward thinking advertising agencies are studying these problems and the means of mass communication with a view to creating better understanding between companies and their stockholders, employees, customers and the general public.

IT WOULD not be at all remarkable if there were among major executives and management officials of industry a widely varying degree of understanding or misunderstanding of just what an advertising agency is and how it functions.

Do you look upon your advertising agency as a sparkling fountain of bright ideas, clever slogans and pretty pictures, or do you regard it as your professional counselor responsible for the long range success of your advertising policies; policies which can succeed in the long run only if they are based on an intimate knowledge and constant scientific study of the product itself, the potential consumers and the most effective ways of influencing these consumers?

The increasing complexity of distribution and selling problems, the increasing necessity for creating mass desires to make possible the economies of mass production, the introduction of new advertising media—radio, comics, motion pictures—all these forces have contributed to the

evolution of the advertising agency through the various stages of "space hawking" and "idea hawking" to the modern professional organization offering the balanced counsel of specialists in formulating sound advertising policies, creating effective advertising and selecting the most effective media. Since a large part of this evolution has occurred in the last 20 years one can appreciate that there still exist varying conceptions of the functions of advertising agencies just as there are still agencies representative of the various stages of the evolution.

While advertising itself is as old as history, the history of the advertising agency in America goes back only to the early 1840's. At that time, an advertiser who wished to place advertising outside of the immediate locality in which he did business had no means of doing so other than direct communication with publications in other localities, about which he had no organized information. National advertising was virtually unknown. Seeing on the one hand the potential in advertising of this type and recognizing in this situation a basis for profit, there was a succession of small organizations formed whose business it was to represent groups of publishers on a commission

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basis, and thus make it possible for the advertiser to deal with one office in the orderly purchase of advertising space over a wide area.

These firms prospered as advertising expanded through the availability of the space buying facilities which they offered. As time went on, certain of these "agencies" became exclusive representatives of groups of newspapers or other periodicals. Some began to buy blocks of space in periodicals for their own account and then to resell this space to advertisers at such prices as they were able to get for it. There was an almost complete lack of standardization of rates.

This sort of activity continued to be their main business until the early 90's. Brief and sketchy as the review is, I do not want to go on without mentioning some of the outstanding names associated with the business during that period. Volney B. Palmer was the first, and among the others were George P. Rowell, N. W. Ayer and Son, Lord and Thomas, Carlton and Smith, and J. Walter Thompson. It is interesting that three of the largest advertising agencies in the country today bear the names of three of these early pioneers.

In the period immediately following 1900, events took place which resulted in the beginnings of the advertising agency as we know it today. During the earlier period, agencies were competing with one another primarily on the basis of one being willing to sell space at a better price than the other. Now, starting with an epoch-making contract made between the Curtis Publishing Company and an agency (1901), the policy of publishers grew apace in fixing definite rates for their space to all agencies, paying fixed commissions to acceptable agencies and refusing to allow the agency discount to advertisers direct or to unacceptable agencies. I quote here James W. Young's comment on this transition, quoted from his book, "Advertising Agency Compensation," published in 1933:

While the provisions of the Curtis contract, and of other publication agreements with regard to rate-cutting by agents, proved difficult of complete enforcement, they radically and rapidly altered the agency picture. They strengthened the hand of the service agency and made rate-cutting furtive and illegal. They protected the agent against the publisher's own competition. . . . Competition between agents swung to an emphasis on the agent's ability to make advertising pay the advertiser. . . . The agents who competed on this service basis began, after 1900, to attract attention by the number of outstanding advertising successes with which they were connected. Their volume of business began to grow at the expense of agents who were unable or unwilling to meet the new demands.

In the process of evolution which followed during the decade 1900-1910 there developed a general adoption by agents of a policy of working exclusively for one advertiser in a given line of trade. This definitely marked a new conception of the advertiser-agency relationship. The agent now began to be looked upon by the advertiser as guide, counselor, and friend, and the relationship gradually grew into intimacy and confidence.

Thus, less than 40 years ago, the business which we now know as the advertising agency business was started on its career of broad, intimate and effective relationship with American industry, and its evolution into the present day agency has been most rapid in the last 20 years. The newness of recognition of advertising problems is evidenced by the fact that prior to 1915 no reliable figures

were available on total national advertising volume. From 1915 to 1937, however, national advertising in the United States has grown in volume from \$100,000,000 to \$550,000,000. And, more important, American industry has established a record in increased volume, mass production, efficiency in operation, reduction in consumer prices, creation of known values in trade-marked products which are a guarantee of quality to the consumer, and in aiding to establish a national income base which has made possible a standard of living such as has not been duplicated elsewhere in the world.

In all of this advertising has played an admittedly vital part. Practically the entire volume of national advertising in this period has been prepared by and placed through advertising agencies. As evidence of the size and scope of some of the larger agencies, I may be pardoned for mentioning the fact that the agency which I know best has 8 offices in the United States. In addition it has offices in Canada, England, France, Belgium, Holland, Roumania, South Africa, Australia, India, Brazil, and Argentina. These various offices have a total of approximately 1200 employees.

The changing habits of the people and the increasing mechanization of both industry and agriculture are constantly placing an increased burden upon advertising as a selling and educational force. In general, costs of distribution and selling have not lowered so rapidly as production costs, hence there is continuing opportunity for effective advertising to assist in lowering these costs as well as the costs of production. Advertising is a selling force which, through creating consumer preference and demand, short circuits other selling and distributing costs that otherwise would be necessary. To the extent that each dollar of advertising can be made more effective these economies will result. Upon the advertising agency, therefore, there falls increasingly the responsibility of knowing, rather than guessing, how best to influence the consumer economically.

The selection of the best means of reaching and influencing the prospects for a particular product is increasingly dependent upon factual analysis and research. The battle for attention—for a hearing on the part of the consumer—is becoming more and more involved. In the four year period from 1933 to 1937, for example, the 30,000,000 United States families further divided their attention among:

- 32,500,000 additional magazine copies per month
- 85,900,000 additional newspaper copies per month
- 32,000,000 additional movie attendances per week
- 6,000,000 additional automobile registrations
- 7,500,000 additional radio equipped homes

This leads to an examination of the functions of the present day advertising agency. They are defined as follows in the Agency Service Standards as adopted by the American Association of Advertising Agencies:

Agency Service consists of interpreting to the public, or to that part of it which it is desired to reach, the advantages of a product or service.

Interpreting to the public the advantages of a product or service is based upon:

1. A study of the product or service in order to determine the advantages and disadvantages inherent in the product itself, and in its relation to competition.

2. An analysis of the present and potential market for which the product or service is adapted:
 - As to location
 - As to extent of possible sale
 - As to season
 - As to trade and economic conditions
 - As to nature and amount of competition
3. A knowledge of the factors of distribution and sales and their methods of operation.
4. A knowledge of all the available media and means which can profitably be used to carry the interpretation of the product or service to consumer, wholesaler, dealer, contractor, or other factor. This knowledge covers:
 - Character
 - Influence
 - Circulation.....
 - Physical Requirements
 - Costs

{	Quantity
{	Quality
{	Location

Acting on the study, analysis and knowledge as explained in the preceding paragraphs, recommendations are made and the following procedure ensues:

5. Formulation of a definite plan.
6. Execution of this plan:
 - a) Writing, designing, illustrating of advertisements, or other appropriate forms of the message.
 - b) Contracting for the space or other means of advertising.
 - c) The proper incorporation of the message in mechanical form and forwarding it with proper instructions for the fulfillment of the contract.
 - d) Checking and verifying of insertions, display or other means used.
 - e) The auditing, billing and paying for the service, space and preparation.
7. Coöperation with the sales work, to insure the greatest effect from advertising.

In order to render service of this magnitude and scope, the modern advertising agency must have a wide variety of departments, each under the direction of a highly trained specialist and with a staff whose experience is focused on the special phase of advertising or marketing to which the department is devoted. The three major departments devoted directly to the production of advertisements are, of course, the Copy or Editorial Department, the Art Department and the Mechanical Department. In our own organization we have a Research Department under the direction of an economist of wide experience. This department is responsible for the basic studies of market potential and detailed analyses of sales, by sales territories, counties, or city size groups, in relation both to market potential and advertising costs through all media as well as for field surveys to study the habits and buying motives of people.

There is also a Department of Records, and similar departments are, of course, maintained by other large agencies. Everyone engaged in selling work of any kind whether by advertising or by men in the field, knows with what eagerness an experience on another product is seized. Nothing is more dangerous than general inferences drawn from conditions which do not parallel those of the product at hand. Imagine then the value of the combined experience in the marketing of product after product, in many cases dating back to its initial production. Records of this kind, growing out of the long experience of the agency, when properly interpreted are of great value for any work done on any product.

There is a department devoted to the study and selec-

tion of media, and the purchase of space in them. These include newspapers, magazines, outdoor advertising, street car cards, trade papers, motion pictures, etc. Of late years the Radio Department has come into being, with all of the technically trained personnel necessary to create, direct, and produce radio programs and to negotiate for time on the air. There is also a department concerned with the dissemination of news about clients' activities and products.

Advertising agency service differs widely, of course, with different clients and the problems dealt with jointly by client and agent multiply almost from month to month, certainly from year to year.

In an address Mr. John Benson, President of the American Association of Advertising Agencies on "The Advertising Agency Business" says in part:

Most people think the agency writes copy, makes pictures, produces plates and selects media, which, of course, it does, but those all important steps support the much larger job of being responsible for the success of the advertising. The technique of advertising is well known outside of agency circles. The unique value the agency contributes is advertising and marketing judgment based upon an intimate experience of methods and results gained in a variety of business, for the first part, and for the second, an original and distinctive approach to dealer and consumer. In other words, the agency brings to the advertiser's problem an outside point of view from an inside angle. That gives the agency a professional character. The advertising agent is an intimate counselor, who knows the plans of his client and cannot reveal them to a competitor nor permit them to influence his thinking for a competitor, without the consent of both. Without such confidential relationship there could be no professional service. There would be merely technique. Without such a gathering together of all the threads of a campaign into one hand, advertising would lack the cohesiveness so necessary for its success. That contribution is made by the advertising agency.

As a concrete example, here is a partial record of work on one account in our organization during three of the early months of this year:

- 16 different products have been worked on.
- 65 advertisements for trade papers, consumer magazines and newspapers have been prepared.
- 48 5-minute radio programs have been written, discussed with the client, approved, recorded and records of these programs distributed to radio stations.
- 25 important news items were written, discussed with client, mimeographed and distributed to some 600 newspapers.
- The agency's media, copy, art, traffic, radio, research, publicity, legal and billing departments have all had work to do, involving the part time of no less than 100 people.

The above covers only regular work. In addition some of the special problems which had to be dealt with in the same period were:

- How to combat unfortunate and unfair "high price" propaganda about client's products.
- Need for publicity articles on cost of materials of entire industry in comparison with client's materials. Studies were, of course, necessary as a basis for these articles.

Meetings with group representing Industry to discuss a new type of promotion. As a result 7 full-page newspaper advertisements were prepared for the industry.

Plan on motion pictures evolved.

Talks at clients' sales meetings.

Magazine editorial prepared, discussed, and accepted for publication.

Discussion of World's Fair Promotion.

So much for the actual definition of what an agency does for its clients. How it functions in relation to its clients leads us into broader considerations.

The basic platform of American business over the last quarter century has been to stimulate consumption, in order that production might be developed. In order to accomplish this end, advertising has been called upon to do two major jobs. The first of these might be described as the "creation of human desires for better things"; the second, "the sale of commodities to satisfy the desires thus created." The doing of these two jobs operates concurrently, but each has its individual characteristics.

The American people, for example, have gone farther in the purchase and use of the conveniences of modern living than the people of any country in the world. This has not been accidental, nor has it been primarily an expression of the wealth of our people. These desires have been created consciously by producers and the success of this creation of desires is an important contributing factor in building our high standard of living.

Take one example—the mechanical refrigerator. This is a relatively new device, and yet already it is to be found in 12,400,000 American homes. The average price at which efficient refrigerators of this type can be bought has dropped from \$550 to \$173 in the 16 years during which they have been generally offered for sale (1921 to 1937). The advertising and promotion put behind mechanical refrigerators did vastly more than offer and describe machines which were a more effective means of refrigeration than had previously been known. The American people were not only told that such devices were available, but through emotion, logic and reason they were brought to the point where a surprisingly large number of them in a remarkably short time actually bought such refrigerators, and of those who have not yet bought, the majority have a "desire to own one" and are planning on doing so just as soon as they can. The mechanical refrigerator has become "the" thing to have.

Similar developments have taken place with the automobile, the telephone, modern bathroom equipment, insulation of homes, modern heating plants, radios, and so on with countless other things. The movement is rapid from research and development on the part of the manufacturer in the perfecting of the device, to analyzing the market for it, to pricing it on a mass production basis, to utilizing the modern facilities for distribution available—and then, through the force of advertising, creating on the part of the public the "desire" for ownership.

On this formula, to a large extent, the American standard of living has been built and will continue to be improved. Profitable, continuous and useful employment for the labor released from the production of necessities

through technological improvements depends upon the expansion of the wants of the people. Education of the public to the use of improvements and creation of desires for goods and services beyond the bare necessities is necessary in order to avoid a continuous burden of unemployment. In all of this advertising and advertising agencies are privileged to play a part. Present day agencies have highly developed facilities for aiding the manufacturer in the development of his product, in planning its introduction and sale, and in producing jointly with him the appeal which will create for it a sufficiently broad market to enable him to pass on to the consumer the values made possible by large scale production.

There has developed in this country in the course of the past few years a new problem—a problem so far-reaching and fundamental as to make its solution a challenge to all industrial leaders.

Unemployment spreads like a great cloud across the land, and in the shadow of this cloud breed doubts. Is business being operated in the interests of all? Is there a better way? All should have an opportunity to work, all have needs to be filled. What then is wrong?

In this half light it is easy to distort the facts and to breed distrust which in turn makes the solution harder and the longer delayed. It is not in that spirit that problems have been solved, new products developed and the desire for them created which resulted in a surge forward to a higher standard of living for all.

Can the same principles, so successfully applied to products, by making known the real facts and intent help create understanding in place of misunderstanding—help build tolerance and co-operation in place of antagonism and distrust?

To some degree these principles *must be made* to help. Just as mass means of communication are a necessity for the spread of knowledge of new products, so to a large extent our information on every phase of life must also be conveyed on a mass basis by the same media. In spite of increasing congestion of population in urban centers, as individuals we are becoming more and more remote from those who intimately affect our lives. We live as masses, think as masses, and act as masses rather than as individuals. The newspapers, magazines, radio, and screen as moulders of our thoughts have to a large extent taken the place of the simple, neighborly, personal contacts of a generation ago.

The first step in coping with these new conditions must be a recognition on the part of each individual company of this change in means of communication. May I be pardoned for speaking of activities in our own organization as this type of work is so new as to make it impossible for me to refer to standard practice on the part of other agencies.

For the past three years we have had a group of widely experienced men working along the following lines:

- (1) Experimenting in the use of simplified, graphic presentations of complex economic theories.
- (2) Collecting from both domestic and foreign sources, material showing unusual graphic presentations of statistics.
- (3) Assembling and studying samples of government and pressure group propaganda methods throughout the world for influencing masses.

- (4) Broadening the financial news items sent out on behalf of our clients to include news of current accomplishments and present management policies, to bring about a better understanding between the company and its stockholders, employees, and the public.
- (5) Preparing special reports to employees in cities where plants are located.

- (6) Breaking down institutional advertising into some dozen classifications in order that they may be studied separately, improved and coordinated.

To supplement what is left of personal contacts in our "mass world" we must have an understanding use of multiple and mass communication not only on products but also on human relationships.

Some Features of the Sales-Promoting Activities of the Svenska Sockerfabriks Aktiebolaget

SVENSKA SOCKERFABRIKS AKTIEBOLAGET*

SUMMARY

The author describes the propaganda methods employed by the Swedish Sugar Manufacturing Company (Svenska Sockerfabriks A. B.) to enlarge the consumption of sugar in Sweden.

Being granted the monopoly of the market for a year at a time, and with a Government guarantee of the minimum price, the Company is thus not faced by outside competition, but by the problem of inducing the public to use more sugar.

The price of the commodity is lower in Sweden than in most other European countries; but the traditional idea that sugar is more or less of a luxury is still prevalent. The Company's publicity is, therefore, directed toward impressing on the public the fact that sugar is an excellent and cheap food, and toward instructing them in the many ways in which it can be used to advantage.

For this purpose, prominent scientists and other experts on food and nutrition have been engaged to write newspaper articles on the many aspects of the question. Books of recipes for preserves, etc., are published, and more extensive use of sugar in the daily diet encouraged.

To counteract the previously general idea that "sugar is sugar," the advantages of the different qualities of sugar for one purpose or another are explained, and great trouble is taken to make the containers and packages as hygienic, attractive, convenient, and distinctive as possible.

These intensive and varied propaganda methods have met with considerable success.

THE Svenska Sockerfabriks Aktiebolaget, commonly called by the abbreviated name of Sockerbolaget (the Sugar Company) is the only sugar (saccharose) producing enterprise in Sweden. Since March 1st, 1932, the Swedish market has been a monopoly, in addition to which the Government guarantees the minimum selling-price of the product. The monopolistic rights have so far been conferred for a period of twelve months at a time.

The Company's direct customers are the sugar wholesalers of the country, by which are meant wholesalers authorized by the Company. These are allowed a maximum discount of four per cent. Any other person or firm that can take at least 5000 kilogrammes at a time is, however, entitled to make purchases direct from the Company at the latter's sale price; but customers of this class do not enjoy the benefit of a discount. Retailing to the ultimate consumers is effected through the retail grocers of the country. In virtue of the monopoly, the consumers of the Company's products comprise the entire population of the country. The price charged for the product is one of the lowest in Europe.

During the time the monopoly has been in force the sugarbeet acreage has undergone considerable increase as compared with the years immediately preceding. This circumstance, the significance of which has been augmented by extremely favourable crops as well as by certain production-raising factors in cultivation itself, has brought about such an increase in sugar production that the Company has to make the most concentrated efforts to find a market for its product. Parallel with this work,

the Company seeks to extend the use of its special qualities. On account of the nature of the product in question it is quite natural that the market-expanding activities of the Company should be mainly directed towards consumers, although the part played by the links of distribution is, of course, given careful consideration. The media used include the following:

- Direct Advertising
- Press Articles
- Booklets
- Recipe Books
- Display Cards
- Container Slips
- Exhibitions
- Films

Watch is kept over the market by the Statistical Department of the Sales Office, and at any instant this department is able to present a picture of the actual situation within any particular part of the country. Colour and life are imparted to the statistical data by the contact which the Company's consultants maintain, through the retailers, with the housewives of the country, and by this means any wishes or complaints the latter may have are communicated to the Head Office. The intensity of the propaganda work rises or falls with corresponding seasonal movements of the sales curve. In this work the Company constantly strives to advance towards its goal on a firm and reliable foundation. With this object in view, it keeps in very close touch with specialists of various kinds, and also endeavours by its own direct efforts to keep itself as fully informed as possible of developments.

Of the problems which have confronted the Company

* Sweden.

in its sales promotion work, the greatest has been the necessity of placing the comparatively large production. Two practicable methods have seemed to suggest themselves: one to create a larger market by new forms of consumption; the other to attain the same end along already existing lines. With reference to the first, extensive attempts in this direction have been made in various places, but the result must be designated almost negative. Hence this method could not be used. There remained accordingly only the second method, viz: to stimulate increased consumption on the basis of the existing modes of use.

The first question the Company asked itself, when this work was being planned, was whether the public's view of sugar was correct; or, whether some enlightening work on this subject was not necessary. The latter proved to be the case, for sugar was rather generally regarded as a luxury, to be used sparingly—an idea inherited from earlier generations. Efforts were, therefore, directed to removing this misconception and to replacing it by the notion "Sugar is a food." The low price of sugar in this country was a favourable factor, since this rendered it possible throughout the campaign to place before the term "food" the word "cheapest" (or "cheap"), a very effective attribute, when the interest of the public had to be caught and reflection stimulated in the desired direction.

As the chief measure adopted to attain this objective, should be mentioned the preparation of a booklet entitled "Sugar, our cheapest food," written by one of the best known nutrition physiologists of the country. This gives a short account of sugar as a chemical product, the human body's need of sugar, and its capacity to assimilate it and convert it into energy. In addition, some general directions are given to show the possibilities of making up, with the aid of sugar, a richly varying and consequently sound and desirable diet. The high reputation of the author guaranteed the reliability of the work from the point of view of nutritional physiology, and his simple and easy style, well supported by illustrations, held out promising prospects that the booklet would actually be read. Experience proved that expectations had not been pitched too high. To date, about 500,000 copies of the booklet have been distributed, i.e., a number corresponding to one-twelfth of the entire population of the country. In this connexion, the most remarkable circumstance is perhaps the great interest it has attracted from schools. Here it has been made use of as a supplement to instruction on nutritional questions. The value of this deserves to be stressed, for, not only have the children had their attention directed to sugar and been taught to regard it favourably, but the tendency so characteristic of children to share with others in their home the knowledge they have acquired at school has undoubtedly extended the effective range of the work. Demand for the booklet still continues, e.g., from the social welfare workers associated with the country's big industries. For this reason it has been considered advisable to print a further 250,000 copies. Of course, the educational campaign has not been confined to this publication exclusively, although this—being undoubtedly the most powerful measure—has been dwelt upon to some length. The campaign has been prosecuted also by means of direct advertisements, newspaper articles, slogans on containers, and where possible on other material emanating from the Company. That the campaign has met with decided success and carried

the Company very far towards its goal—to induce the whole population of the country to equate "sugar" and "cheap food"—may be inferred from the enormous expansion of sales that the Company has been able to register in recent years.

The next step was to work upon the germinating sentiment in favour of sugar, so that this found concrete expression in additional purchases of the commodity. Here, in the main, only one path lay open, viz.: to teach the public to preserve the country's crops of fruit and berries with sugar to a greater extent than formerly. Propaganda work was accordingly laid down along this line, and hence the task became one of exploiting the advantage of using sugar for that purpose. As is known, a varied diet is nowadays considered of particularly great value to the preservation of health. Since the consumption of fruits and berries preserved with sugar will to a considerable degree ensure the desired variation in diet, the Company has had in this an excellent argument, the value of which has been further enhanced by the special interest that physiologists and others have concurrently awakened in this question by articles and in other ways. The media used in this campaign have been direct advertisements and articles in the press, mostly giving recipes, as well as books of recipes. Each of these will be briefly mentioned.

Direct advertising campaigns have followed the plan of first making some preliminary announcements of a more general character in the press, to prepare the public for the contemplated attempt to popularize preserving, emphasis being simultaneously laid on the advantages of preserving at the right time and to a sufficient extent. "Turn winter into summer," i.e., ensure, by jamming and bottling, the enjoyment of summer's abundance of berries and fruits during the winter as well, was a much used slogan, and one that well exemplifies the basic tone of the advertisements. Advertisements of this general type have been used every now and then throughout the campaign. The latter, however, has to a large extent been built up on special varieties of berries and fruits, the advertising starting in the South and developing northwards concurrently with the advent of the ripening season. The advertisements have been timed to appear when a certain commodity suitable for preservation is at its cheapest, and, by emphasizing the advantages offered by preserving it, an attempt has been made to stimulate the reader's interest. By including in the advertisement a simple and tried recipe, an effort was made to turn the interest aroused into immediate action, i.e., into preserving with sugar. So far as it has been possible to judge from the attention given to these advertisements, the adopted form has been exceedingly happy.

The recipes published in this way could not be considered sufficient either in number or variety, and to fill the deficiency the Company has issued a number of books of recipes, one of which, entitled "Home Preserving," deserves somewhat closer attention. The book begins with an introduction on the great nutritional value of sugar, written by one of Sweden's foremost physiologists on nutrition, continues with a description of the principles of food preserving, and then gives a very rich selection of tried recipes of various kinds, the soundness of which is guaranteed by some of the foremost experts in the field. The general value of the book has been considerably enhanced by the fact that it has not been con-

fined solely to such recipes as require sugar, but also contains comprehensive directions for the preservation of all kinds of vegetables and fruits.

The printers are the nominal publishers of the book. It is supplied through the bookshops at a price of one krona. Thanks no doubt very largely to its being mentioned in the Company's advertisements, it has had an immense sale, 230,000 copies having been disposed of, and there can scarcely be any doubt that at present it is the work most referred to in questions of this kind. That it has been an extremely valuable link in our propaganda for a larger market is beyond all doubt.

Another contribution to the realization of our efforts to widen the outlet for our products has been the appearance (on our initiative in the newspaper press) of articles on the preserving of berries and other fruit. These articles have dealt in an interesting manner with some preserving problem of the moment, and have given general directions for the best way of solving it. They have been concluded with a suitable recipe or two, in most cases quoted from the above mentioned book—"Home Preserving." In the matter of these articles the press has taken up a very sympathetic attitude, and its coöperation on this point—presumably attributable to the fact that it considers the subject-matter of the articles to be of great interest to its readers—is worth every acknowledgement. That this has actually been the view of the newspapers is corroborated by the fact that no signs pointing to lack of interest on their part have been noticed even on occasions when a particularly large number of articles have been concerned.

As already pointed out, the Sugar Company has endeavoured, by collaboration with various classes of experts, to provide a solid foundation for its demand-creating work. That it has also succeeded in gaining the confidence of the public in its work may be inferred from the results achieved, which would no doubt have been impossible if the Company's propaganda material had not been in close harmony with the trend of development in these fields.

Seeing that the consumption of sugar in our country has now attained a level of 50 kilogrammes *per capita* per year, further expansion must be to some extent limited. It is probable, however, that a practicable way of increasing the absorbing power of the market lies in improving the material to be preserved, thus encouraging and enabling the consuming public to prepare still larger quantities of savoury, useful and durable preserves. The Swedish Pomological Society (Sveriges Pomologiska Förening) is giving this question its attention, and by financially supporting its activities the Sugar Company is seeking to extend and intensify their effect.

The second great problem that the Company is striving to solve in its work of creating a market for sugar is to increase the sale of its special qualities. The manufacture of these was preceded by very comprehensive investigations, undertaken by the Company itself, and on its initiative, by eminent experts on different subjects. These qualities are intended to satisfy different tastes, and to enable the consumer to secure the best possible result when using sugar for different purposes. The special qualities are naturally priced a little higher than the standard qualities, and the task here is to sell, for this slightly higher price, the advantages just mentioned. In view of

the small extra cost (probably of no importance to the economy of most households) it was natural to assume that propaganda based on good arguments would here lead to rapid and successful results. However, the buying response of the public to this campaign was slow and reluctant, the reason being—as a special investigation showed—that the views of the public on sugar simply did not admit of any other. Sugar, in fact, was viewed merely as a sweetening and nourishing agent, and, therefore, the task of the Company was to instill into the minds of the consuming public the idea that, in addition to these qualities, sugar also possessed the other properties mentioned above. The problem was solved by collating the Company's own experiences in this respect, and then commissioning two especially prominent domestic economy experts to check the results and to work out a table showing: firstly, all the modes of using sugar in a household, secondly, what qualities of sugar should be used in each instance, specially indicating the preferable varieties. Trial distributions of the table were made in connection with two exhibitions at different places in the country, very considerable interest being shown in both cases. This table is now being put into the hands of the public on a very broad basis. Its concrete effect cannot as yet be estimated, but it will assuredly result in acquainting an extremely large number of people with the existence of different qualities of sugar and their uses. As a matter of course, both links of distribution have been carefully prepared—by bulletins, announcements in trade papers, and personal visits—to give informative answers to questions the public might put with reference to the table.

Concomitant with this general propaganda to create an appreciation of the difference in qualities, the direct advertising of these has proceeded. Besides a picture of the carton container, the advertisement contains a reasoned description of the advantages possessed by the sugar quality in question; or, where such a layout is not possible, a few words appealing to sentiment as a motive power leading to purchases, by seeking to surround the sugar quality with a nimbus of festivity or the like. In order to guide the interest aroused by the advertisement to the right quality at the ensuing purchase, the Company endeavours to supply an aid to the memory of the reader by inserting in the advertisements such phrases as "Lump Sugar Extra in green packets," "Castor Sugar Extra in lilac packets," etc. By means of packing slips, with a recipe where possible, placed in certain carton containers, the Company continues the work in this direction. These efforts are supplemented by display cards as well as by exhibitions in conjunction with demonstrations.

Hygienic packing has received considerable attention from the Company; firstly, because it is a demand that simply must be met; and secondly, because the Company itself is highly desirous of assisting a further development in this direction. As in all probability the packing question will be the subject of comprehensive discussion in a special article, the Company will treat it here only from the propaganda point of view. This should be of some interest as a supplement to the previously outlined work. As has already been said, the Company follows two lines in its work to create a bigger market for sugar: one directed to increasing the total sales; the other to increasing the sale of special qualities. The former objective is furthered

by a slogan on the carton containers, reading "Sugar is a cheap, pure, and nourishing food"; the latter by the above mentioned reference in the advertisements to the colour of the packets, made with the object of guiding the customer to buy the right quality. The Company seeks, however, to utilize the carton containers in still another way, viz., to implant in the consuming public such goodwill for its product, that "Sugar" in this country will always mean the "Sugar Company's sugar." It is manifest that the goodwill must be created by the product itself; but the consuming public will identify the container with the product. Hence it may doubtlessly be said that the container creates goodwill. To ensure effective utilization in this respect, the container should be given a distinctive appearance attracting immediate attention, and at the same time it should be of a simple shape, with clean lines, that admits of a mental image being easily formed and retained. These points of view were in fact applied by the Company to the best of its ability in the design of the new containers issued some time ago, which in addition are all built on the same lines and got up in different colours for the different qualities. It should further be mentioned that the design includes a constant element—the Company's trade-mark in the form of a red seal. There is good reason to believe that the present

carton containers are of a character to assist very effectively the realization of the Company's aim—to create goodwill for its product. The extent to which these containers contribute to this will of course depend on the volume of trade in packeted sugar, and for this reason, too, the Company is making strong efforts to expand as much as possible its sales in this direction. In this it is no doubt to some extent supported by the retailers, to whom the sale of sugar in cartons means less work, and frequently a somewhat larger profit. To the consumer the packing brings more than the hygienic advantages. It also guarantees the article, which, moreover, is delivered to him in a quantity corresponding exactly to what he is accustomed to buy. As a rule, the consumer pays the same for the carton-packed sugar as for the article when sold in bulk.

Finally, it may be mentioned here that the views, means, and procedures described above also characterize the Company's market-expanding work in respect of syrup and molasses, in which the Company does an extensive trade, and have also here resulted in considerable progress. The trade in both these commodities is entirely free, but they are subject to customs duty, although the protection is quite illusory in respect of syrup, since this is made from imported raw sugar, the duty on which is fixed at an amount that neutralizes the protection.

The Means and Methods of the Producer to Reach the Consumer

WILH. GÖRANSSON*

SUMMARY

In this article, the author gives an account of the sales organization of one of the largest of Swedish Cycle works, and also describes the methods employed by the National Association of Cycle Manufacturers and Merchants in stimulating interest in cycling and so increasing sales.

The article deals with the following five main points:

1. The actual selling organization.
2. Continuous investigation of sales prospects and market conditions.
3. Sales to retailers.
4. Measures aimed to influence consumers in order to facilitate the task of retailers.
5. Steps to stimulate interest in cycling, in order to increase the total sales of cycles in the country.

In conclusion, the author points out that what he has described as a suitable sales organization for cycles is, of course, not at all meant to be generally applicable to other branches of business, and that, naturally, each branch must be given that organization which by experience has been proved most suitable:

WHEN I visited the United States soon after the war in an effort to introduce certain export specialties manufactured by the company where I was Managing Director, I was rather surprised to receive from prospective customers something like the following reception: "We are quite willing to believe that your goods are of high quality, and your prices seem to suit us; but we can give you no orders until there is a demand for your goods. It is up to you to create that demand in the American market." Both wholesalers and retailers took the same attitude. The wholesalers insisted that the retailers must ask for our goods, and the retailers that the public must ask for them.

At that time it seemed to be quite customary in the U.S.A. for the manufacturer, in his own and in his retailers' interests, to create popular demand for his goods. In Sweden, on the other hand, it was then considered that the middlemen were primarily the ones who had to influence the public, while generally the manufacturer only kept his goods before the public by advertisements in the newspapers, by providing show cards, etc., and by taking part in exhibitions and competitions. Things have gradually changed, however, especially in the last few years. Manufacturers now approach the public directly by several methods, and those who do not support the efforts of their customers in this way are gradually left behind by their competitors.

The subject is too broad for me to attempt to give, in an article of this kind, anything like an exhaustive account of all the means and methods now used by Swedish manufacturers in various branches of business to get into touch with consumers. I shall, therefore, deal here with only one branch, viz., the bicycle trade, which I know well, having for 26 years been Managing Director of one of the largest producers of bicycles in Sweden, and for many years President of the Association of Swedish Bicycle

Manufacturers and Merchants. It is easier to describe the selling methods of a definite product than to generalize. I shall deal exclusively with the Swedish market, for it would take me too far afield to include the export trade.

To give optimum results a rational organization for the sale of bicycles should provide for 5 aspects of the work, viz:

- (1) The actual selling organization.
- (2) Continuous investigation of sales prospects and market conditions.
- (3) Sales to retailers.
- (4) Measures to influence consumers, in order to facilitate the task of the retailers.
- (5) Steps to stimulate interest in cycling, in order to increase the total sales of bicycles in the country.

As organizations of every kind have been brought to a high degree of perfection in the U.S.A., and as most organizational problems have been studied there for years by skilled experts (as witness the ample literature on the subject) I am afraid that my remarks and observations contain very little that is directly new. However, the measures discussed under point 5 have given remarkably good results and may, therefore, be of interest.

The Actual Selling Organization

The sales are made through retailers, who are usually granted the sole selling rights in their particular districts, large or small. The cycling season is reckoned from September 1st one year to September 1st the next, and salesmen call on the retailers 2 or 3 times a year. In the autumn contracts are signed with the latter, fixing the minimum number of cycles each must buy during the coming season. In the large cities, where there are many cycle dealers, sole selling rights are usually not granted. The manufacturer establishes a branch office there, where a stock is kept for supplying the local retailers. If that

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branch has a retail department, it too sells direct to the public at the same retail prices as the retailers do. Such retail prices are fixed by the manufacturer, and are the same everywhere in the country. The annual contracts stipulate that the retailer must not sell below these prices. Experience has shown that both retailers and the manufacturer's branch office can sell to the public in the large cities without any friction, probably because the advertisements of the maker aid the local retailers, who also benefit from quick deliveries out of the branch office stock. When selling to wholesale merchants, the manufacturer usually does not deliver the cycles as his own brand, but marked with the wholesaler's brand and generally also differing in appearance from the original brand. The wholesalers, who sometimes buy the cycles sold under their respective brands from several different manufacturers, usually employ the same selling methods as the manufacturers, but grant sole selling rights less extensively.

Continuous Investigation of Sales Prospects and Market Conditions

On the basis of the sale statistics kept by the manufacturer for the several districts, continuous investigations are made as to whether actual sales as compared with the quantities it ought to be possible to sell in each district can be considered satisfactory to the manufacturer. Assuming that some 300,000 cycles a year can be sold among the 6,000,000 or so inhabitants of this country, this is equal to 50 cycles per 1,000 inhabitants. A manufacturer selling about 50,000 cycles per annum should thus be able to sell an average of about 8 cycles per 1,000 inhabitants. The number will, of course, vary considerably in different districts, according to the climatic conditions, the nature of the roads, standards of living of the people, etc. By continuous investigation, however, the manufacturer can at least form an approximate idea of what he should be able to sell in a given district, and compare with this estimate his actual sales there. If these are considered unsatisfactory, they must be improved. Much will, of course, depend on the ability and energy of the retailer, and he may naturally sometimes have to be changed; but if an unsatisfactory turnover can not be blamed on the retailer, the sales in that district must be given an extra stimulus, of which more will be said below. Occasionally it will be found that the cycles in a given part of the country may require special equipment, and everything must then be done to satisfy the consumers as far as possible.

The Sales to the Retailers

The retailers must be provided at the proper times with a sufficient number of price lists neatly arranged and easily understandable, spare parts and accessories. An ample supply of attractive publicity matter and pamphlets should also be provided. It is likewise advisable to provide material for display, e.g., in the form of parts of cycles in various stages of manufacture, wall charts illustrating—pictorially and in figures—loading and other tests to which the parts are subjected. Suitably drafted announcements of the awards won at exhibitions at home and abroad by the particular make of cycles, and information regarding

Government (Army, Post Office, etc.) contracts obtained in competition with other makers, might also be used with advantage. The retailers should, of course, be called upon regularly by well-informed salesmen, and should be given opportunities to visit the factory where the cycles are made, if possible, in order to see all the processes there. Such visits to the factory have an excellent effect, and obviously the visitors should be treated as the highly esteemed collaborators of the manufacturer, and suitably refreshed after what may have proved a tiring walk around the works, listening to talks about the product.

Advertising in the trade papers published by the Retailers' Organization is also to be recommended; for, even though this may not reach the public to any very great extent, it is a good way of giving the retailers news from the works and information on the products. The retailers, moreover, naturally like to have the manufacturer support their trade paper by advertising in it.

Measures to Influence Consumers, in Order to Facilitate the Task of the Retailers

In the first place, this is done by advertising in the press—in daily and weekly papers, and in certain trade papers. This campaign should be planned by a competent publicity agent, and it is most important that the advertisements be really first class. As the best season for selling cycles to the public is from April to June, the campaign is centered around these months. The advertisements should state that price lists and pamphlets can be obtained free on request. Any inquiries received in this way are dealt with by dispatching to the prospective buyer the printed publicity matter, accompanied by a letter referring him to the nearest local retailer. The manufacturer communicates with the retailer at the same time, encouraging him to get into touch with the "prospect" forthwith. Formerly, manufacturers used to insert in their advertisements the names of all their retailers in the district where the paper circulated; but in recent years this method has been employed much less than formerly, as the retailers did not always like to have their firms mentioned together with a number of other retailers. But a retailer, naturally, has no objection to having the manufacturer advertise the name of his sole representative in a given district, and that method may be particularly effective for increasing sales in that particular district. Another method, which has lately been used on a rather large scale, is what in Sweden is called "direct propaganda," where the manufacturer distributes suitable publicity matter to a large number of private individuals either by post direct or as inserts in newspapers. Another practice that is increasingly favoured is to present the buyer of a cycle with some small object, such as a flag bearing the manufacturer's name, a tie pin with his brand, or the like. This is usually appreciated, especially by the younger generation. A mascot for the cycle is considered nowadays almost an essential accessory, and is also given away free by the manufacturer. It is also advisable to make sure that the publication of the annual price list as well as that of pamphlets and other more valuable advertising matter supplied by the manufacturer (e.g., maps showing suitable cycle tours, or the like) is given publicity in the newspapers.

A practice which has long been adopted to stimulate

the demand for a certain make of cycle is for the manufacturer to present cups or other prizes for cycle races, thus gaining a certain amount of popularity, which also benefits the retailer.

Steps to Stimulate Interest in Cycling, in Order to Increase the Total Sales of Cycles in the Country

As early as 1907 a number of Swedish cycle manufacturers and large wholesale merchants formed an association for the purpose of promoting the interests of the members. This association still exists. The members cooperate in several ways, but it was only 6 or 7 years ago that joint, rationally organized action was suggested to promote interest in cycling in the whole country, so as to increase the sales of cycles. Some members of the association pointed out that in Denmark and Holland, for instance, many more cycles were sold in relation to the size of the population than in Sweden, and it was considered that matters might be mended by suitable propaganda. A considerable amount of money was allotted for this purpose, and even though the costs of this propaganda have in recent years been comparatively high, the burden was not felt too seriously when divided among all the 25 or more members of the association. This joint propaganda has had excellent results, and the turnover of cycles was soon doubled, without the slightest doubt largely owing to this propaganda, though other favourable circumstances have also contributed. This joint propaganda once decided upon, several steps were immediately taken. A skilled and influential journalist, who was also an ardent cyclist, was engaged, and with his help several prominent and well known people in many walks of life were induced to write newspaper articles on the pleasure and advantages of cycling. The authors were all cycling enthusiasts, and included prominent doctors, teachers, scout leaders, professional women, etc., who pointed out eloquently how refreshing and health-giving cycling actually is, and what excellent recreation was here available at small cost. Nor was it neglected to point out in well written newspaper articles the excellence of the cycle as the cheapest of all conveyances. The advantages of the cycle from various points of view had already been emphasized in the advertisements of the different firms, but it was soon realized that newspaper articles of this kind had a much greater effect as far as increasing public interest in cycling was concerned than advertisements. After a time cycling actually became the fashion in all classes of society, and its popularity has since increased year after year.

Another step taken by the Association was to send a skilled road engineer abroad, primarily to Denmark, Holland, Belgium, and Germany, in order to study road conditions and to discover what was being done to promote cycling there. His report on what he had seen and learnt indicated that these countries were doing quite a lot in the interest of cyclists. Special cycle paths had thus been extensively made along the highroads, a thing which was then almost unknown in Sweden. The Association now began to work energetically for the construction of such cycle paths in Sweden also, and these efforts have met with a not inconsiderable measure of success.

With the same object, the Association has also worked for the preparation of cycle lanes, that is to say narrow roads particularly suitable for cycling. In conjunction with the Tourist Association, the Association has also published maps of most counties in Sweden, on which the roads particularly suitable for cycle traffic were marked. Coöperation has also been established with the Cycle Federation of Sweden, which through its affiliated clubs arranges cycle competitions all over the country. To make the propaganda for cycling even more effective and rational, about 3 years ago the Association took part in the formation of the National Cyclists' Association, which now handles most of the general propaganda. This association is supported financially by the Association of Manufacturers and Wholesale Merchants, and its committee includes a number of prominent people particularly interested in cycling and open air life in general. The National Association in its turn has formed local associations in all parts of the country, the members of which all help in the work.

The statutes of the National Cyclists' Association list the following objectives:

To be a nation-wide association to promote the interests of all who use the cycle as a conveyance or for tourist and sporting purposes;

To work for a wider use of the cycle;

To coöperate in the continuous efforts of the Swedish cycle industry to produce good, suitable, and cheap cycles.

This Association has its own offices in Stockholm, with a requisite staff which directs the movement.

Among the advantages offered members by the Association may be mentioned:

Cycling hostels all over the country, where cheap quarters can be obtained.

Reduced prices at all the tourist stations established by the Association for promoting skiing, which for a number of years has worked for the extended use of skis.

Free advice and information from the Tourist Department of the Association on the subject of tours in Sweden and abroad.

Cheap tours in the different countries of Europe.

The paper "Cyklisten" (The Cyclist), edited by one of the foremost journalists of Sweden, who himself has long been, and still is, an ardent cyclist.

In the foregoing paper I have tried to give an account of the sales organization of a cycle works, and the various means and methods employed to make this as effective as possible. I have dwelt at length upon the general propaganda for cycling, since this has had results beyond expectation, and because I have thought that the methods adopted might be of some interest.

Finally I would like to add that a sales organization that has proved suitable for cycles, and the means used to increase the popularity of cycling, naturally, cannot be considered generally applicable to all branches of industry. On the contrary, it must be clearly understood that other branches demand other types of organization, and that these should be prepared with due consideration for the peculiar circumstances of, and based on the experience gained in, each particular branch.

Modern Methods of Sales Promotion

JOHN CAMERON ASPLEY*

SUMMARY

A common criticism of our present system of distribution is that it involves sales wastes which needlessly add to the price the consumer must pay for goods. Contributing to this high cost of selling are: (1) Multiplicity of salesmen, (2) destructive competitive methods, (3) high-pressure selling, and (4) too high a percentage of ineffectual sales calls on the part of salesmen. It is the task of modern sales promotion to take up this lost motion and bring down the cost of moving goods from the factory into the channels of consumption.

Modern sales promotion is an educational process which begins where mass advertising leaves off, and stops where personal selling begins. It has three primary objectives: (1) To locate and create new markets for a product to make mass production possible, (2) to concentrate sales among fewer customers by making present customers more successful, and (3) to increase sales call efficiency and reduce lost motion in personal selling. By doing these three things, the kind of sales promotion we are discussing actually cuts the cost of selling, makes lower prices to the consumer possible and thus raises the standard of living.

Sales promotion is one of the newest devices to be employed in modern marketing. Originally, sales promotion was an appendage of advertising. It has grown in stature until it now includes a wide range of sales activities such as lecture bureaus, educational trailers, promotional films, sales training courses, store displays, dealer meetings, sales contests, salesmen's portfolios and manuals, sales promotional letters and bulletins, and numerous other devices used in selling to support the salesman and to make his work more productive.

THERE is probably no instrument of marketing which has undergone such radical changes, both as to usage and technique, as what we loosely think of as "sales promotion." It has developed more rapidly than any other selling device, and consumer skepticism of advertising, now prevalent, assures it an increasingly important place in distribution. It is, therefore, a subject to which this Congress may well give thoughtful consideration, for it holds the answer to many of the problems now baffling distribution engineers.

What is sales promotion? Why do we differentiate between the old and the new concept of sales promotion? In the beginning, sales promotion was an appendage to advertising. It defined such routine operations as answering inquiries, preparing the sales bulletin, and putting displays in dealers' stores. That was in the days when we used to talk about "using advertising to 'force' demand"; when a few thousand dollars spent for consumer advertising got dealers quite excited over the people that would throng to their stores.

But those days have gone—gone with the wind. National advertising is still a powerful force for influencing consumer acceptance. But it no longer gives the dealers chills and fevers. They take a rather "ho-hum" attitude toward such sales ballyhoo. It became classed as high-pressure salesmanship of a most vicious kind. And as a result, we still hear criticism of the high cost of selling, and how it deprives consumers of the benefits

they should have from decreased production costs. Merchants and dealers complain that too much of their time is spent "fighting off" salesmen. We built a top-heavy selling structure and it is highly vulnerable.

Suppose we pause for a moment and examine this structure within which today's goods are being marketed. Unless we see this picture clearly, it is difficult to put sales promotion in its proper place, and to utilize it fully in our effort to reduce marketing costs. When we look at this structure we are immediately confronted with several cock-eyed and very wasteful practices which have grown up in marketing—practices which must be placed squarely at the door of shortsighted business management. They are as follows:

1. With the increased need for volume, since the ending of the World War in 1918, we have tended to think of the selling process more and more as a means of *getting* orders, and less and less as a means of *giving* service.

That fallacy has led to the rise of selfish, shortsighted competitive practices which add to the cost of getting business, but add nothing at all to the total net return to society.

2. There has sprung up the so-called "manpower" theory of selling, the basis of which is that the more salesmen you can keep at work, the more business you will get. The cost of operating these men has been generally disregarded on the theory that over a period of time their efforts will open new markets.

That fallacy has led to profitless and anti-social selling, the exploitation of salesmen by an abuse of the straight commission system. It

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has brought about great duplication of sales effort and the wasteful practice of too many salesmen calling for one order.

3. There are certain lines of business which have overlooked the fact that sound selling is 80 per cent educational, and have proceeded on the theory that it is almost entirely persuasive. It is the belief of this group that a good salesman can sell anything to anybody; whether the prospect needs what he is selling, or can pay for it, is not considered.

That fallacy is the daddy of "high-pressure" selling. It is highly objectionable and wasteful. It undermines customer relations and, in time, will rob the business of its greatest asset—the public's good-will.

4. In some merchandising lines, salesmen are encouraged to go out and steal competitor's accounts, regardless of cost. Instead of spending time to create new business, they use it to tear down the business another has built.

That fallacy has given rise to many short-sighted practices which are both uneconomic and, in the long run, unwise. They needlessly contribute to the cost of selling, and give nothing in return.

Now modern sales promotion, as we are considering it here, is, or should be, a corrective for these abuses which have crept into distribution. It proceeds on the theory that creative selling is *educational* in its function. It undertakes to lift that educational job from the shoulders of the salesman and thus enable him to devote his time actually to closing orders. It regards distribution more as a buying function than as an order-snatching operation, and operates to make it easier for the prospect or customer to buy.

It reaches out and locates new markets for the salesmen. It creates and safeguards customer good-will for both salesmen and the business. It educates both salesmen and distributors in the BETTER ways of selling the products of a business, and stimulates them in making the fullest possible use of that knowledge. In short, it does everything that needs to be done in making it easier for potential customers to buy except to create *mass acceptance* for the product or service. This function belongs to advertising rather than sales promotion.

Thus we see that sales promotion, in its broad, modern sense, is the connecting link between mass acceptance for a product or service, created through advertising, and the securing of the order by the salesman. By assuming some of the functions formerly associated with advertising and some of the functions expensively performed by salesmen, sales promotion has brought about a definite reduction in selling costs. But, as yet, its function and possibilities are only vaguely understood by management. Comparatively few managers are awake to the great opportunity it offers to those who have a selling problem, where the education of the salesmen, the distributors and the consumers plays an important rôle.

Application to Varied Sales Uses

One of the difficulties of discussing the applications of modern sales promotional methods is that they neces-

sarily must differ as the sales problems of the business differ. Thus, the methods that will prove most effective for a company selling its products through salesmen directly to the user, let us say, for example, an internationally known manufacturer of office equipment, will be quite different from those which would do the best job for a company that sells its products through dealers, as in the case of one of the large packers.

Again, the methods that would be required to promote sales for a company selling its products direct to industry for fabrication would be different from those which would best serve a manufacturer of lubricating oil used in industry. But, regardless of the nature of the business, the sales promotional activities of all companies should have one common foundation, one common purpose, and that is to make it easier for *people to buy a product*. The better the job it does in that connection, the less it will cost to market the products and the more value can be given the customer. That greater value, in turn, will cut sales resistance further and increase sales volume and profits.

In order to show exactly how this process can be started, it might be well to cite a few examples of effective sales promotional undertakings. All of these, of course, conform to the modern concept of sales promotion. They are cited, not to glorify any company, but to illustrate the practical use to which this modern marketing tool can be put.

Creating New Markets for a Product

One of the most constructive forms which modern sales promotion has taken is creating new markets for a product. Here is a use for sales promotion that has untold possibilities for development. A good example is the travelling "Parade of Progress" instituted by one of the largest manufacturers of automobiles—a cavalcade of trucks which toured the country and brought to millions of small-town people a new appreciation of modern conveniences in the home and on the farm.

This pageant compared favorably with any circus. Circus procedure was followed in booking and promoting it. The trucks were specially built. When the caravan got on the lot, two or three trucks were telescoped together in such a way as to permit a stream of pop-eyed natives to go through them. They saw, side by side, for example, the kitchen of grandmother's day and the kitchen of today. It made all who saw it *want* the modern kind of kitchen. It made them dissatisfied with their old-fashioned icebox, with their antiquated coal stoves, back-breaking laundry methods. It created the *want* which must be the first step to every sale. And the thousands of people who were thus made to want the better things became a *new* market for those things, not merely the home appliances, the Diesel engines and the automobiles made by *this* company, but the products made by *other* manufacturers as well.

The same basic principle has been used in a small scale operation by a well known manufacturer of bookcases which prepared and circulated a list of the hundred best books ever published. The thought was that by getting more people interested in improving their minds and acquiring a library, more bookcases would be sold. Another case: Some years ago a company manufacturing

steel wire spent a good deal of money encouraging farmers in the Southwest to grow Kaffir corn. What did Kaffir corn have to do with wire? In order to use the corn, the farmers needed live stock. You have to fence live stock, and fencing is wire.

Now, note in each example cited that the business was *created*. And in all instances the sales promotional methods used rendered a definite service to the buyer as well as to the seller.

Making Present Customers Larger Buyers

That same service principle, which is the very essence of a constructive sales promotional effort, is also found in the methods used to expand an existing market by making present customers more successful.

More and more companies now realize that their best bet for increased sales volume lies not so much in adding new dealers as it does in helping present dealers to do a better selling job. They know that when they can help a dealer to double his total business, through the use of better methods, it is inevitable that his sales of their particular products will double too. Success begets success. And those manufacturers who follow this policy are eventually able to concentrate their distribution in the hands of strong, successful customers, who can be depended upon to put real sales effort behind a product, who will pay their bills, and who are financially able to carry on through a depression or a recession.

This sound and fundamental use for sales promotional effort usually takes the form of sales training programs for dealers and their clerks, store displays, advertising co-operation, credit coöperation and helping customers in every way possible to be better merchants. The opportunities for this constructive type of sales promotion are unlimited; the good which can be accomplished is unsuspected by most manufacturers and wholesalers. It is, indeed, a veritable acre of diamonds in the front yard of every company which markets through established trade channels. It produces increased sales volume and, at the same time, reduces sales costs.

An effective example of this kind of sales promotional job is being done by a company in the building supply field. It is called the "Guild Plan." The plan focuses all the sales promotional forces in the industry behind the retail lumber dealer. These forces include the manufacturer, the contractor, architect, realtor, newspaper and the financing agency. Joint schools are conducted in each locality for the purpose of showing the lumber dealer and his salesmen how to *create* building business. Complete selling kits are furnished to these salesmen, including estimating books, handbooks for the dealer's salesmanager, sales manuals for the salesmen, and numerous other selling helps.

Again we have an example of farsighted promotional planning. By teaching the dealers to use creative selling methods, this company promotes the welfare of the entire industry. It is not spending money to teach these dealers' salesmen how to sell its own products and displace another company's products, but puts the emphasis on creating business which had not previously existed.

Increasing Sales Call Efficiency

Another beckoning field of opportunity for modern sales promotion lies in multiplying sales call efficiency.

It is an established fact, proved by numerous tests, that under present conditions the average salesman spends less than 20 per cent of his time face to face with prospects. It is also a fact that approximately one-half of the time thus spent by salesmen is given over to creating confidence and establishing acceptance for both the company and the product. Here we have a glaring loss of efficiency. It equals approximately 90 per cent of the direct selling cost. It is a tax on buyers of millions of dollars annually. The right sort of sales promotional effort, intelligently directed, can do much to reduce that waste and to make the efforts of salesmen more productive.

To illustrate: The dictaphone salesman must not only sell the office manager who usually initiates the purchase, but also the executive who okays his recommendation, and the purchasing agent who gives him the order. He must have the support of every executive and every stenographer in the prospect's office. It is a task that takes a great deal of a salesman's time. It calls for a very complex selling technique. And it costs a lot of money.

That cost was sharply cut by use of a sound picture entitled, "Two Salesmen in Search of an Order." It was a picture unselfishly broad in its appeal. It embodied principles of good salesmanship which applied to selling any specialties. Thousands of companies were glad to arrange with dictaphone salesmen to show this picture to groups of executives and, in that way, the picture did in thirty minutes what it took a salesman weeks to do, and it did it more effectively. It got over a sales message indirectly.

The Use of Door Openers and Sales Helps

In house-to-house selling, the great waste lies in ineffectual calls; that is, calls that do not result in interviews. How does modern sales promotion grapple with that problem? By providing salesmen with some inexpensive, but useful, novelty which they present to the woman of the house when she comes to the door all primed to tell the salesman she is not interested in whatever it may be he is selling.

The salesmen of a roofing and insulating company use a needle card for that purpose. "Our men would rather have us discontinue all our advertising and all our other sales helps rather than to discontinue door openers," the sales manager of this company recently told the writer. A company manufacturing brushes and another manufacturing hosiery are two others on the list of direct selling companies which have been able to cut down the percentage of "turn-downs" by the use of sales promotion helps. Here is a type of service selling that has untold possibilities. One of the fundamental troubles with today's sales activities is that they are concentrated too much on getting.

The foregoing are just a few of the methods by which selling prices are being reduced and the cost of distribution controlled through sales promotion. Time will not permit our going through the list. It is much too long. However, a chart accompanies this paper. It attempts

to catalog methods in common use and to show the sales promotional objective each method is especially well qualified to accomplish.



Conclusion

In concluding this paper, I should like to point out a pitfall into which many sales promotional ventures fall. They are not sufficiently practical. More testing of sales promotional plans and materials should be done in the field before they are adopted. Take the matter of salesmen's "props" for example. There are thousands of dollars spent every year for portfolios, sample cases, etc., and it is safe to say that only a small percentage of the salesmen to whom they are furnished make full use of them. Most of those who do use them, use them badly. They use them for a crutch instead of a crowbar. Or, take the matter of dealer helps—some companies spend large sums annually for displays and materials for use by dealers, but never check up to find what percentage of them gather dust in a back room or basement.

The best sales promotional program ever devised is money wasted unless it meets the field test. It can't be cooked up in a swivel chair and expected to work. Yet that is exactly how most sales promotional programs are developed. It is not only necessary to fit the plan to the practical needs of those to whom it must appeal, but it must be sufficiently flexible so that it can be quickly adapted to the changing moods of buyers, and changing conditions in business.

With that word of caution, it is the well-considered opinion of many of the foremost marketing men of today that sales promotion, which started as the tail on the advertising dog, is destined to wag the dog in the not-distant future. The possibilities for its use in short-cutting the selling process and in getting over the many hurdles that confront marketers today are tremendous. The future holds opportunities that are beyond our ability to imagine. So those of you who are concerned about the high cost of moving your products into the channels of consumption will find nothing so fruitful, or so pregnant with cost-cutting possibilities, as this thing we vaguely call "modern sales promotion."

The Coördination of Advertising and Sales Promotion

C. B. LARRABEE*

SUMMARY

Because of the frequent jurisdictional disputes that arise between advertising departments and sales promotion departments it is becoming increasingly important that a clear separation of the duties of the two departments be worked out. Generally speaking, we find, after a study of the policies of more than 100 companies, that advertising department duties are those that apply to advertising to the consumer without any intermediary.

Sales promotion duties apply to the preparation and distribution of advertising to a company's salesmen and distributors and to the consumer *through the distributors*.

Because the duties of the two departments are bound to conflict, there are certain borderline tasks that may be allotted to the sales promotion department in one type of organization and to the advertising department in another type.

In order to help manufacturers clear up jurisdictional troubles a special chart has been prepared which outlines, first, duties that most companies consider should be performed by the advertising department; second, those which most companies allot to the sales promotion department and, third, borderline duties which are allotted according to the type of organization being considered.

IN THE large or medium sized business organization departmental jealousies inevitably lead to bitter jurisdictional disputes unless department lines can be pretty definitely determined. As a great many business men know to their sorrow, jurisdictional disputes are time wasting and money wasting and frequently create conditions of internal discontent that can become a serious tax on the efficient operation of a business.

Because business organizations are made up of men, jealousies between men and departments are bound to arise. However, in that organization where there is a clear separation of functions and where there is a clear line of demarcation at every point where one man's or one department's duties are likely to impinge upon those of others, costly and time wasting jurisdictional disputes can be to a great extent avoided.

It is because of this condition that so many large organizations have carefully worked out functional charts for departmental guidance in performing duties. In no phase of modern business is it more important that there be a clear understanding of the lines that separate one department from another than there is in the fields of advertising, sales and sales promotion.

To understand the reason why there is such a necessity for a clean separation of functions of advertising, sales promotion and sales, we must understand a little of the history of the development of sales promotion.

As short a time as twenty-five years ago there was little confusion between sales promotion and advertising functions. At that time most, if not all of the functions now performed by sales promotion departments were carried on either by advertising or sales departments.

However, in the great era of post-war prosperity, which ended so abruptly in 1929, distribution functions grew more complicated rapidly. One cause of this complica-

tion was the recognition on the part of the manufacturers that the retailer was in many respects the most important link in the chain of distribution. Dealer support of the product became essential. Furthermore, manufacturers learned that if they could create plans that would help the dealers move merchandise, then dealers would be more likely to favor the products of that manufacturer who helped them most.

As a result, more and more effort was directed at the dealer; first to sell him and, second, to help him sell the consumer. Visual evidence of this is the tremendous increase of advertising in business papers.

During this same period there grew up a keen appreciation of the importance of advertising to the salesman and of the salesman to advertising.

In most businesses advertising had always been looked upon largely as a question of selling merchandise to the consumer. To be sure, business papers had carried a reasonable volume of advertising and the importance of the dealer in the distribution chain was recognized. Yet before the rapid development of sales promotion work as we now know it, large national advertisers were fairly content to put the chief emphasis on their consumer advertising and to look upon work with their salesmen and dealers as secondary.

When many companies found that this work ranked equally with advertising to the consumer, the problem of the advertising department became greatly complicated.

When and where the term sales promotion first arose is difficult to determine. All good advertising is designed to promote sales. Therefore under a broad definition of the term advertising itself is sales promotion.

On the other hand, most good sales promotion, as the term is used today, is advertising.

Somewhere, however, there grew up in some organizations the necessity of differentiating between the company's conception of advertising as largely a consumer

* The Printers' Ink Publications, New York City, U. S. A.

problem and this other activity which is a dealer and salesman problem. In looking for a term, somebody found the words "Sales Promotion" and they seemed to fit the case so aptly that they became popular.

Thus, in many companies today are found two separate departments, performing different functions and yet with one purpose; namely, to move goods into the hands of consumers.

It is obvious that the work of the sales promotion department and the work of the advertising department are bound to touch at a number of points. In fact, any study of the merchandising operations of a number of large companies shows strikingly how frequently the two departments are likely to meet each other.

Therefore, there has grown up a considerable confusion concerning the differences between advertising and sales promotion and the separation of the functions of advertising departments and sales promotion departments.

Recently PRINTERS' INK completed a study of the sales promotion and advertising operations of more than 100 medium sized and large manufacturers. One result of this study was to show that seldom do two companies separate sales promotion and advertising functions in the same way.

Another result of the study was to show the vital necessity of preparing some kind of chart which would first, indicate strictly advertising functions; second, indicate strictly sales promotion functions; and third, indicate those borderline functions where the work of the two departments meets.

A closer study of the subject showed that in no company is the sales promotion department completely performing the duty implied by the name, except in those rare cases where a company has no advertising department *per se*.

Yet, in spite of the fact that sales promotion work is functionally largely either part of the advertising department's work or that of the sales department, today in many companies the sales promotion departments are taking on primary importance. Indeed, frequently the sales promotion department is vastly more important than the advertising department.

When the results of the present study and of a similar study made on a smaller scale five years ago were examined, it was found that sales promotion departments are growing in importance and power.

In some companies a few years ago the sales promotion departments were subordinate to the advertising department. Today they stand on equal footing on the organization chart. Indeed, in some cases the sales promotion department and its manager have supplanted the advertising department and its manager in importance.

In a number of companies today the advertising manager and the sales promotion manager report on equal footing to a higher officer, who may be a sales manager or, in some cases, the president.

In the latter instances we find that advertising, sales promotion and sales departments are on equal footing.

Although in some cases such an arrangement apparently works satisfactorily, there is a tendency today to seek another solution. Some companies feel justly that there should stand between the president and the three departments a coördinating officer with some such title as "Vice President in Charge of Marketing."

This is a logical development since the greatest efficiency

of merchandising can only result when the three departments' work is properly coördinated. The individual managers may jockey back and forth for preference, but over them always is an office, not at the top of the chart, but between the chief executive and the three departments.

In some companies we find the advertising and sales promotion managers on a separate footing reporting to a sales manager. This is usually a satisfactory method of operation since the sales manager efficiently operates as a coördinating officer.

In a number of companies the sales promotion and advertising departments have been merged into a combination department known as the "Sales Promotion and Advertising Department." In such cases the head of this coördinated department usually carries the title of "Sales Promotion Advertising Manager." Sometimes he is on equal footing with the sales manager, reporting to the president. In one or two cases the two officers report to an officer in charge of marketing. In some cases the sales promotion advertising manager is subordinate to the sales manager.

Frequently where the functions of advertising and sales promotion have been combined in one department, the sales promotion and advertising manager has under him two sub-executives, one in charge of advertising and the other in charge of sales promotion.

It is obvious that all of these variations are designed to accomplish a single purpose; namely, to avoid jurisdictional jealousies that are likely to arise when advertising and sales promotion are carried on by two separate departments not reporting to a common marketing head.

While it is probable that no separation of functions can accomplish the removal of jurisdictional disputes, there is no doubt that the general feeling among outstanding merchandising companies has been that the waste of time and money due to such disputes must be minimized.

With this idea in mind, many companies not only have worked out a more satisfactory method of placing the sales promotion and advertising departments' proper place on the organization chart, but have also tried to put hedges about the fields of advertising and sales promotion. The chief purpose of the PRINTERS' INK study was to determine, if it is possible, to prepare a functional chart which will aid manufacturers in cutting down the danger of jurisdictional disputes. After carefully considering the problems of the more than 100 companies studied, we decided that such a chart could be prepared. It is not perfect but it does, for the first time, chart sales promotion and advertising duties, separate them, and gives at least some elementary guidepost along the road to more efficient operation.

A copy of the chart is attached to this paper and the rest of the paper will be taken up with comments on the chart, comments based on an observation of a great many sales promotion and advertising operations.

In preparing the chart we soon discovered, as has been pointed out earlier in this paper, that scarcely two companies made the same separation of functions.

The problem then was to set down the various functions and then determine what might be called general practice in allotting them functionally.

Frequently we found that what frequently seemed to be the wrong allotment of a function was due to organiza-

tional needs. Thus, in one company it might be perfectly logical to place a strictly sales promotion function under the jurisdiction of the advertising department due to a peculiar method of operation. In such cases, when the reason was made clear, the case was set down as an exception and not considered in the general weighting.

We soon discovered that it was not a very difficult job to separate most of the functions of the advertising department. Such things as supervising the buying of space in consumer publications, the preparation of many forms of consumer advertising and other activities were obviously advertising department functions.

On the other hand, there were a number of sales promotion functions that were just as obviously restricted in nature.

It was in the allotment of borderline duties (that is, duties that may logically be allotted to either the sales promotion or the advertising department) that the greatest difficulty was found. Where standard practice was not clear and where it was quite logical to put a function under either department heading, that function was put in the borderline section of the chart. It ought to be emphasized that this borderline section is made up of duties that can be allotted wisely only after a study of a particular organization. There is, of course, no such thing as a strictly borderline duty in any particular organization. Management must decide where the line of demarcation comes.

For the purposes of the chart, however, we placed a number of functions in the borderline classification, because in some companies they can quite logically be performed by the sales promotion department while in other companies they can with equal logic be performed by the advertising department.

Thus, in a company that is sales promotion-minded, the sales promotion department will be allotted the majority, if not all of the borderline duties. On the other hand, in an advertising-minded organization these same duties almost automatically are given to the advertising department.

As a general thing, the strength of the department, that is its importance in the eyes of the management, almost always depends upon the distribution set-up of the company. Thus, for instance, a company selling electrical household appliances places a great deal of emphasis on working with dealers, which is, of course, largely a sales promotional function. In this company, and in a number like it, we found that the sales promotion department, being stronger than the advertising department, gradually absorbed not only most of the borderline duties, but, in several cases, had absorbed some strictly advertising duties.

Nor did this latter fact mean that these companies were not operating efficiently. Again it ought to be emphasized that occasionally a wrong functional allotment may be a correct organizational allotment. This is a point which is frequently overlooked and such an oversight is very likely to lead to serious jurisdictional disputes. Indeed, we found that in many cases jurisdictional disputes are decided too often on theory rather than on a realistic study of facts.

Examination of the charts shows that as a general thing advertising departments supervise all advertising material which is directed at the consumer but does not go

through wholesale or dealer channels. On the other hand, the sales promotion department handles those advertising activities which go through the dealer and the wholesaler.

The borderline duties are those where the function of the advertising material cannot be so well defined.

The study indicates that most of the borderline duties can be allocated only after a determination of their primary function in the distribution scheme of a particular company.

In closing this paper it is essential to emphasize and in some cases restate certain points.

First, this chart is not theoretical but is based on the actual practices of more than 100 companies.

Second, the chart is not all-inclusive, in that it does not list all of the duties carried on under the name of advertising or sales promotion. In fact, among more than 100 companies studied we found occasionally duties allocated either to the advertising and sales promotion departments which by no stretch of the imagination were advertising or sales promotion activities. These were arbitrarily eliminated from consideration because, although it is true that in some companies they are considered advertising and sales promotion duties, the fact remains that they are not logically so and their inclusion on the list would be confusing.

Third, the chart demonstrates clearly how the sales promotion department stands between the advertising and sales department and impinges on both. This is an important fact in settling jurisdiction now confusing.

Fourth, it should be re-emphasized that probably not one of the companies studied would separate advertising and sales promotion duties just as they are separated in the chart. The chart in that sense is an ideal one but by the very fact that it does not represent the practice of one company, it is all the more likely to represent logical standards of practice.

Fifth, under present conditions in the field of distribution it is probably impossible to set up rigid standards for the allocation of functions such as are covered in this chart. However, this study, as compared with a study made several years previously, indicates that management is rapidly working toward a solution of the vexing jurisdictional problems that arise or the advertising and sales promotion departments clash functionally. The steady trend toward the merging of advertising and sales promotion departments is coming. The fact that in more and more companies a single marketing head is being put over the two departments indicates clearly what the trend will be.

After all, as was pointed out earlier in this paper, all advertising by strict definition is sales promotion just as all sales promotion is advertising. Thus in the long run there is no essential conflict between advertising and sales promotion departments because basically they are the same.

CHART SHOWING THE SEPARATION AND ALLOCATION OF ADVERTISING AND SALES PROMOTION DUTIES

Advertising Duties

Preparation of the advertising budget.

Supervision of the preparation and purchase of space in

Newspapers

Magazines

Radio
 Business Papers
 Industrial Publications
 Farm Papers
 Religious Papers
 Class Journals
 Car Cards
 Posters
 Theater Programs
 Outdoor Advertising
 Window Displays
 Counter Displays
 Novelties
 Booklets
 Directories

Supervision of the preparation of cards and labels, preparation of catalogs, preparation of package inserts, preparation of motion pictures (including talking pictures when used for consumer advertising).
 Preparation of consumer samples.
 Supervision of Copy Testing.
 Preparation of consumer house organs.
 Supervision of improvements of packages, labels, tags, display cartons.
 Supervision of trade-mark design.
 Purchase of paper, art work, engravings, mats, electros and other materials used in advertising (except where agency does such detail and advertising department approves).
 Preparation and maintenance of files of advertising material, scrap-books of same, etc.
 Supervision of purchase of space in all recognized media (if we want, we can include material from Black-White and Gray List).
 Analysis and study of competitive advertising.
 Wrapping and distributing advertising material.
 Contact with the advertising agency.
 Preparation and maintenance of mailing lists (that apply to advertising work as separated from mailing lists prepared and maintained by the sales promotion department).
 Purchase of office supplies and fixtures for advertising department (except where purchasing department does this).
 Advertising accounting work (in addition to work carried on by regular accounting department).
 Cooperation with engineering and/or production department in developments that will affect advertising.
 Sales convention work to explain reasons for and values of advertising and to present advertising plans (as distinguished from more detailed convention work often carried on by the sales promotion department).
 Preparation of advertising exhibits for sales conventions.
 Development and preparation of advertising portfolios for salesmen (except where these are almost entirely made up of promotion department material).
 Preparation of advertising material directed at company's personnel.
 Sales analysis work to determine where best to carry on special advertising effort.
 Analysis of dealer and distributor media advertising (in cooperation with sales promotion department).
 Individual dealer and distributor correspondence on advertising matters.
 Cooperation in preparing annual report (where company makes report something more than a balance sheet).
 Cooperation with other department on public relations work.
 Choice and purchase of consumer premiums.
 Representing the company in associations or other organizations devoted to advertising.
 Supervision of testing bureaus where results of work are used for advertising purposes.
 Preparation of purchase and display signs on the factory or office building.
 Checking and maintaining record of advertising returns.

Sales Promotion Duties

Preparation of direct mail done by dealers and distributors.
 Preparation and/or checking of lists for dealers or distributors.
 Preparation of folders or pamphlets for statements.
 Preparation of folders or pamphlets for counter distribution.
 Preparation of complete mail campaigns.
 Preparation of new customer letters.
 Preparation of lost customer letters.
 Plan and supervise motion pictures (for dealer or distributor effect).
 Preparation of permanent display stands (as opposed to perishable display material).
 Preparation of dealer identification signs.
 Cooperation in the issuance of house magazines:
 A. Internal
 1. Sales
 2. Employee
 B. External
 1. Dealer
 Purchase of paper, art work, engravings, mats, electros and other materials used in sales promotion.
 Preparation of dealer samples.
 Preparation of advertising automobiles.
 Preparation and maintenance of files and scrapbooks, etc., of promotion material.
 Sales promotion accounting work (in addition to work done by accounting department).
 Purchase of office supplies and fixtures for sales promotion department (except where purchasing department does this).
 Maintenance of mailing lists (that apply to promotion work).
 Preparation of the sales promotion budget.
 Exchange of experiences within far-flung parts of large organizations.
 Cooperation with engineering and/or production departments in developments that will affect promotion duties.
 Experimental sales work. This means actual selling in the field to test the effects of certain promotion plans.
 Handling of sales training courses for
 Company salesmen } Done under supervision of sales de-
 Distributors' salesmen } partment.
 Sales training in the field (where not done by representatives of sales department).
 Cooperation with sales department in following through individual dealer inquiries.
 Sales correspondence (where not handled by sales department).
 Keeping of sales records (where not handled by sales department).
 Development of salesmen's portfolios (except where these are largely advertising).
 Development of visual sales presentations.
 Preparation of sales bulletins (where this is not done by an assistant sales manager).
 Preparation of salesmen's sample cases (where not done by sales department).
 Development of salesmen's display material.
 Work with sales department to prepare material for sales conventions (except advertising exhibits).
 Salesmen and dealer training—Programming of meetings instructing in product and how to sell.
 Informing salesmen of new equipment, new product, etc., (where not done by sales department).
 Securing and arranging data by which sales quotas can be assigned.
 Special analysis work of customer problems too complicated for individual salesman to handle.
 Coordination of programs and itineraries of traveling representatives from home office to branches so there will be no overlapping or back tracking of effort.
 Contacting of dealers in matters other than sales.
 Contacting of distributors in matters other than sales.
 Dealer and distributor adjustments (where not handled by sales department).

Planning distributor and dealer contests.
 Educational work among dealers' salespeople.
 Working with dealers on customer control systems.
 Arrangement for distribution of films among dealers and distributors.
 Individual dealer and distributor correspondence dealing with promotional matters.
 Analysis of dealer and distributor direct-mail advertising (sometimes in coöperation with advertising department).
 Liaison work for distributors and their dealers—as (see Neva-Wet letter) between licensees and dealers.
 Guidance of trade relations through
 Education
 Trade Associations
 Meetings
 Product Information
 Preparation and supervision of product exhibits in trade meetings.
 Preparation and supervision of product exhibits in dealers' stores.
 Planning and supervision of demonstrations (except salesmen's demonstrations).
 Helping dealer with his advertising budget.

Sales Research.
 Analysis to determine new product needs.
 Sales analysis to determine where best to carry out promotion effort.
 Analysis of accounts, new and lost, to determine promotion effort.
 Development of sales facilitating services, such as time payment plans.
 Maintenance of unit sales records for individual products.

Corresponding with home demonstration agents and home economics teachers.
 Planning and supervision of exhibition of product in branch houses.
 Preparation of material for trade shows.
 Handling of trade show space where sales department does not take over function.
 Contact with competitors.
 Study and analysis of competitive products from the standpoint of product improvement.

Contact with trade associations whose members sell company's products.

Borderline Duties

Production of direct-mail material (other than that used by dealers—usually promotion).
 Pamphlets, newspapers.
 Creation and design of letterheads, billheads, shipping labels.
 Renting of traveling window displays.
 Preparation of instruction sheets and manuals to insure proper use of product (usually advertising).
 Preparation and supervision of factory outside display signs.
 Supplies display material.
 Supervision of design and purchase of salesmen's automobiles where these are used for advertising purposes.
 Coöperation with window display services.
 Distribution of circulars and pamphlets to the consumer.
 Distribution of circulars and pamphlets to the trade.
 Supervision of premium distribution (usually advertising) because premiums usually are consumer sales stimulants.
 Gather photographic evidence of use of product (usually advertising).
 Gather testimonial data (usually advertising).
 Supervision of printing plant, duplicating department.
 Maintaining sound public relations program (usually advertising).
 Institutional publicity (speeches, etc.).
 Gaining publicity for the firm for new products.
 Market research (usually advertising).
 Complete cataloging of product (usually advertising).
 Clearing house for leads from distributors or dealers (usually promotion).
 Clearing house for leads from consumers (usually advertising).
 Follow through with dealers of inquiries developing from advertising and promotion effort.
 Supervision of testing bureaus.
 Coördinate sales and advertising activities.
 Maintaining file of historical material of company's activities.
 Preparation of salesmen's catalogs.
 Preparation, supervision and distribution of special exhibits for schools and colleges.

DISTRIBUTION

SESSION }
SITZUNG } V
SESSIONE }



Administration of Sales

Administration des Ventes

Vertriebsverwaltung

Amministrazione Vendite



Administration of Sales

A Critique Prepared by
J. RUSSELL DOUBMAN,* *Rapporteur*

Sales Management is concerned with the personal direction and control of salesmen in the field. Management activities are said to include recruiting, selecting, training, equipping, assigning, routing, supervision, paying, stimulating, researching and consulting on marketing and advertising policies. Only a few of these topics have been touched in the papers written for this International Congress and the result is that there are wide gaps in a completely logical or inclusive survey of management material. The topics are specialized to too high a degree for use in general discussion, and they can hardly be said to fit into as composite a picture as we might desire.

In an attempt to order the thinking of the participants, it might be well to stress certain aspects of sales management as interpretative. It may be said that modern sales management presents two points of view worthy of present-day study. In so far as management relates to personnel, it is believed that there is a decided turn away from the emphasis of the past few decades upon mechanical methods of control. Thus, it seems more effective to develop a staff of men who are self-reliant and resourceful. The character of the directing, therefore, changes its emphasis, and training becomes of paramount importance. Compensation must be viewed from a different point of view with consideration of re-orders in mind, rather than so-called high pressure single sales. Every incentive or help given to the staff must be weighed and a new value placed upon it in proportion to its effect on the personnel.

The second point of view which shows a deviation has been forced upon American management by the depression and the legal incidents thereto. Every country has experienced such problems in varying degrees of intensity. Business is asking management to present sales cost figures. This is not done merely as a mechanistic measure, but as a factual proof of the results which are claimed for the new emphasis upon personnel relations.

In a Congress of this sort, where delegates have gathered for the exchange of experiences and where so many topics are presented for consideration, we should establish a common medium of expression. Let us consider a case in point by analyzing the word rationalization. In certain quarters, this word is associated with the technique of regimentation. In others, it is interpreted merely as a word connoting a consistent process of reasoning. A standardization of vocabulary is therefore indicated as essential. If a Tower of Babel effect is to be avoided, a sane, common, workable but simple vocabulary must be

decided upon, and it must thereafter be used. Would not such a Congress be an ideal group to discuss and clarify certain definitions?

If sales management practice is to be rationalized within the confines of any country, is it not of equal significance that those responsible for the discharge of management responsibilities should exchange experiences for their own benefit? This should bring to mind one very essential query. Can the exchange of experience between groups actually be of value when our fundamental concepts of organization and operation are at opposite poles? Can the experience of a regimented or a coöperative group be compared with the experience of a company or organization under a capitalistic system, with its theory of full and open competition? Certainly an exchange of experience is desirable; but we must be exchanging experiences which are basically alike and not those founded on fundamentally different concepts. These two problems are so basic to the material which is to be presented in the papers, that their consideration is given precedence in position and is discussed in a somewhat separate and distinct category.

The subject of training for all of its fundamental importance, and its growing value to every business is admitted and has been touched generally by practically all contributors, and specifically by three. This is taken to be proof of the increasing stress which is being laid upon the topic. Nevertheless, one cannot feel that training, despite its relative importance, rates such disproportionate emphasis.

The training program as specifically used by one particular company is described in detail by Mr. G. H. Armstrong. This is a historical and purely descriptive approach. The success of the program described is attested by the standing of the company in the trade; but in a larger sense, there is no challenge to the group in such material, for no new or original principle is enunciated. As a collateral issue, one problem arises in the mind of the readers to which this group might give its attention, and that is the value of training and its relative effect upon different classes or groups of trainees. Does a college man do a more effective job following training than one not so mentally disciplined to start? Does proficiency in the training group have any relation to possible future success? These are matters to which this group might well turn its attention. The answer, after research, should certainly act as a guide for future policies and substantiate the contention made in the original premise concerning the need for developing an individually resourceful staff, rather than a mechanized one. The questions propounded are only a few of those which arise almost immediately upon reading the contributions.

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The experience of the Swedish coöperatives in regard to the systematic training of their sales staff is well and clearly presented by Mr. H. Elldin; but throughout there is a feeling that advancement is dependent upon the personal characteristics and ambition of the individual, rather than upon incentives in any more tangible form. The challenge is set definitely. Will social benefits accruing through a set plan of instruction be as effective as the sporadic individualized incentives as exemplified by our American industrial organization? The whole problem of coöperation and a discussion of the conditions which must maintain if it is to be successful are thus called into bold relief. Can a heterogeneous group, with different interests and wide territorial domain, ever reach the point in coöperation attained by those living in countries with dissimilar conditions confronting them? Specifically, the homogeneity and the similarity of interests in a limited area have made agricultural coöperation comparatively easy in certain localities, and later the addition of sales functions was but a logical antecedent. From the standpoint of those interested in long-term sales planning, these matters are quite informative. They go to the very heart of the problem of emphasis and incentives, and management feels the need of the influence of the psychologist, the biologist and the physiologist before arriving at results too positively. The far-reaching effects of the modern point of view assumed by management today is thus brought into bold outline with its many ramifications.

The aims of administration and the ideals of the sales force are rarely the same. During prosperous times, as Mr. C. Francis sets forth, administration tries its best to keep sales costs low. This reflects itself in management's desire to pay the salesmen salaries. The sales force tends to increase its demands at such times and shows a willingness to sacrifice certainty of income for immediate monetary returns in the form of some commission form of payment. During a period of depression, the tendency is reversed. Management tries to get the selling force to sell on commission, so that it may save on the certain salaries; but the salesmen demand a sum certain, generally in salary form. This leads to the need for a thoroughgoing analysis of compensation as an incentive through its power as a driving force. What facts should be collected to give management information which would in effect point out the logical methods of payment in order to get maximum results? The aim at all times should be to select a method which would suit the particular business, and at the same time, lessen disputes and make for a more even sales curve. Any discussion of compensation as an incentive aimed at such results would prove of inestimable worth. It may even be that such facts are so individualized that no general conclusions can be reached and that this is a problem for each company's own investigation. To dissect the material and determine the general or particular nature of the problem would in itself be a study well worth while.

The study made by the sales offices of the metallurgical trades is an effort to present factual evidence, which would, if sufficient data were available for many industries and many countries, tend to point the way by which expenses of selling and their relation to general conditions could be placed on a firmer ground, with less fluctuation. Such

a study as that by Dr. J. Tille is commendable in every way as one of the most laudable efforts in the field of selling. The topic needs study and research. Its results would be of value in correcting misunderstandings with labor, and it would tend to smooth out the sales curve instead of intensifying the periods of depression and prosperity.

Dr. H. R. Tosdal emphasizes this fact, and he likewise points to the recent tendency to increase the duties of the sales force. The question open for discussion is whether the selling organization should assume duties other than selling to the extent that they have. Is it their task to build good-will, handle credits and collection and to aid dealers? Are these extra duties interfering with the accepted modes of payment? We must turn our attention to the analysis of the salesmen's tasks and how they may be influenced by selected methods of payment. In other words, is it advantageous to all parties concerned to establish a bonus system to give incentive and then to complicate the work of the accounting department in keeping records? The relative values of each change are at stake and require more than superficial decisions. They need study and concentrated attention with adequate facts available upon which decisions may be made.

Dr. Tosdal and Mr. Francis are as one in their emphasis on training. Dr. Tosdal goes so far as to say that better selection and training would relieve the strain which has been put upon compensation and control in ever-increasing amounts. With such conclusions we must agree.

Throughout the field of management as related to the sales group, there is a recurring problem brought out in the paper by Mr. C. R. Carey. It involves the coördinating efforts between various departments and the selling organization. To what extent shall coöperation be carried on? Can proper organization influence the conclusion? Can a line and staff organization, with meetings between representatives of various activities within the business, do anything toward ironing out difficulties between departments? While the unification of the efforts of sales and engineering departments is held essential for those manufacturing industrial equipment with large-unit costs, the problem of coöperation is not confined to these groups. It is an all-inclusive question. It goes even deeper and involves a discussion of the need for coöperation among individuals as well as departments. In the long run it could be carried to the point where trade association activity in any field might be pointed toward better relations of this type. This would in turn involve a study as to the extent to which trade associations might step out of their present niche and assume greater responsibilities, concerning themselves with the real and vital problems of the trade.

The disparity between distribution and production costs has long been recognized. The difficulties of standardizing the intangible factors of human nature must be considered. These difficulties, however, need not prevent our close attention to research activities. The real challenge to modern selling is how to analyze the material which exists relative to advertising and sales promotion, with a view toward decreasing expenses. Naturally, it has been done in the field of production, but the cases

which have been studied indicate that as a field the application of marketing research to sales is still a broad one. Throughout, the need for adequate information is realized; and only through a willingness on the part of large business trade groups, or government itself to do the real groundwork of research, can results be obtained.

That is, results which will be valuable because of their thoroughness and completeness. This will require money, time, coöperation and trained minds. The harvest is ripe; but the workers are few indeed who possess the needed ability and vision to comprehend the problem and carry the task ultimately to completion.

Scientific Direction of Sales Effort

CLARENCE FRANCIS*

SUMMARY

Mass production economies are rapidly being absorbed by rising costs in other directions. The high cost of distribution indicates that production of goods is ahead of sales methods in efficiency. Modern conditions emphasize the fact that sales managers cannot standardize man power to the same degree as formerly, but must definitely standardize the use of the modern sales forces, such as advertising and display materials, in order to provide for most effective use of both men and forces.

Controls therefore must be designed to fit not only changing conditions, but to meet specific requirements of the industry and the organization, and aimed more at the control of results than the control of men's time, as formerly. Simpler control methods are required with regard to salesmen than in other days, but closer check-up of results produced by advertising, sales promotion, and display material is needed.

The modern sales manager must know his facts more fully, because of large expenditures in sales instrumentalities that deal with customers in the mass and which depend for effectiveness on their close relation to the average facts; and must allow for judgment and decision by salesmen in dealing with specific customer contacts.

Research in sales methods, advertising and sales promotion material effectiveness will no doubt result in progress equalling that of product and production research.

The general philosophy expressed is illustrated by a case history showing the development of Grape-Nuts Flakes, and the marketing technique and procedure used in placing Grape-Nuts Flakes on the market.

Characteristics of Modern Marketing

IN ORDER to deal adequately with the subject that has been assigned to me, it is necessary to view it against the background of modern industrial practices, current economic trends, and the changing developments in social requirements.

While the modern conception of mass production has unquestionably brought with it many changes and perplexing problems, the fact remains that it has proved itself by its economic benefits to consumers, workers, industry, and society.

Rising costs in many directions, however, show an alarming tendency to absorb mass production economies as fast as technological improvements bring them about.

This naturally brings into sharp focus the fact that the technique of Mass Production of Goods inherently and inevitably involves the need for equally effective methods for the mass production of sales.

That production efficiency and sales efficiency are out of balance is indicated by the widespread condition universally referred to as "the high cost of distribution." The effects are economic, and felt by all; but the problem of dealing with it is a matter of management concern. Indeed, I believe it to be one of the major problems of modern management.

Its solution calls for a shift in emphasis from production to distribution, if the economies of mass production are to be conserved for the benefit of all, and so made available for wider distribution in the form of better products, lower prices, and higher wages.

BETTER RESULTS FROM MORE SCIENTIFIC METHODS

The practical road to better selling is in the wider adoption of a more scientific attitude towards the sales efforts,

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a more critical analysis of sales instrumentalities, and a more careful scrutiny of methods in relation to principles and objectives.

Obviously, if we are to build policies on principles, and arrange the methods so that they are suitable for carrying out the policies with the least effort, and produce results at the least cost, we must do a larger measure of pre-planning, or we shall find ourselves not only wasting time and money, but traveling in the wrong direction for our future stability and progress.

OLD METHODS INADEQUATE TO THE TASK

Sales methods, like machines, do become obsolete. In every industry there has been the type of day-to-day sales operator who has been able to make an unusual showing of volume and profit with methods that were actually weakening the future of the business itself, and laying the foundation for trouble that later could only be dealt with by drastic reconstruction, reorganization, and refinancing of the whole operation.

Up until comparatively recently it was customary to plan sales only in a very general way. I can remember the time when it was customary to set the salesman to work up one side of the street and down the other, calling on all customers, large and small, and spending the same time on all, unless he had the courage to make his own variations from the day's routine.

The point comes to mind that, where once the main reliance in selling was the individual influence of the salesmen, today the need is for intelligent, interested co-operation, with a sound plan as the unifying element. This does not mean minimizing individual abilities. On the contrary, individual skill and resourcefulness in the sales force, are thereby enhanced in importance, because they are better capitalized and made more productive. Intelligent men, and salesmen as a class are intelligent, in-

variably react favorably, and conform willingly, to the demands of a soundly conceived plan of action.

Facts Define the Problem of Directing Sales

The engineer who undertakes to design a more effective radio, must know the principles of electronics as well as he knows the details of materials, labor, and operations through which the design will be turned into a practical machine. Similarly, the sales manager who undertakes to plan intelligently must base his work on a thorough understanding of the principles and complete knowledge of his product, and the relevant marketing facts.

By this is meant, not merely that he must know the general statistical data, such as territorial characteristics, population, size, and source of income, but all of these, together with specific and definite information, weighted and classified according to the type of product.

THE IMPORTANCE OF PRE-PLANNING

Only through evaluating and classifying such detailed and pertinent facts, can the salesmanager come to a clear perception of his problem. He will, if he is wise, make the details simple, and will also arrange for periodic check-up of results, so that he can modify operations to meet changing conditions.

This is a more difficult matter to plan, organize, check, control, and direct, scientifically, than is the production. The engineer I spoke about a moment ago is dealing with principles and laws and materials that are mechanical, regular, and measurable in action and result. For the sales manager the most important elements are human beings, who are subject to psychological, as well as physiological, variations and influences. We must admit that these difficulties have often been used as an excuse for not planning much beyond our day-to-day work. The difficulties, however, are more than an excuse; they are very real obstacles to scientific planning. Machines and materials can be standardized, but men present a wholly different problem. Psychologists cannot yet guarantee specific human reactions to any given stimuli.

And yet, despite the admitted difficulty of molding our human material, there is much we can do, and must do, to reduce waste effort, sharpen the selling tool, engage in more thoughtful planning, provide better direction, and, by a combination of all these things, to aid in bringing down the cost of distribution.

WHAT SHOULD PRE-PLANNING INCLUDE

The pre-planning should include careful preparation of all mass-action instrumentalities, such as advertising, sales promotion material, and other merchandising efforts. It should include careful preparation of all paper work, reports, and questionnaires, and reduce these to the simplest form possible in relation to what useful purpose it performs and what time requirements it imposes on the salesmen. The salesman thinks in terms of human contacts; he is under constant pressure from human personalities, and when he gets back to his room at night, tired and nervously strained, he is likely to look upon unnecessary paper work as a nuisance. The planning should also include provision for research and development of the best methods of how to obtain this application of the sales effort to the individual case. I venture

the suggestion that research and analysis in this field may be almost as productive as product research itself.

SALES AIDS SHOULD SIMPLIFY MEN'S WORK

The work of the salesman is at least partly repetitive. The interest comes mainly in the adaptation of the material to the particular situation in which he finds himself. Its value depends, not on its volume, but on the new, fresh, or stimulating information it conveys. It is the business of the sales manager to plan this material in advance, and to see that it is prepared and made available to the salesmen in sufficient, but not burdensome, quantity and frequency. He has plenty to carry even under the most favorable conditions.

SIMPLE CONTROLS MOST EFFECTIVE

Present methods of supervision are often a hold-over from the days of rapid growth in the United States. Quick extension and quick control were required. The markets were going ahead at such a pace that the number of calls seemed more important than the intelligence expended on the individual case. We were relying more on the law of averages than on the effectiveness of the sales effort. We are likely to overlook the fact that modern selling includes the use of many forces, instrumentalities, and materials, that were not in use then, and which, unless carefully related to each other, tend to make the whole process more complicated, more wasteful, and less productive.

CHANGES THAT AFFECT TYPE OF CONTROL

We hear much discussion, these days, about the relative merits of centralized versus de-centralized control. Here, again, I believe no specific, universal formula is applicable.

The necessities will naturally vary with conditions, and these in turn, will influence the decision as to centralized or de-centralized systems of control. All controls must be centralized to some degree, and what we are really concerned with is the right arrangement of functional control for the most effective operation of the territorial requirements. The objective is control of results, more than control of men's activities per se.

The question of centralized or de-centralized control can be answered effectively only when the case has been studied, the functions clearly laid out, and the controls established so that responsibility and authority coincide as they should.

However, there is little doubt that there has been a tendency to over-centralization in a number of cases, with a consequent loss of flexibility, individual development in decision and operation, and an increasing tendency to bureaucratic departmental procedure.

Functional control, properly planned for the specific job in hand, passes along from the central office those elements of operation and decision which can be more effectively settled at or near the point of contact with the customer. It aims at retaining only those elements that apply to the general requirements of all the areas, and which, therefore, demand the consideration of the policies, programs, and current objectives as they relate to the whole process and the total operation. In the field the salesman must work alone. He is expected to accommodate himself to the opportunities of each interview. The

controls, also, should be planned with this fact in mind, and provide for the exercise of discretion and judgment to the fullest degree. It must be recognized, I believe, that sales management is mainly an educational job, because it deals primarily with human beings. The word educate, as I sense it, means to bring out, and not merely to put in.

Only a leader can stimulate and arouse people. Only a patient teacher can bring out the best that salesmen are capable of, and only a sympathetic disciplinarian can command respect and affection at the same time. Given these elements in the sales management, and using control methods that are simple and efficient, the sales force will usually respond by loyal observance of what is required.

Application of the Foregoing Principles

I have tried herein, to illustrate my own philosophy and point of view by analogy from the manufacturing process, in which we have searched diligently after knowledge as to each detail of the process. In this field we have discovered and defined the principles, we have determined the objectives, and have thus been enabled to develop marked improvements in the manufacturing operations. To me, that is the road we must travel in sales management, if we are to equal or approximate the results achieved in production. A great field is opened up for the future, if we can get rid of assumptions and traditions, and establish for human endeavor some of the clarity in definition and planning and utilization that we now possess in the mechanical field.

Perhaps it will serve a useful purpose if I point the philosophy herein expressed by briefly outlining an example from our own business. In 1897 the Postum Cereal Company developed a new breakfast cereal called Grape-Nuts, one of the first of the packaged breakfast cereals now in such general use. It became very popular on account of its flavor and also because of its chewy qualities. The changing tempo of modern life, however, brought an increasing demand for flake cereals, because they were easier to chew and so lent themselves more readily to the proverbially hurried American breakfast. Almost everybody liked the Grape-Nuts flavor, but by 1930 the demand for flakes was assuming large proportions. While the original Grape-Nuts product could still be further expanded, a whole new market could also be opened up by reproducing the original flavor in an additional product in flake form.

The possibility of making Grape-Nuts was discussed and a number of different forms were made up in the laboratory. Finally we struck the happy combination of crisp, light flakes with all the desired flavor. All this

was done during 1930 and 1931 when things looked pretty difficult for a new product. Samples of Grape-Nuts Flakes were then submitted to thousands of housewives in different sections of the United States for their test, and their comments and suggestions were carefully analyzed and checked against the final product. When this was done we felt that we really had the right product. Then came the question of the package. Many designs were made up in a variety of sizes, shapes, and colors, and the most promising tested in our model grocery store, for their display value, their attractiveness, and for popularity in size. On the basis of the results as revealed by careful records, we selected one and then felt that we were ready for a marketing trial, though not yet sure enough to proceed on a national scale.

This involved the development of various advertising appeals and testing them for results; the planning and preparation of display material, posters, street car cards and other sales promotion material. Then there came the development of a plan of action, which involved the training of the sales force in the characteristics of the new product, and in the objective and operation of the plan for developing dealer interest and co-operation.

The initial sales campaign was started in Mansfield, Ohio, Sacramento, California, and parts of Minnesota on September 8, 1931. Results were carefully checked, and showed that volume was satisfactory and customer demand sustained. On October 21st the campaign was extended to the city of Pittsburgh; on October 23rd to the San Francisco and Los Angeles, California districts; and on November 23rd to Albany, Schenectady, and Troy, New York. Gradually other markets were added, and by June, 1932, Grape-Nuts Flakes were firmly established in the national market. The whole process involved Laboratory research, the development of a new manufacturing process, consumer testing, market analysis and sales analysis, new package design, the development of new advertising appeals, production of new sales material, intensive sales training for the introduction and follow-up campaigns in a trial market, and then general introduction in the total market.

All this cost money, of course, and took time, but the results were more effective and less wasteful than if we had proceeded on the old hit or miss basis, and merely made a product that we thought was all right, but which customers might not like.

In closing I should like to emphasize that the modern sales job must catch up with production efficiency, and I believe that only through carefully planned sales methods can we fully pass on to customers, workers, and stockholders the benefit of mass production.

Unifying the Efforts of Sales and Engineering Departments in Marketing Industrial Equipment

C. R. CARY*

SUMMARY

This paper is primarily of interest to those who manufacture and distribute industrial equipment having unit prices which range roughly from \$200 to \$5000 and whose continuing sales volume and continuing growth depend upon modification of old or development of new devices to match changing customer techniques. It emphasizes the need for close coöperation and team work between the Sales and Engineering Departments of such manufacturers and distributors, even though they are spared the expensive preliminary engineering which is frequently necessary in marketing equipment at unit prices of, say, \$5000 and upwards.

The paper proceeds then to discuss factors which interfere with the development of coöperation between individuals of different departments. It points out that such coöperation can hardly be secured by edict and discusses some of the more important procedures by which an atmosphere favorable to coöperation may be developed. Though the paper has to do specifically with the joint activities of Sales and Engineering Departments, the subject matter of this latter section is so presented as to be applicable to similar situations involving other departments of an organization. Hence, it may interest anyone who, in a position of responsibility, finds himself handicapped by a kind of departmental thinking which develops easily and naturally in functionalized industry and which tends to obstruct unified company action.

OBVIOUSLY, there is only a remote relation between the sales problems of an organization which distributes pastes and gums on a mass basis to the ultimate consumer, and those of one which distributes steamships, bridges and complete plants on an essentially individualized basis to other manufacturing and distributing organizations. And between these extremes is a wide band involving various types of consumable goods, for the ultimate user and for industry, and various kinds of capital goods for one or the other. Since this band is practically continuous, he who would discuss any phase of sales organization or of sales procedure will do well to define the section of the band to which his remarks most immediately pertain and then to clothe his subject matter in such forms of expression as will best serve to center attention upon the principles involved, rather than upon specific arrangements, events, or procedures. As to the scope of this particular paper, it may be described as of primary interest to those who are both manufacturers and distributors of industrial equipment, having unit prices which range roughly between \$200 and \$5000, and who must depend, for continuing sales volume and for continuing growth, upon the modification of old or the development of new devices to match changing customer techniques. Quite a wide range of industrial equipment belongs in this category. Furthermore, as its title indicates, the paper centers attention upon an organization problem rather than upon sales methods.

Having considered this brief, though it is hoped adequate, definition of the scope of the field, let us next con-

sider various characteristics affecting the corresponding marketing problem. The industrial equipment involved is in the class of material which it is customary to charge against Capital Account rather than against Operating Expense. Each such piece of equipment is in the nature of a tool which in general is used jointly with other and more or less related tools for the accomplishment of some ultimate objective in the industrial structure. Because of this tie-in with a specific process and also with other equipment, it is almost always necessary to wait until the prospective purchaser is ready to make other material changes before the order can be secured for any component part. Furthermore, although the purchase is more often than not expected to pay for itself in two or three years or less, equipment in this category, unless obsoletized by some change in method, is expected to have a life of from ten to fifteen years or more. Barring fire or other calamity, repetitive buying is practically non-existent. Fortunately, since life is so largely made up of attempts to do things which have never been done before or to do them better or quicker, industrial methods and specific objectives are in a constant state of flux, necessitating changes in established types of equipment and inspiring the industrial application of procedures previously limited to the research laboratory.

Because each such tool, as pointed out above, is used jointly with other more or less related tools, it is not sufficient that each tool be so well designed and well made that it will work well as an individual tool. Its value to the user will depend entirely upon how well it fits into the individual environment and upon how efficiently it accomplishes that special task for which it was purchased. No distribution system which does not

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provide adequate facilities for meeting this need for adaptation of product to individual application can be considered satisfactory. For this reason, in the industrial field for capital goods, which falls within the scope of this paper, there has been a steady drift away from any type of middleman over to direct distribution through salesmen in the employ of the manufacturer. This direct distribution leaves the manufacturer full control over the calibre of intelligence to be employed in appraising just what his organization should propose to meet each given situation in the plants of potential customers and in handling whatever situations may arise after equipment has been purchased and installed.

On one side, these two types of service closely approach engineering. On the other, they border a service which partakes rather more of the nature of salesmanship in that they involve the capacity for estimating or actually finding out just which aspects of the proposed equipment make the greatest impression upon the prospect. At this point a true understanding of salesmanship is demanded, since more often than not two or three departments and a dozen or so individuals must be sized up, sales tactics adjusted to fit each, and diplomacy brought to bear to harmonize divergent viewpoints which only too frequently amount to open hostilities. This all may be summed up with the generalization that in this field the successful organization is rooted in engineering and blossoms out therefrom into skillful selling.

There is, however, another ground to justify this emphasis upon engineering. It is the function of the engineer in the customer organization to initiate and guide changes and specify equipment. Whether he be of the Research, Design, or Production variety, whether he concern himself with chemistry, electricity, mechanics, or what not, he is the one we, in the Industrial Capital Goods Equipment Industry, must depend upon for prosperity. While Purchasing Agents, General Managers, Production or Operating Departments and Maintenance men all have their influence in the selection of equipment, it is the engineer who builds up the market, who plays a dominant part in the selection of equipment and who must above all others be catered to by the equipment manufacturer.

While this is especially true in the early stages of the development and use of a particular type of equipment, engineering skill must continue to be applied to it long after that equipment is thought of as being standardized. As a matter of fact, since it must by its very nature become an integral part of some industrial procedure and must operate harmoniously with other devices used on the same project, such industrial equipment seldom if ever becomes completely standardized. It merely approaches standardization, each successive application involving more or less minor variations from type. Success in evolving these apparently minor variants not infrequently demands a degree of engineering skill which it is impractical to expect of a salesman, even though he has some measure of engineering training. Consequently it is highly desirable that he be able to draw on the services of the Engineering Department of his own organization for direct help in making the modifications necessary to that particular sale. Furthermore, as the period of semi-standardization is approached, there is further ground for bringing the company engineer into close relationship with

the markets and the salesmen. The chances are that the art has progressed to a point where the difference between the products of competing manufacturers is not so great as it once was. Obviously, as uniformity is approached, price plays a larger part in determining who gets business. Then the combination of a wide-awake salesman with an ingenious and resourceful engineer not infrequently can change what is apparently a conventional competitive fight where he who is willing to shave the price furthest gets the business over into a sure order without destructive price competition by the simple expedient of together evolving some special service his particular gadget may be made to give that others do not. As a force influencing the current sales total, as well as a builder of long-range goodwill, wise use of the engineering staff in the furtherance of sales projects may be more powerful than high-pressure methods or "slick" selling can be.

It may seem strange that a paper for presentation to a Marketing Conference should start with a section dealing almost solely with a discussion of the importance of the engineer. No one would consider trying to manufacture industrial equipment without an adequate Engineering Department. What has been said so far has been introduced merely for the purpose of leading up to the point that the strong Engineering Department necessary for such an organization will be an even greater asset if a close, intimate bond exists between it and the Sales Department. The furtherance of this cooperative attitude between the two departments is just a further refinement of the process which began with the elimination of middlemen in favor of direct selling. I have a firm conviction that no marketing set-up for distributing industrial equipment can be really successful which does not provide for a large measure of intimate contact between members of the Sales and members of the Engineering Departments of the company. When such a situation has been established where it previously was lacking, the work of both departments has been improved by amounts which are noticeable in the company earnings sheet. Over thirty years' experience in selling such equipment has convinced me that the ideal set-up is one which, while it recognizes the essential difference between selling and engineering and provides a separate departmental organization for each, at the same time has within itself the possibilities for, from time to time, conducting joint activities of members of the two departments, functioning as though departmental lines did not exist. I cannot claim any particular originality for this idea but I hope some profit may come from a discussion of ways and means of bringing this relationship about. The task of breaking down cleavages is not an easy one, since departmental prerogatives, prejudices, loyalties and jealousies are natural, run deep, and are hard to overcome. It is strange and almost humorous to see how soon young men apparently alike in their thinking begin to differentiate after being assigned to different departments of an organization and how with older men transference from one department to another will cause them, chameleon-like, to alter the complexions of their minds to match their new environments.

Frequently this attitude, which may be termed departmental thinking, is thoroughly exasperating. But, after all, that is what departmentalization is for. Men are put in the Engineering Department to think like

engineers, not like salesmen, and vice versa. The salesman is supposed to think as a salesman and he is expected to focus such engineering thinking as he may do entirely upon the sales aspects of any situation. However, in selling industrial equipment, as has been pointed out, we are supplying engineering equipment, our major contacts are with our customers' engineering staffs and our major difficulties (apart from those with competitors) are mostly engineering difficulties. Therefore, even though our salesmen have engineering training, it is obvious that it would be well to have our engineering staffs close enough to the firing line, so to speak, to come to the aid of the salesman when the latter is hard pressed by the technical aspects of some job or by some more than usually meticulous customer. Furthermore, the advantages to be gained will not be entirely one-sided, since first-hand contacts with the difficulties faced by salesmen are educating in more ways than one to men who are normally working within the sheltering walls of the home plant.

Simple as this arrangement sounds, it is far from easy (human nature being what it is) to make it work. After all, a Sales Department is a Sales Department and an Engineering Department is an Engineering Department with all that the statement implies. Practically all the day-to-day events and contacts tend to build up loyalty to the immediate group, no matter which department is involved, even though the manifestations of that loyalty result in real, though unintended, injury to the organization as a whole. Frequently they lead to frictions which are very expensive, as any salesman of industrial equipment can testify out of his experience with customer organizations. There not infrequently come to light cases where one department of a customer organization will absolutely refuse to approve the purchase of anything favored by a rival department! Departmental loyalty is desirable and perhaps some measure of departmental jealousy can be condoned, but apparently little attention has been paid in management circles to keeping such loyalty and jealousy within such reasonable bounds as will not interfere with whole-hearted and sympathetic inter-departmental coöperation.

All of our discussions seem to center around how to get higher efficiency from each individual, how to get higher efficiency from a group or team within a department, or possibly from a department as a whole, but we hear little discussion of how to get higher efficiency across departmental lines in those procedures which, from their very nature, involve more than one department. Although at present we are dealing specifically with Sales and Engineering, it is quite certain that the psychological principles touched upon will apply equally well to other inter-departmental relationships.

In the case of the Sales and Engineering Departments, situations which contain within themselves the seeds of inter-departmental friction are constantly present but because of their omnipresence there is the corresponding opportunity for developing attitudes and procedures for meeting the situation. And, while no factor is present which will in the least tend toward effecting this automatically, about the only insuperable obstacle to a successful result from intelligent and persistent effort is open or covert hostility in the upper ranks of the company. The more enthusiastic and coöperative are those in authority, the more rapidly and completely can success be achieved.

However, it is more than probable that this success cannot be attained with any degree of satisfaction by the mere issuance of orders. What is needed is to change habits of thought, and the best procedure is to create situations in which it will be easy to shift to the new and desired viewpoint.

I believe it is considered good psychology to use the substitution method for curing objectionable habits of thought. If the heads of the Engineering and Sales Departments or any other departments of an organization apply this substitution method they can arrange from time to time to temper loyalty to the individual department by substituting easily developed loyalty to some specific task or project upon which an individual in one department has to work coöperatively with some individual from the other department. The procedure we have found successful in our own organization is to select some task, limited and highly objective in nature, upon which each department must ultimately function before completion. These specifications are frequently met in the development of a new product, or line of products. The procedure is somewhat as follows: Instead of waiting for the Engineering Department to complete its work and then turn the task over to the Sales Department, at the beginning of the development the Sales and Engineering Departments each select a man to work on the job. It is made clear to these two men that they are to consider themselves jointly responsible for the completion of the task, that they are to be in effect a team to bring the project through as expeditiously as possible. Having assigned to these men the responsibility for carrying through the development, the team is left with practically complete control over all phases of their work and in the normal case no reports are made other than such casual ones as the individuals may desire to make in course of conversation, as matters of general interest. Obviously, men are chosen in whom their superiors have sufficient confidence to justify the allowance of such a large measure of freedom. Also, obviously, individuals are utilized who are likely to be mutually acceptable and who are good coöperators. A "good coöperator" I would describe as one who can recognize and gladly defer to ability manifested by others in the area in which they specialize and who will freely give of his best as they defer to him in his area.

Although the personal characteristics of the individuals who are called upon to work together are of primary importance, the situation will also be greatly affected by circumstances over which they have little if any control and which in the last analysis determine the atmosphere in which the work is carried out.

All of the components of this atmosphere are influences which affect the current or future status of the men expected to work together as such a unit. Both analysis and experience indicate the ideal is approached:

- (a) When no advantages accrue to any individual or department in the joint enterprise which are not shared by the others;
- (b) When the men work on terms of equality except for such leadership as may arise out of conditions and influences resident within the group and its task;
- (c) When the men are so placed within their respective departments that they would in any case have first-hand contact with the task at hand

rather than through intermediaries or assistants;

- (d) When the men are sufficiently far up in the organization to be fully trusted by departmental and other major executives to handle themselves and their project without supervision or interference.

Looking in some detail at the above specifications, it is manifest that under heading (a) the presence in the organization of commissions or bonuses based upon individual achievement or even upon departmental achievement will be a serious handicap. If inter-departmental cooperation plays an important part in company welfare, then whatever incentive plans may be adopted should be such that the fortunes of cooperating units rise and fall together. Our own company has profited greatly in this respect from a bonus system based on profits in which all departments participate. However, almost as important as the financial influence is the influence of the distribution of recognition and commendation by those in authority for work well done. It is always well worth the while of some one of relative importance in the organization to take sufficient time to study what has transpired in a given project and to make sure that he who did valuable but inconspicuous work will receive as much recognition as he who was fortunate enough to be in the limelight when the goal was attained. Only so can jealousy be kept out, for when jealousy creeps in cooperation fades away.

While I am not in a position to say from experience that an inter-departmental team cannot be successful when the representative of one department is from a higher level in his branch than are his fellows in theirs, I would not expect it to work satisfactorily and would not attempt it. I should expect that the opinions or suggestions of the one would very soon take on the nature of instructions or orders, at which point conflicts in authority would almost inevitably set in. Where all members of the cooperating group or team are on the same general level, this handicap is absent, since, as far as the team is concerned, each member is his own master and is free to use his own judgment in determining his course of action in relating his work on the team project to his regular departmental duties. It hardly needs saying that all the officials who have any connection with the men, and particularly the immediate superiors, must be thoroughly in sympathy with the procedure and eager for its success. Certainly they should be eager for the success of this or any other feasible method which will assist in reducing the losses from inter-departmental frictions.

In our own organization the application of the foregoing procedure has yielded gratifying results. In the first place, we have found that developments have progressed

more rapidly, with more thoroughness and with less friction than by our older and more conventional method wherein the work passed through in departmental stages with a report at each stage. In the second place, but equally important, every time a project is completed by a different combination of men a new center of inter-departmental accord has been set up which tends to be infectious. After this has gone on for a while, the habit and technique of working together across departmental boundaries become so well established that the less objective but nevertheless valuable joint activities involved in solving difficult technical problems encountered in customers' plants have come to be expected as part of the day's work. If there is one situation more than another which tests the cooperative attitude, it is that in which carefully selected and engineered equipment fails to perform its task in the plant of the customer. When the men to whom the task of straightening out such a fiasco return with no expressed or even implied desire to pin the blame on any individual or any department, but merely with plans for prevention of like future trouble, the ultimate in inter-departmental cooperation has just about been reached.

There is another benefit of rather a deeper nature which was unforeseen. The rapidity with which the right kind of men develop when responsibilities which, for them, are really heavy is too well known to require more than casual mention. However, those of us in the upper ranks, who are older, may not so clearly see that the longer we withhold responsibility from the active, contacting classes of men, the longer may be the life of ideas and policies based upon and framed to meet the experiences of a bygone and possibly an outmoded day. The focusing of the various viewpoints of younger men, not yet in executive positions, on tasks which are semi-executive in nature, along with practically full responsibility for results, is proving a valuable factor in adjusting our procedures and our thinking to the changed conditions of a rapidly changing world.

The subject matter of this paper has dealt largely with the strength which can be added to the marketing capacity of an organization by building into individuals of the Sales and Engineering units of an industrial equipment manufacturing concern a foundation principle: that the welfare of the whole is far more important than the welfare of any of its parts, and that departments exist for the good of the company and not vice versa. Many organizations can be greatly strengthened by more thinking along this line, and I should like to close by expressing the hope that more information may be published concerning ways and means for decreasing friction and for increasing cooperation between the various segments of industrial organizations.

Salesmen Training

G. H. ARMSTRONG*

SUMMARY

It is not possible to devise a sales training program which will be suited to all industries. In the case of specialty products, however, certain basic policies can be established. Description is here given of the sales training practice of a company which has marketed specialties for half a century.

Skill in operating the company's products, study of the problems which the products are designed to meet, and acquisition of selling technique are the three major objectives.

Basic policies discussed: "Individual study" vs. "participation in group classroom training." Should the training be "specialized," "generalized," or limited to "orientation"? What should be the duration of training? What should be the content of the curriculum? What standards of student performance should be maintained?

The company described has a completely equipped school building situated at the main plant. The first eighteen months of a student's time include two periods of three months and two and a half months of formal schooling, interspersed with apprenticeship in branch offices. Cost of schooling is considered in relation to the increased earning power of the student-salesmen.

The school is a clearing-house of students' ideas at which practical problems become the basis for explanations of theory and practical solutions.

The training period is regarded as a "trial period" during which those who do not adjust themselves to the prescribed conditions are eliminated. There are rules governing personal behavior, and a medical examination is given each student when he arrives at the school even though he has been subjected to one at the time of employment.

The effectiveness of the school training may be judged by the fact that of those who have achieved high grades, fewer have been released after assuming field assignments than of those whose school grades were in the lower brackets. Even more important is the record of school-trained men who have recently been placed on quota as compared with that of men in the business with long experience.

IT IS not possible to devise a sales training program which will be suited to all industries. Generally speaking, the procedure must be made to conform to the particular requirements of each individual business. In the case of specialty products, however, certain basic policies can be established.

The Company whose sales training methods are described in this article has been continuously engaged in the marketing of specialties for half a century. Its products are distributed in more than eighty countries to meet the needs of industry, government, and financial institutions. The field for the use of its products is broad and varied, embracing all phases of time-measurement, communication, accounting, and statistical work.

Although the training program has been in force for many years, its scope and administration have been subject to almost constant expansion and modification. The development of the program for men whose major activities will be devoted to the marketing of devices for accounting and statistical use is the basis of this paper.

General Description of the Sales Training Program

The sales training program of this company was formulated to attain three major objectives:

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1. Acquisition of skill in the operation of all the company's products.
2. Development of professional ability through practical study of the accounting and management problems which the products are designed to meet.
3. Improvement of selling technique by analysis of such elements as "the approach," "the survey," "the demonstration," and "the submitting of the proposal."

The desire for a speedy and economical attainment of these objectives requires the formulation of definite basic policies which will determine the principles of training. Among the major questions that arise concerning the development of these basic policies are the following:

1. Will "individual study" or "participation in group classroom training" be more conducive to achieving the objectives of training?
2. To what degree should the training be "specialized," "generalized," or limited to "orientation?"
3. What should be the duration of training?
4. What should be the content of the curriculum—practical vs. theoretical?
5. What standards of student performance should be maintained?

CLASSROOM TRAINING

It is the belief of the company in question that the classroom group meeting is indispensable. A modern school

building located at the main plant is devoted entirely to education. The classroom facilities which it houses are up-to-date and practical—so that every advantage may be placed at the disposal of the students starting their careers in the business.

Recognition of the value of the group meeting as a basis of education has resulted in the provision of a schoolroom in each of the branch offices. Here the weekly sales meeting is held, devoted to the continuation of the instruction of all men.

The rational bases upon which the policy of classroom instruction has been established are:—

1. The competitive spirit, which is so essential to successful selling, is emphasized and stimulated at an early stage of the students' careers. Each man recognizes that he is participating in active competition with men starting at his own level—and that he is being judged day after day by the qualified individuals who are addressing or teaching him. *The student is placed in a position in which he must exert his best efforts.*

2. Questions of all new men entering a business are peculiarly similar, as anyone who has had the experience of teaching several classes soon realizes. The school serves as a medium for clarifying the questions and their answers. *The time of only one instructor* is required, instead of the time of the forty-odd managers or salesmen to whom each member of a class would have to go if no centralized school training facilities existed. A properly conducted school is the *most effective and economical medium* for instruction of new men in *uniform company policy*.

3. In a business such as the one being described, there is a constant introduction of new and improved devices to the line of products, and of new applications of the method. The school serves as a central training point for instruction in the operation and use of these mechanisms. Each group of men completing the period of classroom work carry with them the latest information regarding these new devices and methods. Each individual becomes, in reality, an extension instructor at the branch office to which he is assigned. *The school thus serves as a focal point of all sales education.*

4. Sales students, regardless of the care exercised in their selection, do not always measure up to the standards which the company expects them to maintain. The conduct of the school, however, is such that errors in the selection of men can be detected sufficiently early in their careers, so that corrective measures may be adopted in each individual case. The elimination of men who demonstrate their inability to progress at the normal speed of the group results in *reducing the wastes occasioned by delays in recognizing individual deficiencies in the absence of the direct comparisons afforded by classroom activity.*

Classroom Instruction—Résumé. Some of the distinct advantages of classroom instruction have been enumerated. Of special significance to management, however, should be the opportunity afforded for "cost control" of sales educational activity. The fact that no general ledger account is set up for the accumulation of costs of conducting a sales training program for *individual training* does not mean that there is not cost involved. On the contrary, such costs do exist and are merged with sales expense. They are so obscured by the larger totals that no effective management control over them could possibly be exercised.

In the conduct of sales classes, however, accounting totals are easily determined, since totals of time, material, overhead are obtained without difficulty. When the cost of conducting a sales school or a sales training program is stated, many managers immediately express the opinion that such a program is prohibitive for their business. *Can it be that they are "penny-wise and pound-foolish" because they do not know their present actual costs of decentralized training?*

DEGREE OF SPECIALIZATION OR GENERAL INSTRUCTION

"Specialization" has come to be a euphemistic by-word of many managers, collegians, and workers. The term "specialist" seems to carry a connotation of success—for is not the medical "specialist" the man to be consulted for final diagnosis of maladies and to be paid the high fees? The thought has tended to stimulate the ambitious to plan a life career—which, unfortunately, is constricted by the limited horizon of the planner.

To meet the needs of "specialist training" and still afford some breadth of education, there has been a marked increase in the development of "orientation" courses. Orientation courses also have a fascinating implication. The brevity to which their content may be condensed is a factor which makes them appeal to those managements which are responsive to an "educational fad" but unwilling to recommend the expenditures required for substantial training programs.

Is industry generally in a position to sponsor and apply specialization in selling? This company's policy is opposed to such a program. The reasons for rejecting "orientation" and "specialization" in favor of an "extended or generalized sales course" may be summarized as follows:

1. Specialization loses much of its value when divorced from its connection with the transfer of skill to machinery,
2. Rapid industrial progress has developed a widened field of operations for all business. This spreading horizon is the field of activity of salesmen. Specialists can work in fully developed fields, but the "generalist" is needed to keep in touch with, and abreast of, this changing industrial world.

3. Although several phases of the business of this company require the application of specialized technical skill, this need is easily satisfied by placing specialists, who will prove to be qualified technical assistants, at the disposal of salesmen.

4. The type of selling for which the men are being trained, generally requires direct solicitation of industrial managers. No shortcuts in training will produce men who can pass their critical observation favorably. Breadth of experience and intensiveness of training are the prerequisites for the ability to approach these men on a basis of professional equality.

Broad General Training—Résumé. Although some pertinent facts have been bluntly presented, due consideration must be given to the personal inclinations of a company's management. Major executives may lean toward specialization rather than toward generalized instruction. Further, a thoughtfully conceived program based upon specialization may easily be far more effective than a superficially outlined program of generalized teaching.

Either program, if carelessly administered, may react as a boomerang upon its sponsor.

DURATION OF TRAINING

The length of time required for completion of training is entirely dependent upon the progress of the individual in attaining the qualifications essential to proper conduct of the company's business in a sales territory. At the present time, slightly more than five months of the student's first eighteen months in the sales organization are allotted to formal training in classes at the school. This period of formal training has been increased during the past six years, successively from six weeks to two months, ten weeks to three months, and so on—up to its present length.

The first eighteen months of a student's time are roughly divided as follows:—

(a) Two months' association in the branch offices with individuals with whom he will later work. Any disinclination to continue these associations can be reviewed by the student in that initial period, and he can resign before either he or the company has lost undue time, effort, or money in the further pursuit of the training program.

(b) Three months at school, during which classes are attended from 8:30 A.M. to 4:30 P.M. daily for five days each week, and 8:30 to 12:00 on Saturdays.

(c) Ten to twelve months in branch offices, gaining purely practical experience of the company's products, methods of operation, etc.

(d) Two and a half months at a second session of the school, at which the previous schedule of hours is followed—devoted to final development of professional ability and selling technique.

The determination of this program has been based purely upon experience. Perhaps the only important fact to be observed in setting the length of the classroom program is the necessity of limiting any continuous session to a period of three months or less. Regardless of the interest or enthusiasm of students, their physical reactions reveal the effects of fatigue after the conclusion of the tenth week of intensive instruction, and much of the benefit of classroom activities tends to be lost.

Duration—Résumé. The length of sales school classes and training programs is affected by the practical consideration that the costs of training must not exceed the profits which may be expected to be produced by the salesmen when they are actively in the field. Proper supervision of the cost elements is highly essential.

A second factor to be remembered is that a reduction in sales turnover may be made possible by increased productivity of trained men. This generally swells the profits through greater yearly production over a longer period of time. If this reduction in turnover can be attained through increased expenditures for sales training, the additional cost is easily justified by additional profits.

THE CONTENT OF THE CURRICULUM

The course of sales training has been developed so that its contents constitute a broad apprenticeship of both theoretical and practical phases of selling.

The five months in the classroom include:

1. Visual instruction through the use of industrial motion pictures. An extensive study was made of motion

pictures available through film exchanges and other organizations. A number of reels were selected which present most effectively the basic facts concerning industrial management problems.

2. Lectures by outstanding college professors and industrial leaders to acquaint the men with the broad fields of endeavor to which they will later be assigned.

3. Improvement in the art of speech and public address through classroom instruction and semi-weekly dinner meetings at which each student has an opportunity to present an address on any subject in which he may be interested.

4. Intensive study of the products and their industrial applications through work which is equally divided between lectures and "laboratory" exercises based upon actual problems.

5. Class lectures devoted to sales technique, presented by district and branch managers who have been selected because of their outstanding capacities in each field of selling. These sessions are followed by "mock interviews" in which the students participate.

The field training which these men receive is fundamentally the same in type as that of other large corporations. It includes attendance at all sales meetings, practical experience that may be gained by assisting or accompanying salesmen in the work in their territories, and some supervised study of text material.

Content of Curriculum—Résumé. Presentation of the detailed content of a curriculum would not be truly informative. Any summary in brief article such as this would be so superficial that no significance could be attached to it. What governs the content of the curriculum is not so much the formal outline of courses, as the combined experiences of the students during their practical field assignments, which are explained and interpreted, and the wealth of information which the instructors have at their command.

The school, in reality, is the clearing-house of students' ideas—at which practical problems become the basis for explanations of theory and practical solutions.

Standards of Student Performance

Any program of sales training designed to stimulate men to increased efforts and effective learning necessitates the establishment of standards of conduct and performance. The training period must be recognized as a "trial period" during which those who prove themselves poorly adapted will be eliminated. The bases upon which men are to be rated cannot be considered infallible, for psychological measurements have not yet been developed to the point at which vocational aptitude can be definitely appraised.

Among the standards which are established, the following are significant:

1. Infractions of rules concerning personal behavior by which the company's reputation is jeopardized result in dismissal.

2. A medical examination is given to each student upon arrival at the school (even though a similar examination was passed at the time of employment). Any major medical impairment or communicable disease results in suspension or termination of employment.

3. Last, but not least, a review of the records reveals

that the release of men because of unsatisfactory progress after assuming field assignments is lowest among the highest quarter of the class and increases as the grades in class work descend:

Quarter of Class	Percentage of Men Released
1	14
2	18
3	29
4	39
	<hr/>
	100

This table shows that the total number of men released because of unsatisfactory progress in the lowest quarter is approximately three times as great as those in the first quarter; and, also, that the business mortality in the lower half is twice as great as in the upper half.

The policy of eliminating men who lack either the mental ability or the social qualifications to progress in the business is adhered to. It is the only justifiable course, since the company is subject to no further expense, and the student does not waste time which in many cases could be profitably devoted to working for success in some other business.

Standards of Student Performance—Résumé. Standards of performance have been successfully applied in manufacturing. The bases of such standards are critically analyzed for each industry to which they are applied. The same general rules are applicable in setting standards of performance for salesmen and sales students.

Conclusion

The ultimate success of any sales training program is dependent upon:

1. The willingness of one or more chief executives to assume personal responsibility for, and to maintain an active interest in, its organization and administration.
2. The completeness with which the objectives of the program have been studied and clarified.
3. The care with which fundamental policies are established and executed.
4. The willingness of management to review critically the accomplishments of the organization which they have established and to approach open-mindedly the need for revising the program and adapting it to changing conditions.

Insofar as these principles have been applied to this organization's training program, highly favorable results have been achieved. In spite of the constant broadening of the scope of technical training and experience, occasioned by the development of many new products, with far wider application than those of a decade ago, it is possible to recruit men directly from colleges and convert them into trained salesmen who can take their places in the selling organization in less than half the time formerly considered essential.

Analysis of the sales productivity record reveals that although many school-trained men have just recently been placed on quota in the sales field, their records compare very favorably with the older men in the business who have had from 15 to 25 years of experience.

The Training of Shop Assistants in the Swedish Coöperative Movement

H. ELLDIN*

SUMMARY

Local training of assistants in the Consumers' Associations is arranged differently in different places. This is often due to whether or not properly qualified teachers are available. Correspondence courses, a Staff Bulletin, literature, and "Staff Conversations," are the means usually adopted. Attempts have been made to standardize the training by means of "Standard Courses."

The *central* training, which is given at the K.F. (Coöperative Federation) School, is divided into several courses, two of which are specially intended for assistants. To enroll for these courses, the assistants must have taken correspondence courses with approved results. The courses are short (1-4½ weeks), but the idea is that the individual pupils should return several times between the ages of 20 and 40 to take more advanced courses. Short courses require special methods, and that imperative need has produced the systems of training described under different headings. Considerable attention is paid to the personal affairs of the employees, and instruction in how to manage them is therefore also included.

JANUARY 1st, 1937, 14,721 persons were employed in the 4,340 shops of the coöperative consumers' organizations in Sweden. Even if a certain proportion of the employees were clerks and persons in leading positions in the 735 consumers' associations, some eleven or twelve thousand of them were directly engaged in the stock-rooms and shops. The associations that have to train their shop assistants vary greatly in size—from the small rural association employing perhaps only one or two hands to the largest of them all, the Stockholm & District Consumers' Association, with 1,500 shop assistants. More than 80 per cent of the associations, however, employ more than two people.

Local Training

Seeing that the associations differ so greatly in size, the local schemes for training shop assistants must obviously also vary within fairly wide limits. They have this in common, however, that the beginner is taken in hand by the shop manager or senior assistant, and learns from him the rudiments of his trade in a purely practical manner. As a rule he or she has only the ordinary elementary school education, though some may have spent some brief period in a vocational school before being engaged, at the age of 14 or 15, *to run errands* or as pupils. At the age of 18 they are promoted to assistants if there is a vacancy in the shop, provided they have shown special aptitude for the work. They are engaged without any special tests, and from 14 to 18 years of age they are therefore so to speak on probation. During this period, many of the associations try to impart to the youngsters the elementary knowledge necessary for their future trade; some of them also attend evening classes in more or less commercial subjects in the apprentice schools organized by the local authorities.

An assistant permanently engaged by the association is more systematically trained, but only partly locally. The

large associations often arrange *courses* involving a few hours of instruction every month (in working or free time) in coöperation, work in the shops, knowledge of merchandise, window dressing, and how to serve a customer. These courses generally extend over 2 or 3 years, but the association also watches the subsequent training of its staff, and tries to promote this by every available means. It is now becoming increasingly common for associations having a turnover of not less than 2 million kronor to engage specially qualified assistants for the training of the staff. The small associations cannot do this, and the training given by them will therefore depend on the personal initiative and ability of the shop or association manager. In both large and small associations, however, it is very common for the shop manager to summon his staff once or twice a month for what is called a *staff conversation*—a brief talk, followed by discussion, on some commodity, some problem connected with serving the customers, some technical detail of the work, or some coöperative question (e.g., how a customer may become a member of the association). Subjects for these staff conversations are obtained from the central training courses of the central organization of the Association, the Coöperative Federation, or from the monthly staff bulletin sent to every employee. The purely coöperative training may partly be delegated to *study-groups*, composed of both members and staff, in which coöperative and economic questions are studied with the aid of pamphlets or correspondence courses, led by some teacher.

Since a year ago, however, the training has been partly reorganized as the result of coöperation between the Central Organization and the local associations. The Central School of the Coöperative Federation (K.F.), which is called "Vår gård" and is situated at Saltsjöbaden just outside Stockholm, has prepared a correspondence course, intended to give a certain standard elementary training to the junior employees. This "*Standard Correspondence Course*" is coupled with practical tests in how to weigh goods, wrap up parcels, obtain and use cheap and practical

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aids to displays, and engross price tickets. For assistants in grocery shops and general stores the standard course consists of 21 lessons by correspondence on the elements of coöperation, shop management, costing and control questions, working technique, and knowledge of merchandise. Side by side with these lessons, the pupils study a handbook on shop work. A pupil who has obtained pass marks in the standard correspondence course and the practical tests, is 19 years old, and has worked for a year as an assistant, is allowed to enter for one of the 2 annual written examinations that entitle him or her to a "Standard Certificate" that he possesses the minimum knowledge required from an assistant. This certificate will eventually be one of the qualifications necessary for entering the central training courses. So far, the corresponding entrance qualification has been attached to a shorter correspondence course, which has not been combined with practical tests.

The present idea is that the standard course for junior assistants shall be followed by similar courses for "senior assistants," shop managers, specialists in selling fruit, cheese, etc., and for window dressers. All these courses will be combined with practical exercises and tests, which latter will be passed before a jury at certain central places, while the tests of the present course are passed in the shop where the assistant is working, before his own manager. In this system of courses it is thus intended to combine practical with theoretical training. The K.F. correspondence school courses in arithmetic, bookkeeping, control systems, political economy, and other subjects, the participation in local study-groups mentioned above, attendance at central training courses, and certain practical results achieved in the daily work, will all be part of the necessary qualifications for the various "Standard Certificates." The staff has shown a gratifying interest in these training methods. Nearly 1,200 assistants have entered for the first standard course, and 350 have taken their standard certificates, in the first 15 months.

As experience from a number of shops in different places is excellent training, efforts are made to arrange an exchange of assistants between different associations for periods of six months. These exchanges have not yet become very extensive, but there is apparently some interest in this form of training.

The Central Training

Even if the Central Organization School were very large, it would obviously be neither possible nor expedient for all employees to be sent there. Most of the training must necessarily be local, and it will be the task of a central school to arrange that particular continued training which is essential to assistants who have the ability and wish to advance to higher positions.

The courses at the Coöperative Federation School are therefore arranged so that only those assistants are admitted who have completed certain correspondence courses and shown great ability in their daily practical work. The consequent selection naturally has a stimulating effect on the interest in the training.

The employees do not pass any lengthy course of one or two years at "Vår gård." As far as the *practical* training is concerned (e.g., in shop management, shop dressing, and

the serving of customers), a boy or a girl of 18 or 20 is hardly mature enough to assimilate instruction to prepare him or her for activities for the next twenty, thirty, or even more years. For one thing they need to practise what they have learnt in the home shop, and for another they need that wider experience of life, which only the years can give. The courses are therefore arranged in stages to suit different ages, and two of them in particular are usually regarded as mile stones for those of the staff who wish to get on. Apart from these, however, there are more or less specialized courses for different branches and positions in the movement.

The first course for which an assistant tries to qualify by his preliminary studies at home is an "*Assistants' Week*." He (or she) must be 18 years of age, be on the permanent staff of the coöperative movement, and have done at least two years practical work before he can enter for this course of one week. Beginners are thus not eligible, they must first become familiar with the environment to which the instruction given at the school applies. So brief a course is naturally not intended to add appreciably to their knowledge, but rather to inspire the pupil to continue the training already begun, and to indicate the paths by which this can be done. The teaching therefore consists of lessons on commodities, coöperation, and economics, and of practical exercises. In a specially built practice shop, groups of pupils are set to put up the goods on the shelves, to make the shop clean and attractive, to arrange displays or price-ticketed goods on the counters, and to dress the windows. The serving of customers is also practised.

No marks for knowledge can be given the pupils after so brief a course. The rule is that every lesson shall end by the teacher setting the pupils a practically feasible task to do at home. These tasks have to be completed and sent in to the school by a certain fixed time. The idea is to maintain contact between the pupils and the school.

The second of the courses lasts one month. It is called the *Shop Manager Course*, because one of its objects is to train capable assistants to be shop managers. To enter for this course the candidate must be 23 years of age, have acquired knowledge by a correspondence course, or at a local school, in bookkeeping, arithmetic, and engrossing, have read certain books on coöperative and economic subjects, and have worked in a coöperative study-group for at least one year. The candidates have to pass examinations in the above subjects, and some tests of their good sense (they must say how they would deal with given situations selected from actual shop experience, to show their power of initiative, organizing ability, and personal leadership). Experimentally, an intelligence test was also applied for about ten years. Their superiors give them graduated marks for conduct and ability shown at work.

During this course the school tries to help the pupil, then generally just over 26 years of age, to put his knowledge of the practical work, as well as of coöperation, into system. They are made to study the various aspects of the work, as far as possible by wholly practical exercises. The following examples from the schedule of work will give some idea of how the instruction is arranged, not only at the above, but also at several other courses.

Shops and Selling

Under this heading are included discussions with the pupils on the various arrangements made by three groups of pupils in the practice shop. Any faults in the shop arrangements pointed out by the teacher or the pupils must be corrected in time for the next discussion. The equipment and machines used in the shop are demonstrated in practice. Special lessons are given in how to check the goods and the cash. The question of how the work in a shop should be distributed among the assistants is discussed, on the principle that each of them should if possible answer for one group of commodities as far as noting the need of new supplies, the care and storage of these goods, and their display, is concerned. The amount of stock to be kept, and how much of each quality according to price, is discussed from the budget point of view.

Customer Service and Working Technique

Ordinary "serving practices" are carried out in the practice shop: one or more teachers act as customers, and one pupil serves them; what happens is discussed from a technical and psychological point of view. In order to increase the power of observing the general character of a customer, a film specially made for this purpose (with no texts or sounds) showing five different types of customers in typical situations at home, and afterwards in the shop, is shown, followed by discussion of the types of customers, and how each should be served. The technical instruction begins with "practice in serving": each pupil has to serve the same customer, and the teacher measures the time used for making up the parcel and the quantity of paper used, and makes notes on the smartness shown in the sale, and on certain important technical details (e.g., if the weights are removed from the scales after weighing; if the goods are put back in their compartments after serving; if the article is shown turned correctly towards the customer). The results are then tabulated, and the methods of serving discussed with all the pupils.

Shop and Window Dressing

For four hours the pupils are lectured on the principles of displays, and given information regarding different materials, and are then put to work in groups to stick posters on background boards, etc. Special lessons are given on how to use colours in displays, and on the wording of texts. The pupils, working in groups, are then set to dress the practice windows under specified conditions (e.g., so many yards away from the people passing by) at a certain time of the year, in a given kind of community, in a lightly or heavily trafficked street, near to a stopping place for busses or a car parking place. (Similar conditions are of course set to the groups of pupils arranging the goods on the shelves in the shop). The pupils work on their own, but the teacher supervises the whole so that the result will not be a complete failure and may bring out some positive lesson for the subsequent joint discussion with the other pupils.

Knowledge of Commodities

About 30 hours are given to a study of the various groups of commodities. As most of the assistants work

in provision shops, special care is taken to inform them of the most important principles of nutrition. A teacher of cookery is engaged to give the housewife's views on the subject. She gives some practical demonstrations in cooking in order to show the pupils what is meant by the instructions given in cook books and food recipes. Various recipes are analysed from the salesman's point of view. Afterwards when the pupils are allowed to study individually the commodities exhibited at the school, they must study each commodity according to a certain form, which has to be filled in and is afterwards examined by the teacher. This form precedes a series of questions by stating that the pupils must find out in cook books for what dishes each particular commodity is used. That knowledge obtained, he goes on to analyse the article with the aid of specially prepared texts in the show-rooms. The brevity of the course rarely admits any close study of the origin and other questions relating to the goods, which are of secondary importance to the *shop assistant*. The primary questions must, of course, be those asked by the customer as a housewife. During each course visits are paid to the mills—macaroni factory, rye biscuit bakery, incandescent lamp factory, etc., of the Coöperative Federation. It is then important that the pupils should not go about as ordinary tourists, paying most attention to how the machines work. In order to find out what is done to the *actual commodity* in the production processes, during their visit they must ask the guides certain set questions. These visits are usually prepared beforehand during a lesson.

Individual Training

It has proved necessary, not only to teach the above matters and coöperation, social economy, and special shop economy, but also to develop ability to analyze situations that constantly confront shop people—whether in their relations with customers, their comrades, the shop manager; or, problems pertaining to the commodities, the shop equipment, opportunities to sell, etc. To cultivate the pupils' powers of thought, instruction is given in "the art of thinking out a situation"—the examples being taken from daily life. About 4 or 5 hours are spent on analysing typical situations, say of the following nature: "One day, on entering the stock-room behind the shop, you find some eggs on the floor." It has been found that the pupils usually take far too onesided a view of such questions. They are, therefore, now made acquainted with a system of considering such aspects more comprehensively and thoroughly. At the end of each week of the month's course they are made to write replies to such questions. The replies are gone through, and are then discussed by all the pupils.

As it is most important that an assistant selling china, glass, presents, or the like, have good taste and be able to give reasonable and good advice to the customer, the problem of developing taste has also been tackled. At the beginning of the course each pupil is made to set a dinner table according to his personal taste. The pupils are then given six choices of table cloths, plates, coffee cups, fruit dishes, flower vases, etc., on a rising scale of refinement. Then they study a small "taste" exhibition, where beautiful objects are set against ugly ones. By comparing articles in different finishes, forms, and colours,

and by the aid of texts asking questions on each, the pupil is induced to acquire at least some opinions on matters of taste. At the end of the course another test is given and it is usual to find that considerable improvement in taste has taken place.

The owner of every modern business is naturally interested in the mental balance of his employees, both when at work and during free time. It has, therefore, been considered essential to include some instruction in problems like personal *hygiene*, and to give explanations and make suggestions as to the ordering of the private finances of employees.

The above are only a few examples of how the training is arranged. Other subjects may be included in the schedule when suggested by actual events. The school, therefore, does all in its power to keep close contact with actual life. Its teachers travel about, visiting the coöperative shops, giving lessons there in the evenings, and working

side by side with the assistants. Many new suggestions for changes in the training plans have resulted from these journeys. The pupils of course after course also conduct certain minor investigations in their home establishments, and the results are put at the disposal of the school. The school itself makes use of a questionnaire—which the pupils at the courses have to answer—to ascertain different opinions, experiences, and actual conditions. Since from eleven to twelve hundred pupils visit the school every year, a fairly good knowledge of local conditions in all parts of the country is thus obtained.

The reason why the people engaged in the Swedish Coöperative movement take so very great an interest in their training is, of course, that good training will open the door to promotion to the higher posts. Then, too, the great majority are anxious to make themselves fit to do their share in the socially important work done by consumers' coöperation.

Salesmen's Compensation and Incentives

Dr. HARRY R. TOSDAL*

SUMMARY

The paper is a discussion of recent changes in compensation and incentives for salesmen, and the relationship of such changes to broader sales management problems. The discussion may be summarized by a series of propositions:

1. It is becoming more generally apparent that compensation plans can not be used as an effective substitute for management. The compensation plan can not be expected to furnish the amount and types of stimulation and the direction of sales activity needed for successful selling operations. It may contribute but it can not perform the whole task.

2. The changes which have taken place in compensation plans are largely adjustments based upon the desire to emphasize one or another of conflicting requirements of incentive, regularity of income for salesforce, low fixed expense, low selling cost, and flexibility.

3. The adjustments which have been made to secure the most desirable combination of elements have resulted in the adoption of incentive elements by those who have used salaries and of fixed elements by those who have used commission types of payment, the outcome being that newer compensation plans appear to resemble each other much more closely than was earlier the case.

4. More important than the changes in the compensation plans themselves have been the changes in sales management surrounding and affecting the performance of salesmen and therefore the operation of plans of compensation. Such changes are particularly those in market research, market planning, and market control.

RECENT developments in the field of compensation and incentive plans for salesmen have been evolutionary in nature. In spite of the fact that it is the fashion to classify business changes as revolutionary, it is clear that in many phases of business the changes which have occurred during the depression have been largely those which could be forecast if one were to assume a gradual evolution toward better management and better citizenship of the business enterprise.

Certain fundamental requirements for a satisfactory compensation plan may easily be set up in general terms. These fundamental requirements have not changed in the United States as they apply to the compensation of salesmen of wholesalers and manufacturing enterprises. The emphasis upon particular requirements has changed, it is true, and accordingly so has practice changed. The desire for security has increased the demand for stable or fixed elements in salesmen's compensation plans. The catastrophic changes in business conditions have emphasized the inflexibility of many plans and have caused the executive to search for plans which would offer greater adaptability to change. The pressure for low costs has seemingly been in conflict with this desire. Low prices and maintained wage scales have emphasized even more the need for economy in performing the sales function. The growing labor consciousness of the salesmen which is beginning to manifest itself in the unionization of certain classes of sales persons may further change the emphasis upon particular requirements.

Any practical student of compensation and incentives for salesforce must view problems in perspective if he is to understand their relationship to management in its larger sphere. He must see compensation in its relationship to other factors affecting the salesman's work and to

other inducements to work well or poorly. In discussing changes which have occurred within the past several years, one should clearly not over-emphasize changes in detailed systems of compensation.

Accordingly, four groups of those changes will be taken up for consideration. One, changes in compensation methods and systems themselves and in the attitudes of business executives toward such methods and systems. Two, developments in the measurement of marketing effort in relation to compensation problems. Three, the growth of emphasis upon nonfinancial incentives and upon other factors which will permit improved results to be attained with existing compensation plans. And, four, changes in marketing programs which likewise tend to reduce the burden of furnishing extraordinary incentive to the salesmen through compensation.

Changes in Compensation Methods

Two principal classes of changes need to be distinguished if we are to reconcile the apparently conflicting actions of business executives with respect to their plans for compensating salesmen. First, there are those changes which result from the demonstrated lack of adaptability or flexibility of the plan as business conditions change in marked degree. In periods of depression the employer's urgent need for conserving cash resources and for securing sales volume at profitable prices causes him to emphasize the incentive possibilities of compensation plans and to favor those plans which contain the minimum of fixed compensation elements. On the other hand, the salesman's need for income and the adverse effects upon the morale of many salesmen of drastically lowered income or of great uncertainty of receipt of income impose pressure upon superiors to introduce salary or other constant elements to prevent demoralization. Consequently, in a period of depression the observer notes,

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for instance, that some firms abandon salary plans to adopt incentive plans offering, presumably, greater incentive to performance, while other enterprises drop commission plans and turn more or less completely to salary plans. In periods of prosperity the need for economy appears less pressing and executives have been more willing to assume salary burdens for reasons which will be discussed below. As conditions improve there is of course more opportunity for executives to change compensation plans in one direction or the other as personal preference and the preference of groups of salesmen dictate.

The second group of changes is more significant. While in this group may be included changes brought about by cyclical fluctuations in business, it is broader, in that it includes all those changes made by executives, irrespective of business conditions, in their efforts to find a fully satisfactory plan of compensation for salesmen. The trend in the decisions of sales managers regarding the compensation of salesmen shows a groping toward plans which will more nearly possess the fundamental requirements of good compensation plans. The adjustments which are made are usually of the type which are not at all striking or novel; many examples of changes of similar type can be found at various periods and in widely varying types of business. It is a well known principle that compensation should be adequate in amount so that a salesman is compensated fairly for the quality and quantity of work which he does. Adequacy may be understood to include also the element of stability of income, both from month to month and from year to year. The tendency to consider adequacy on the only sound basis, which is that of annual income rather than rate of commission, appears to have become stronger. To pay adequate compensation has challenged sales management's ability to make salesmen's work more effective.

For generations business executives have been attempting to solve the problem of securing a compensation plan which would furnish sufficient incentive without bringing with it other undesirable results. Many and varied have been the experiments of business in an attempt to increase the incentive of salesmen toward more satisfactory performance. The most extreme of the compensation plans in emphasizing incentive to volume of sales is the straight commission plan with its numerous variations. But volume of sales is by no means the only element of satisfactory performance. Profit, goodwill, special work for the purpose of creating a basis for repeat sales—all of these things enter into the satisfactory performance of salesmen in different lines of business. Consequently, in the attempt to furnish incentive for salesmen to do also the other tasks, firms have continued their search for compensation plans which would furnish specific incentive for every form of selling effort. Sometimes plans have emerged which were so complicated as not to be understandable, at least to the salesmen. Experience has shown that one essential for fullest incentive, namely, simplicity or understandability, has been lost. Among the numerous highly complex plans—some of which have been subjected to copyright restrictions—none of those which has come to my attention has been maintained in operation for more than a limited period by any firm. The trend seems to be toward incentive

plans of the simpler type. A maturer attitude toward the compensation plan seems to be developing, as a substitute for the early naïveté in expecting compensation plans to perform much of the management function. One of the broad conclusions to be drawn from observation of the policies of many firms with respect to compensation plans for salesmen during the period since 1930 is that no salesmen's compensation plan is a substitute for management and that the compensation plan is only one of a number of factors affecting sales performance.

The requirement that the sales compensation plan contribute to securing economical performance of the sales task is likewise being emphasized somewhat more definitely than in the 1920's, partly because sales managers are becoming more conscious of the need for net profit rather than volume alone, and partly because methods of accounting and measurement have made it possible for many sales executives to secure more accurate information regarding costs and profits derived from specific sales operations. In this emphasis upon securing lower costs attention has, of course, been paid primarily to the ratio of salesmen's compensation plus expense to sales. Ordinarily attention has been paid not only to improving the performance of salesmen with the customers and prospects assigned to them, but also to selecting customers and prospects which are more likely to furnish desirable volume of sales and profits. More recently, various companies have become more conscious of the costs of maintaining records necessary for the operation of some of the more complex sales compensation plans.

Lastly, more attention appears to have been accorded in recent years to the need for flexibility. Executives have become more conscious of the possible undesirability of frequent change. The tendency has been therefore to search for plans which would offer sufficiently satisfactory compromise between the desires of the company and the desires of the salesmen during the various periods of the business cycle so that little, if any, change would have to be made in order to adjust compensation to business conditions. The net effect of these efforts to modify plans to meet requirements of a good compensation arrangement seems to be a more general similarity between existing plans of compensation. While statistical compilations as to the frequency of various plans is not available, most of the plans which show the results of recent thinking appear to be combination plans containing some element which gives at least nominal stability of income to the salesmen and a variable element of the commission type to furnish incentive.¹ There are still

¹ It may appear that the commission plan which furnishes a drawing account is not to be classified as having a stable element. In practical business it would appear, however, that the difference between a drawing account and a salary is often exaggerated. Some drawing accounts are called guarantees. There is no essential difference in compensation plans which have a guaranteed drawing account, to be deducted from commissions, and a salary plus commission plan where the commissions are paid upon sales above a quota necessary to justify the salary. However, in the latter case the control advantage of salary plans is secured frequently under the guaranteed drawing account; the full disadvantage of looseness of control under straight commission plans is ignored. Drawing accounts which are not guaranteed would appear to be in a different class. Nevertheless, the tendency is not to cut drawing accounts below necessities for maintaining current living expenses for the

firms which use straight salary plans and there are industries in which the prevailing plan is that of simple commission. Some differences will persist indefinitely because the compensation plan is only part of a general set-up and by no means the most important one. But in so far as observation, contact with business, and published commentaries furnish basis for an opinion, straight salary and straight commission plans appear to be now in the minority.

Measurement of Marketing Results in Relation to Compensation

To the business executive who is struggling with the problem of compensation, it becomes quickly apparent that the relationship between task, results, and compensation is a very complex one. In the first place, the task is not clearly understood. The task of the salesman varies from firm to firm and from product to product. While it would appear essential that the determination of bases and units of measurement should rest upon the task which the salesman is expected to perform, the application of the principle encounters enormous difficulties. If the salesman's task includes only that of obtaining orders, the sales volume may be a satisfactory measurement of performance. But if the sales manager conceives of the salesman's task as including the getting of orders, the laying of foundations for future orders, or the building of goodwill, the adjustment of complaints, the performance of sales promotional work, the making of adequate reports, the satisfactory handling of correspondence and inquiries—then it is obvious that sales volume data alone are insufficient. If sales volume appears to be one definite measurement, sales managers generally have found it necessary to supplement sales volume data by information upon many other points, this information frequently being embodied in the vague term "general impressions."

No one measure or formula appears to be sufficient for most cases. Inspection of the salesman's work is physically if not financially impossible for most concerns using traveling salesmen. The improvement to be noted lies in the trend away from sole reliance upon sales volume and general impressions. The result of the salesman's work is not easily measurable in the definite terms with which industrial managers are accustomed to work in measuring the production of machines or of men engaged in turning out commodities. The salesman is hired to participate in the production of an intangible result: the meeting of minds of buyer and seller, the bringing about of agreement on the part of the buyer to the acceptance of a sales proposition which includes many elements. The intangible result of the salesman's work which is to be measured is therefore intermixed with the results of merchandising, advertising, and other effort. In the broadest sense, the principal results attributed to the salesman's work are in reality the composite results of product, policy, sales methods, and the activities of

salesman and his family. As a matter of fact, an accumulation of overdrawn accounts is frequently written off if a salesman is retained; and if a salesman is not retained this accumulation of amounts drawn in excess of commissions furnished under a drawing account arrangement is usually written off as a bad debt. In fact, in some jurisdictions the courts will not issue judgment against a salesman when suit is brought by an employer to collect overdrawn accounts.

other departments of an enterprise. It is evident, therefore, that simple volume of sales and sales expense data are frequently not sufficient to secure managerially useful approximations to the measurement of salesmen's performance. In the measurement of marketing results, the principal advances are in the nature of the extension of developments which appeared in the 1920's. There are, for instance, the improvements of techniques for the collection of sales information, and the development of distribution costing, all of which contribute to more accurate determination of what the salesman is doing and permit, therefore, closer studies of the relationship between the operation of compensation plans and performance.

The measurement of salesmen's performance requires, first, the determination of bases and units of measurement; second, the collection of information regarding the performance in terms of those units; third, the development of standards of performance for individuals; and, fourth, the interpretation of conclusions, and determination of action called for by the comparisons of performance with standards and with other pertinent information.

In the collection of control information, improvements in technique continue. Simpler forms and mechanical equipment of many types are used to furnish information which enables more effective direction and by so much furnishes a basis for incentive which need not be embodied in the compensation plan. In standards of performance, the chief improvements have been in the use of quotas. While forecasting of business conditions is under a cloud, a more widespread use of quotas and continued practice on the part of those firms which have been using them have enabled the development of quotas on a more flexible basis. Sometimes the incentive elements which have been added to salary plans have been based upon the quota or break-even point which furnishes more or less automatically a basis for judgment of salesmen's performance. Likewise, developments in the technique of market analysis and market research have enabled progressive firms to secure a sounder basis for the setting of standards, particularly in so far as quotas or standards were based in part upon potential factors.

Nonfinancial Incentives and Other Factors

Finally, we come to other types of incentives not directly connected with compensation but having a very direct bearing upon the burden to be borne by the compensation plan. We have observed a tendency to expect too much of the compensation plan; a tendency to substitute changes in compensation plans for other and perhaps sounder managerial measures. Better performance on the part of salesmen may come in many cases more soundly from improved selection, training, and supervision than from the addition of compensation "gadgets." The depression tendency toward abolishing or curtailing training programs for salesmen because better salesmen could be hired more easily than in earlier periods, seems to have given way to a more farsighted attitude. Training programs are being resumed in a modified form; more care is being devoted to selection. The improvement of supervision and control over salesmen's efforts was stressed, partly by depression necessity, and has continued. Careful study of the salesmen's work; follow-up in the field; the application of personal and trained supervision; the use of suggestion, praise, and

censure on the basis of facts, have provided incentive and stimulation without modification of compensation plans. Contests among salesmen continue to hold their own as a useful device for stimulating salesmen, at least temporarily, to greater efforts. The wide diversity of opinion as to the usefulness of contests likewise persists, though these differences are explainable in terms of attitude of management toward incentives and in the portion of the salesman's task to be emphasized.

Finally, no broad discussion of salesmen's compensation and incentives would be complete if mention were not made of improvements in general sales management. Changes in merchandising, the development of new products, better designing resulting in more attractive products, improved packaging, more careful selection of selling programs, the use of market analysis to determine more nearly consumer attitudes and preferences—all of these contribute so largely to the end result which appears on the salesman's record that changes in compensation plans appear minor in consequence.

Conclusion

We may conclude therefore with a series of propositions which appear to summarize recent developments in the field of salesmen's compensation and incentives:

1. It is becoming more generally apparent that compensation plans can not be used as an effective substitute for management. The compensation plan can not be expected to furnish the amount and types of stimulation and the direction of sales activity needed for successful selling operations. It may contribute but it can not perform the whole task.

2. The changes which have taken place in compensation plans are largely adjustments based upon the desire to emphasize one or another of conflicting requirements of incentive, regularity of income for salesforce, low fixed expense, low selling cost, and flexibility.

3. The adjustments which have been made to secure the most desirable combination of elements have resulted in the adoption of incentive elements by those who have used salaries and of fixed elements by those who have used commission types of payment, the outcome being that newer compensation plans appear to resemble each other much more closely than was earlier the case.

4. More important than the changes in the compensation plans themselves have been the changes in sales management surrounding and affecting the performance of salesmen and therefore the operation of plans of compensation. Such changes are particularly those in market research, market planning, and market control.

Expenditure for Distributing Staff in Prosperity and Depression Periods

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SUMMARY

1. The endeavour of every distributor should be to prevent the expenditure for the distributing staff from rising proportionately with sales in times of prosperity.

This can be attained, as an increase of sales does not require a parallel increase of distributing expenses, the main reason being that sales become easier with an improving market position.

2. It is advantageous to introduce, whenever possible, a share of profit for the staff harmonizing with the amount of sales, by which an automatic reduction in the expenses of the distributing staff would be attained during a crisis.

3. Where the percentage of distributing staff expenses was lowest absolutely, the optimum relation between the staff expenditure for distribution and sales was attained. This should be the case in years when sales are greatest:

4. All three cases show that the percentage of the expenses of the distributing staff to the total invoiced value is on the whole insignificant; in view of the importance which is to be attached to a perfectly equipped distributing apparatus, it may be judged that, on the expenses of a correctly functioning distribution service, no greater savings than are absolutely necessary should be made.

A COMPARISON between the total invoiced value of products sold and the total expenditure in salaries for the distributing centre is not solely of interest for the manufacturer but for the sociologist also; alternating favourable and unfavourable periods influence not only the earnings of the employees but also the number of persons in service. In those cases where it has been possible to attain a harmonious balance between the earnings of the people employed in the distribution of manufactures and the total turnover, an important step has been taken in the direction of preventing unemployment.

Figures from three very important sales offices of various metallurgical products provide interesting material for the study of this question:

1. Sales office of the cartel of steelworks and rolling mills.
2. Sales office for drawn wire and wire nails, incorporating practically the whole of that branch of industry of one country.
3. Sales office of a large company; this office attends to the sale of various metallurgical products such as castings, steel structures, etc.

As all three cases deal with sales offices having a turnover of many millions Czechoslovak Crowns, it is possible to disregard the changes resulting from variations in tonnage of the individual products sold, and it is sufficient to consider general changes in prices only; therefore, the total invoiced value may be taken as the same coefficient for comparison.

In all three cases the tables show:

- a. Curves of invoiced values and total expenditure for staff.
- b. Stepped indication of invoiced values and expenditure for staff expressed in percentages of these values.

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Only in the first case (fig. 1) do the curves show both the invoiced values and weight of goods sold. A comparison of these two curves shows that during the period of prosperity the yield rose by cancelling various allowance and discounts (prices were unchanged) and the curves went further apart. In normal periods they are parallel, after the price reduction in 1931 they came for the first time nearer to each other, and then continued to run parallel.

What characteristics have all three cases in common?

1. In general—as could have been anticipated—an increase in the invoiced sum is accompanied by an increase in the expenditure for the distributing staff (more or less parallel, which ought to be the case). Case 3 forms an exception in certain years, probably as a result of the greater variety of objects sold.

2. When the invoiced value rises, the total staff expenditure, expressed in percentages of the total invoiced value, falls.

3. After a fall of the total invoiced values, which attained their peak in 1928–1929, the total staff expenditure rose once more in all of the cases under review, not only as a percentage of the total invoiced sums, but absolutely also.

Of these three phenomena, the first two may be considered as quite natural and logical. The third may be explained as follows: every manufacturer responds to a decrease in his sales by increasing his efforts to keep sales up to a level which will not compel him to reduce production, or at any rate, not by a considerable amount. Only a prolonged depression, which convinces the manufacturer of the uselessness of his endeavours, is accompanied by “cutting” the cost of distribution including the share for the staff.

It is of interest to note that the percentage of staff expenditure in cases 1 and 2 reached its highest level not in 1933, when sales were at their minimum in all three cases, but in the preceding year. This phenomenon may be explained by the fact that the cases in question concern

mass products, so that distributing costs may more easily be brought into keeping with sales, and that this was done—under the assumption that the lowest level of the depression had not yet been reached—more violently than the extent of the actual fall necessitated. On the other hand, case 3 is a matter of more varied products, the sale of which requires more detailed work (which is obvious in the first place from the fact that the percentage of staff expenditure to the invoiced value has a higher absolute level than in cases 1 and 2, and, therefore, the percentage of staff expenditure is highest when sales are lowest.)

Considering also what influence the general phenomena (e.g., fall of prices or devaluation of currency) had on the

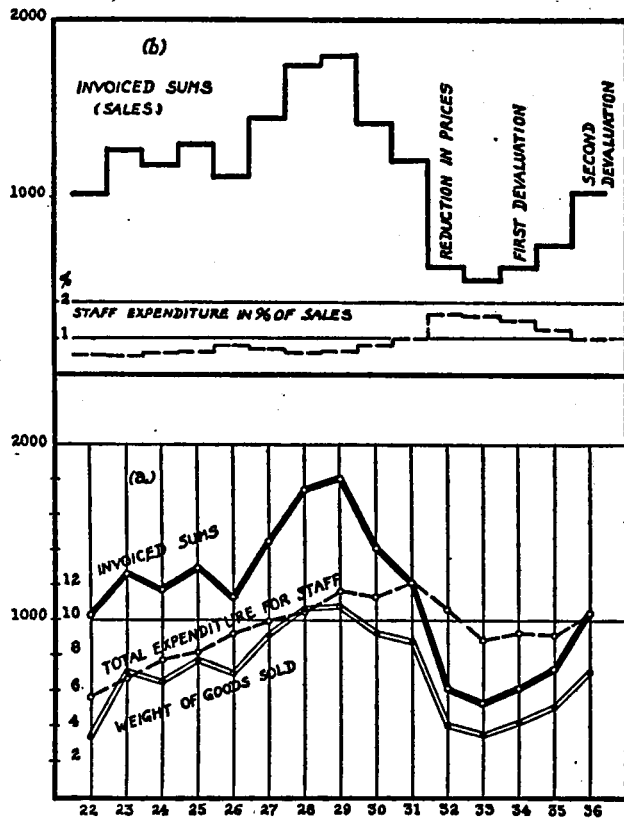


Fig. 1

cost of the distributing staff, we arrive at the following facts:

The drop in prices which occurred in cases 1 and 2 could not prevent a decrease in sales (in case 3 it is not a question of a general price development, possible only for cartel products). After all, as experience has always shown, a reduction in prices during a depression does not bring about an increase in consumption. On the other hand, the two devaluations had a favourable influence not only in case 1 where the sales office deals both with home and export sales, but also in cases 2 and 3, where the activity of the sales offices is limited to the home market.

On the whole, the following conclusions are arrived at on the basis of the above studies:

1. The endeavour of every distributor should be to prevent the expenditure for the distributing staff from rising proportionately with sales in times of prosperity.

This can be attained, as an increase of sales does not require a parallel increase of distributing expenses, the

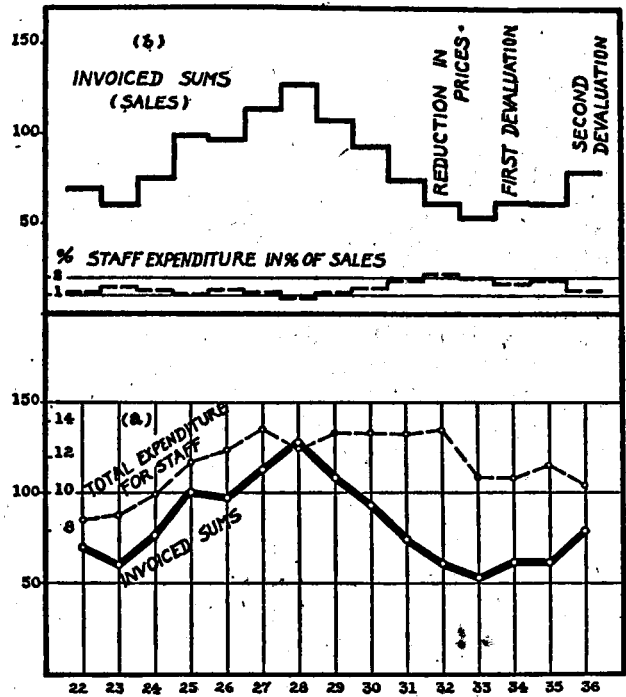


Fig. 2

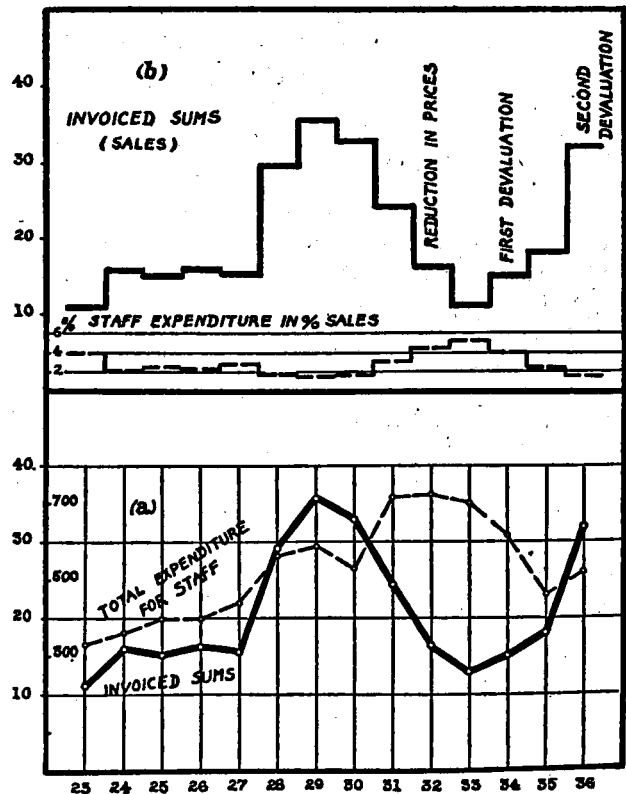


Fig. 3

main reason being that sales become easier with an improving market position. But even otherwise, one cannot think that, for instance, doubled sales would cause double

efforts, and consequently double distributing expenses, when there is no other change in the organisation.

2. It is advantageous to introduce, whenever possible, a share of profit for the staff, harmonizing with the amount of sales, by which an automatic reduction in the expenses of the distributing staff is attained during a crisis. This plan must be considered as correct even from the moral point of view, because every employee certainly recognizes that in a period of reduced prosperity he must be satisfied with a reduced income. The efforts to increase productive effects are not at all lessened as an increase of productive effect means an automatic increase in the personal reward for those employed in the distribution of manufactures.

3. Where the percentage of distributing staff expenses was lowest absolutely, the optimum relation between the

staff expenditure for distribution and sales was attained. This should be the case in years when sales are greatest; case 1, however, shows that the distributing apparatus does not work most effectively in the period of highest prosperity, which means that the distributing apparatus would have to undergo certain organic changes in such periods. (The percentage of staff expenditure was lowest in 1923.)

4. All three cases show that the percentage of the expenses of the distributing staff to the total invoiced value is on the whole insignificant; in view of the importance which is to be attached to a perfectly equipped distributing apparatus, it may be judged that, on the expenses of a correctly functioning distribution service, no greater savings than are absolutely necessary should be made.