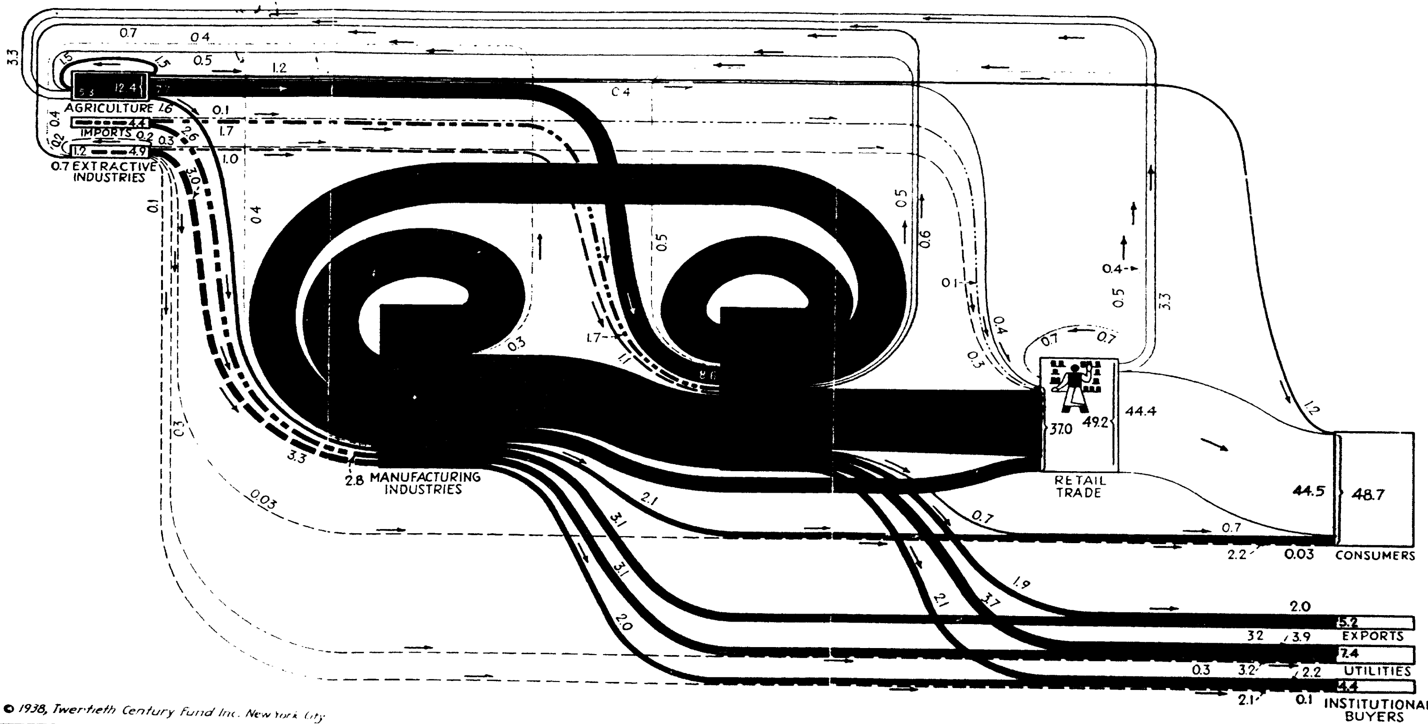
OUTLINES OF MARKETING

AN ECONOMIC STUDY—THE FLOW OF GOODS IN THE UNITED STATES

Or how 130,000,000 Americans take in one another's "washing"

(Figures in Billions of Dollars)



(Frontispiece.)

OUTLINES OF MARKETING

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THIRD EDITION
SECOND IMPRESSION

NEW YORK TORONTO LONDON
McGRAW-HILL BOOK COMPANY, INC.
1950

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PREFACE

The preface to the third edition of *Outlines of Marketing* has first to explain the change of authors. Professor Robert B. Jenkins has been promoted to Assistant Dean and is primarily interested in executive work. Professor James C. Drury is now teaching the more advanced and specialized courses. Their interests in a book on elementary marketing are, therefore, no longer active. In their places as coauthors are Professors Harold A. Conner and William L. Doremus, who are both members of the Department of Marketing of New York University and who gave valuable assistance in the preparation of the earlier editions of this text.

The plan of the text has not changed with the new authors. The primary aim is to study the interests of consumers—their likes, prejudices, and customs. This leads to a discussion of sources of supply, which in turn leads to an explanation of why the channels of trade remain so nearly constant, as shown by tracing goods from the place of production to the places where they are consumed.

The second part of the book, as in previous editions, has been given over to the problems of producers in securing distribution for their products. An attempt has been made to keep the material within the limits prescribed for the first two editions. It is not the authors' wish to present an encyclopedia on marketing in one text.

Much new material has been substituted for old, and two chapters have been added. One of these is concerned with merchandising and sales promotion, the other with the U.S. as a market. Approximately fifty per cent of the material in this edition is new and brings the subject matter up to date. The chapter on merchandising and sales promotion summarizes the best thought published on these subjects as evidenced in work in these fields. Previously the two subjects were treated as if they were parts of the same activity. The present book treats them as two distinct subjects. Their importance is such that in many cases they will be coordinate with advertising and salesmanship. The purpose of merchandising is to make the product better, more attractive, more serviceable, and in general more acceptable both to consumers and to distributors. Sales promotion deals with buyers rather than the product, filling the gap between advertising and salesmanship. It has been said that sales promotion tends to bring the interest of the consumer to the merchandise, while merchandising helps to move the product toward the consumer. While this idea is not new, it has not been given sufficient prominence heretofore in the literature on marketing.

As before, charts and statistical tables are used profusely. They present a great deal of information accurately, definitely, and in detail in a small space. The long tables may at first look forbidding, but it is the authors' belief that a little study will arouse considerable interest in them. Many answers to questions of widespread interest may be found in these tables. This material has particular value for students who enter into research work, for they will find that most of the data with which they work come in some such general form.

The authors have striven to avoid writing a text that is too descriptive. Reasons for conditions and explanations are given wherever possible, and the continuity of cause and effect is kept as clearly in mind as possible. The first edition was unique in its approach as described above, and both revisions have carried out the same idea. It has not been the purpose of the authors to write just another book on marketing—there are many well-written books on that subject already. The idea has been rather to make *students* of marketing and to prepare students who are so inclined to enter the field of marketing and do acceptable work. For other students who expect to follow different vocations but who feel that a general understanding of marketing is necessary, it presents a broad view of the subject.

The authors have received much help from their colleagues in the planning and arranging of materials. Particularly has Professor James C. Drury given valuable suggestions concerning the general plan and graphic illustrations. Edwin Wigglesworth and Frederic Glade have both liberally contributed ideas which make the book more teachable. To Dean G. Rowland Collins goes our appreciation for a very complete outline of marketing when the first edition was written. Since that time over seventy colleges and other higher institutions of learning have used the book as a text. This has led to much correspondence and many interviews, all of which have been helpful in the preparation of this edition.

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NEW YORK, N.Y.
June, 1950

CONTENTS

LIST OF ILLUSTRATIONS

LIST OF TABLES

CHAPTER I

THE FIELD OF MARKETING

200 Years of Progress.—The business of marketing is the most recent development in the field of commerce. One needs but a brief glimpse into history to see how slowly the United States developed commercially until about 100 years ago. It was two centuries after the settlement of Jamestown before Robert Fulton launched his steamboat the *Clermont*. It was even longer after the Puritans settled in Massachusetts that the first railroad train was operated on tracks in the United States—from 1620 to 1831. Chicago was not connected with any Eastern city by railroad until after 1850.

At the close of the Civil War, three-fourths of our population lived on farms. Those along the Atlantic coast depended largely on supplies which were brought in by ships. Many of the farmers, particularly in the South, even had docks where a boat could unload on their own property. With general farming west of the Alleghenies there were a few canals but farmers mostly depended on streams for shipping their produce and obtaining their supplies. Railroads had been extended to Pittsburgh, Detroit, and Toledo by mid-century. For many years the bulk of the corn crop was made into whisky, which was stored in hogsheads holding two or three barrels. These were rolled along the highways and over the mountains on the way to markets. Horses were provided to drag them uphill, and they were then rolled down on the opposite side. From this practice we have the expression a "rolling country." This same method was used in hauling tobacco to the markets.

Farmers, until after 1870, produced practically all their own food and the materials for making a considerable part of their wearing apparel. Meat, poultry products, dairy products, fruits, and vegetables were all home-grown. The same was true of sorghum, from which molasses was made. Where the crop needed processing, the farmer would take it to the nearby mill, such as the sorghum mill, the cider mill, or the grist mill. These various mills were paid in toll; that is, they retained part of the finished product as remuneration. That was also true of the sawmill and the carding mill.

The farmer's wife dried fruits and vegetables to be used during the winter months. There was practically no canning at that time. The housewife made cheese and churned butter. Groves of maple trees produced a few pounds of maple sugar, and the few hives of bees provided honey. These in addition to the cane molasses took the place of sugar.

The farmer retained a few fleeces of wool from the clip and took them to the neighboring carding mill, where they were converted into rolls. These were returned home and spun into woolen yarn, from which various garments were either crocheted or knitted. In a few homes there was a limited amount of weaving.

The cobbler, or tanner as he was often called, came to the farm about once a year and tanned sheep pelts, calfskins, and perhaps a cowhide, from which he would make boots and shoes for the family. The dentist also visited the home and performed whatever dental work the family needed or whatever they could be persuaded was needed. Dressmakers or seamstresses came to make the women's clothing. The fabrics for clothing for both men and women were usually bought from pack peddlers. These peddlers had a square of ticking into which they packed a few pieces of cloth—calico, sheeting, gingham, or woolens—and a few notions such as buttons, thread, and elastic tape. One of the difficulties in dealing with a pack peddler was that he had to be paid in cash, whereas the shoemaker, dentist, and the town editor would accept some produce from the farmer in exchange for services rendered—firewood, a quarter of a sheep's carcass, fruit, or vegetables.

"The Good Old Times."—Some of the shortsighted critics of our present system refer to the "good old times" when the household dealt directly with the shoemaker, with the miller, and with the sorghum mill. It is pointed out that producer and consumer were then acquainted and that better service resulted. To extol that system of trading is to admit the greatest ignorance of our present-day marketing system. The grocer carries some 2,000 different items; the drugstore and the hardware store each carry many more. All of these are used in the household in course of time. These various items are now available at reasonable cost and in adequate varieties. How could a family, such as that of a realtor in Keokuk, Iowa, possibly know of the hundreds of sources from which his household supplies come?

Obviously, it is no longer possible for the buyer to rely on his personal acquaintance with the producer as a guarantee of satisfaction. The greater the distance the factory is from the consumer, the less opportunity there is to have a firsthand knowledge of the processes by which goods are produced. Strange goods, unnamed and unsponsored, are received with a skepticism comparable to the reception accorded individuals who present themselves under similar conditions. Known goods, even where the acquaintanceship is by name only, are preferred to similar goods of a nondescript character. So the very distance that our present manufacturing system has forced between consumers and manufacturers has called for middlemen and for new types of salesmanship that were unknown in the days of face-to-face dealing with the miller and the carder and the shoemaker. Furthermore, it has developed higher standards of morals in trade. Under direct dealing, where the maker in person sold the consumer, each regarded it as legitimate to deceive and overreach the other. Now the universal rule is that unless the buyer is reasonably satisfied, reparation must be made. That is good business, as well as good morals.

If goods were still made by hand processes, there would be far less congregating in cities or in factory districts. Instead of great shoe factories established in the centers of populous districts, there would be many shoemakers in each city, as there are now many barbers and hairdressers; but that kind of manufacturing would not lead to specialization or to the economical production of more complicated machinery which is now extensively used in the home. If vacuum cleaners had to be manufactured by handwork, they would be so expensive as to be restricted to the very wealthy. The same thing is true of electric refrigerators, sewing machines, automobiles, and practically all the electrical equipment and many of the other products used in the home. The great problems of our industrial system center about securing the right amount of goods of the right quality at the right time and in the right places.

End of Home Manufacturing.—With the coming of manufacturing plants, the home divorced itself from the factory. This has come about in all walks of life. It is no longer the city people who buy their food in tins and cartons or frozen in packages. Most farmers buy their baked goods, at least bread, and many have no gardens nor do they keep poultry. They find it more convenient, and perhaps cheaper in the long run, to purchase prepared foods. It is not always a matter of convenience, and possibly economy, but people have learned to like and demand many foods with which they were wholly unacquainted at the end of the Civil War. Oranges from Florida and California are staples in the home. The same is true of dates, olives, and many condiments that were unknown to our grandfathers. Flour, now bought in sacks, no longer comes from the local grist mill but instead from the great milling centers of Kansas City, Minneapolis, and Buffalo. Boots and shoes are manufactured in a few centers such as Brockton, Mass.; Milwaukee, Wis.; and St. Louis, Mo. When our grandfathers went to the shoemaker, they had at best two choices—light leather and heavy leather; and similarly were the other members of the family restricted in making selections. Now there is such a great variety of styles that it is bewildering. Yet shoes made in the distant factory are currently bought for less money than those which are custom-made at home. The delicatessen and rotisserie are new types of stores that have been developed this century. They prepare and supply foods, and the writer has even seen an order of hot mashed potatoes and gravy sold over the counter to be taken to the apartment and served within a few minutes.

The colonists had practically no tinware. A few utensils made of pewter and a considerable amount of pottery had been brought over from the old country. Pails were made of wood by coopers, somewhat like kegs. Then two brothers who had been tinsmiths before immigrating to this new country settled at Meriden, Conn. Missing the tinware with which they were familiar, they imported a few sheets of the metal and began making basins and other utensils for the kitchen. These were sent out by men on horseback, who peddled them from farm to farm. It was several years, however, before the makers were able to induce stores to stock this merchandise.

These are just a few of the numerous items that have been slowly developed over the years. Now sewing is practically a lost art in many homes; canning and preserving fruits are seldom practiced in the kitchen; and wearing apparel is made in the factories in urban centers. The striking difference is that until the age of the automatic machine, the assembly line, and the interchangeability of parts, with the designing and installation of specialized machines, goods were always scarcer than the demand. These inventions were the cause of the industrial revolution, which started in England a century and a half ago with the introduction of machines for the textile industry. Now, in ordinary times we can make more of most products than the people of the country will buy and use. Our economic problem has consequently become one of selling and distributing the output of factories rather than one of searching for wanted goods.

Climate and Soil Influence Population.—The wealth of our people is ultimately derived from the soil. When the Puritans first came over, they found it very difficult to cultivate a noncooperative New England soil so that it would yield sufficient food for their survival. Subsequently, they took to trading. In the Virginia colony the colonists discovered the weed tobacco, which had found a popular place in England, and as it was the least difficult crop to grow and produced the highest revenues, the Virginians became great tobacco raisers and exporters.

That propensity for producing something with the minimum effort and the maximum return for the work expended has been followed throughout the country.

As the new settlers pushed over the mountain regions they discovered an abundance of fertile valleys. Some of these were surrounded by such high hills that it was almost impossible to transport goods in and out. Corn was the most productive crop, especially when it was converted into whisky. A governmental restriction in the early days led to the "Whisky Rebellion," and although the rebellion was sternly suppressed the inhabitants felt, and still feel, themselves deprived of a valuable resource in that they were not permitted to make "corn likker" the one way in which they could market a cash crop profitably. In spite of restrictions, however, the trade was carried on illicitly by so-called "moonshiners," who have not been alone in finding social and legal restrictions galling when they have tried to promote a business to which they believed they had a right.

Only Surpluses Go to Market.—With primitive people there is usually no surplus. They can raise vegetables and fruit but are interested only in what they consume. The booty of their chase is usually insufficient to supply their own appetites. The same is true with fishing. In this type of primitive life there would, therefore, be no such thing as marketing. In modern living, however, the farmer, the truck grower, the rancher—all supply a much greater abundance than they can possibly use. These surpluses must therefore be marketed.

If each district or each city manufactured only the items that it needed, there would be very little marketing. But even the superficial observer is aware that this situation does not exist. Each city must buy from other cities; each state, from other states; and each country, from other countries. Paper can be made only in those few districts where the water supply is adequate and sufficiently pure for paper manufacture. In the production of iron and steel it is necessary that coal and iron ore be either in the same district or so located that transportation charges to the smelters from the mines will be moderate. Hence our steel centers have been situated in the Chicago and Gary districts, Pittsburgh, Birmingham, and a few others of lesser importance.

With such products as automobiles, farm machinery, and electric motors, it is impossible to operate economically in a small factory. As a consequence, there are just a few large factories for each. In the automobile field only about fourteen are still operating out of more than a hundred that have been in existence at one time or another in the last quarter of a century. Most of the fourteen are situated in

Michigan—the Nash Company being the largest manufacturer not in that state. However, station wagons are rolled off the assembly line in the greatest number in Toledo. What is true of automobile manufacture in a general way pertains to many complicated items that require a high degree of specialization and many employees. With many articles the small factory may be as efficient as those with assembly lines. It is a well-known fact that each large factory buys parts from many small factories. Because of less expensive living conditions, many small factories locate in small cities or villages.

Because of the supply of raw materials, cheap power, or exceptionally good transportation facilities, our factories have situated in a few strategic positions. Twenty municipal districts account for 40 per cent of our manufactured products, the first five being New York, Chicago, Philadelphia, Detroit, and Cleveland. See Fig. 2, page 12.

Goods produced in these cities which cannot be used there are shipped to all parts of this country and to many other countries in exchange for raw and various other materials as well as for all kinds of food. This exchange between the locally produced merchandise and commodities produced in more distant sections presents many of the most difficult marketing problems—problems over which the marketing specialists with wide sources of information work continuously. The most successful dealers will be those who can effect the exchanges with a minimum expense and the least damage in transportation. This constitutes a large part of the field of marketing.

Figure 1 (page 8) gives an over-all picture of the agricultural pursuits for various sectors of the country. The nature of the soil and climate, including temperature and rainfall, dictates for the most part what crops should be grown. The large district that has gone over to cotton raising is striking. In the early days there was little investment necessary for the equipment for planting, cultivating, and harvesting cotton—only a mule to cultivate it, and cheap labor to chop it (thin it) and to pick the matured bolls. More recently the mechanical cotton pickers have supplanted hand labor. The expensive machines, however, can still be owned and operated only on large plantations.

The vast arid districts of the mountainous states are suitable only for grazing. Considerable parts are desert and furnish sustenance only for jack rabbits. Along the Eastern coast, on the other hand, garden crops are extensively grown. The soil is rich and the climate favorable, and cities, hungry for the fresh fruits and vegetables that the gardens and truck patches produce, are conveniently located.

The crops indicated in Fig. 1 are those which could be designated as the chief agricultural production. Every state and almost every district will have supplementary products, which may be as important as the particular ones assigned to them on the map. For example, Michigan, which is designated as a hay and dairy region, also raises fruit and potatoes. Some of the finest peaches and Concord grapes that are grown anywhere are found along the eastern shore of Lake Michigan. These are shipped across the lake to Chicago. Michigan also grows a considerable amount of excellent celery. Again, the district bordering Kalamazoo is the most noted center in the world for peppermint. Similar conditions are found in many other states. Near the large cities in Ohio are found truck patches and dairies. In New York there is an extensive district of assorted fruits along the south shore of Lake Ontario. In the Hudson River valley, many fruits, including apples, are grown. New York is also considered a hay and dairy region. However, there are great tracts of waste land surrounding the Catskills and in Cattaraugus and Allegany counties, where wild game is still plentiful. Kentucky, Virginia, and Connecticut all produce huge quantities of tobacco with which they are not credited on the map. In addition to raising corn, wheat, and cotton, Oklahoma produces many tons of peanuts. At Yucca, N.M., is found the largest station for shipping carrots in the country. In Colorado, one finds the famous Rocky Ford melons. The above are only a few of the exceptions to the general scheme of chief products given by the U.S. Department of Agriculture in Fig. 1.

Population as Affected by Earth Yields.—In the arid districts one finds a sparse population. Stock raising necessitates very little labor, as one herder can tend flocks grazing on a few hundred to over a thousand acres. Raising wheat is a similar occupation, requiring but a few hands for a small part of the year on the ranches. Moreover, the seeding and harvesting machinery used in wheat production is so well perfected that three or four men on a section of land are all that are required. In the dairy countries more man power is required per acre than in grain farming. One man can milk but about twenty cows, and as each cow needs only about three acres, it is evident that there must be one man or more for each sixty acres. With garden trucking, two men can raise nearly twice as much on a small patch as one could produce. That is particularly true of such crops as onions. Consequently in the trucking areas, the number of employees is usually large for the few acres of ground. Other crops vary quite as much in the number of people who can be supported in each square mile.

Table A (page 10) gives the principal mining districts of the country. A mine may employ several hundred men who contribute little to supplement the family budget by gardening or poultry raising. Each

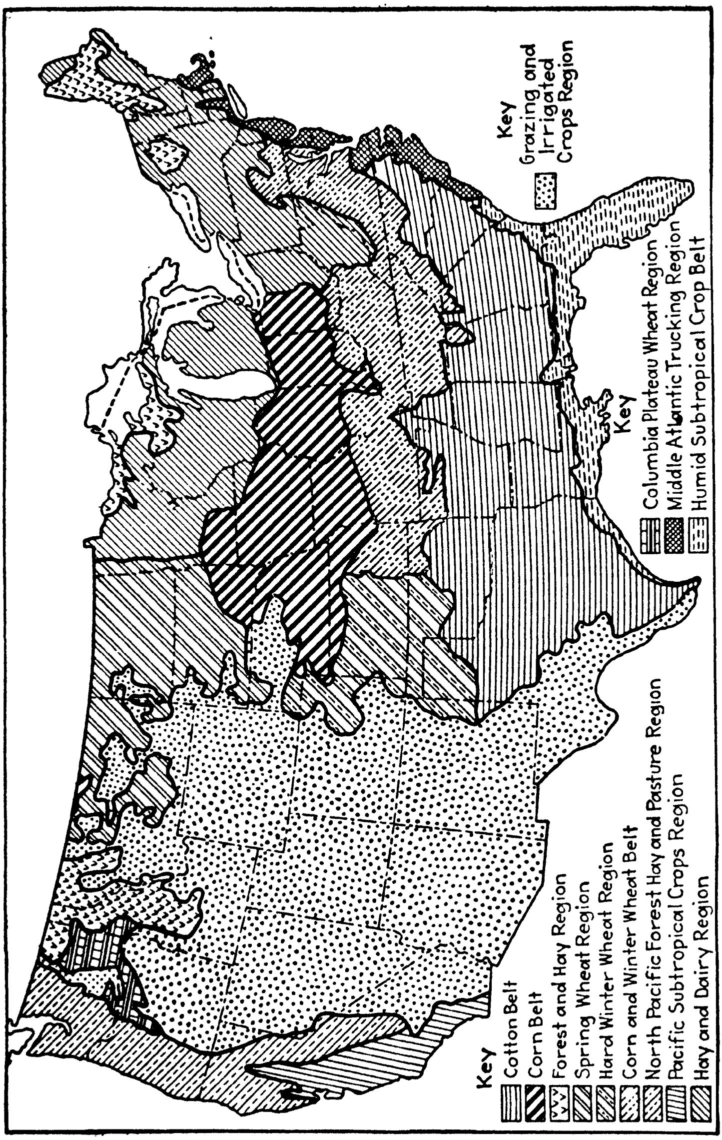

FIG. 1.—AGRICULTURAL REGIONS OF THE UNITED STATES (see description, page 9).

mining district provides an extensive market for most items that go into a modern home.

Figure 2 (page 12) shows the leading manufacturing districts. These require many workmen who devote all their productive time to the factories. They are the ones who comprise the backbone of the city population and provide markets not only for farm produce but for many factory-produced items.

Critics of our economic system are wont to say that the man who makes the best shoes never wears them; the men who build fine hotels never patronize them; the men who construct railroads seldom have an opportunity to ride on them; skilled workers in the mills producing the finest fabrics cannot afford to buy them, and so on, for the whole field of production.

It is the nature of our economic system that practically no one works for himself. The farmers are the greatest exception; yet most of their efforts are concentrated on crops and other products which they will not consume themselves but which will be sold for the benefit of other people. Professional men, educators, manufacturers, and transportation men spend their lives in doing things for their fellowmen. Each of us is expected to contribute to a sort of general fund of what the economists call "utilities." Then, each shares from that fund in accordance with his contribution. Two thousand years ago a wise man said, "He that is greatest among you is servant of all." That, expressed in our language, means that the one who does the most for

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Descriptive Legend for Fig. 1

The United States may be divided agriculturally into two parts, the East and the West. The East has a humid or subhumid climate and the land is devoted principally to crop production. The West has mostly an arid or semiarid climate, except the North Pacific coast and the higher altitudes in the Sierra-Cascade and Rocky Mountains, and most of the land is devoted to grazing. Each of these two parts may be divided into agricultural regions. Each of the eight Eastern regions (excluding the Forest and Hay region) is based on the dominance of a certain crop or kind of farming, which in turn is the result largely of latitude and temperature conditions. Each of the four Western regions is based principally on the use of the land for crops, for pasture, or for forest, which in turn is determined largely by altitude and rainfall conditions.

This is also an interesting map to study in connection with the distribution of population. Some crops can be made to pay a much larger return per acre of ground than others. As a rule, the crops that provide the greatest values require the most labor. Truck gardening is an example. Conversely, crops that produce the smallest monetary return per acre require the least work; grazing is an example. The kind of crop raised depends upon (1) the climate; (2) the nature of the soil; (3) the market. (For example, the soil of central and southern Illinois is admirably adapted to truck gardening. The climate is favorable. But there is no consumers' market available.); (4) The preference of the owner. (Some farmers prefer one crop, some another.)

Much of the mountainous parts of the country is good only for grazing—much is desert. Wheat growing is widely scattered. Wheat does not require much labor, and can be raised profitably far from the place of final consumption. In wheat-growing districts the population is usually sparse. Corn, cotton, and tobacco require much more labor and are found in more populous districts.

TABLE A.—MINERAL PRODUCTS OF UNITED STATES AND PRINCIPAL PRODUCING STATES *

Rank in value	Product	Principal producing states in order of quantity
14	Aluminum	Wash., Tenn., N.Y., Ala.
62	Antimony ore	Idaho, Wash., Nev., Oreg.
72	Asbestos	Vt., Ariz., N.C., Ga.
45	Asphalt: Native	Texas, Okla., Ky., Utah
15	Oil	Not separable by states
36	Bauxite	Ark., Ga., Ala., Va.
58	Bismuth	Not separable by states
33	Bromine	Texas, Mich., Calif., W. Va.
38	Cadmium	Not separable by states
53	Calcium-magnesium chloride	Mich., W. Va., Calif.
6	Cement	Pa., Calif., Texas, N.Y.
10	Clay: Products, heavy clay (other than pottery and refractories)	
18	Raw (sold or used by producers)	Ohio, Pa., Ill., Mo.
2	Coal: Bituminous	W. Va., Pa., Ky., Ill.
	Pennsylvania anthracite	Pa.
75	Cobalt	Pa., Mo.
5	Coke	Pa., Ohio, Ind., N.Y,
12	Copper	Ariz., Utah, Mont., N.M.
88	Emery	N.Y.
51	Feldspar (crude)	N.C., S.D., N.H., Colo.
11	Ferro-alloys	Pa., N.Y., Ohio, W. Va.
47	Fuller's earth	Texas, Ga., Fla., Ill.
(3)	Gem stones	No canvass for 1946
19	Gold	Calif., S.D., Alaska, Utah
81	Graphite: Amorphous	Rhode Island
	Crystalline	Texas, Ala., Pa.
27	Gypsum (crude)	Mich., N.Y., Texas, Calif.
73	Helium	Texas, Kans.
63	Iodine (natural)	Calif.
8	Iron: Ore	Minn., Mich., Ala., Utah
3	Pig	Pa., Ohio, Ind., Ill.
21	Lead	Mo., Idaho, Utah, Ariz.
20	Lime	Ohio, Pa., Mo., W. Va.
54	Magnesite (crude)	Wash., Nev., Calif., Texas
48	Magnesium	Texas, Mich., Calif.
34	Magnesium compounds (natural)	Mich., Calif., Nev., N.J.
43	Manganese ore	Mont., Wash., Va., N.M.
82	Marl: Calcareous	Va., Ind., W. Va., Mich.
74	Greensand	N.J.
52	Mercury	Calif., Nev., Oreg., Idaho
57	Mica	N.C., Calif., Colo., S.D.
23	Lead and zinc pigments	Pa., Ill., Kans., Ohio
(3)	Mineral waters	No canvass for 1946

TABLE A.—MINERAL PRODUCTS OF UNITED STATES AND PRINCIPAL PRODUCING STATES—*(Continued)*

Rank in value	Product	Principal producing states in order of quantity
28	Molybdenum	Colo., Utah, N.M.
4	Natural gas	Texas, La., Calif., Okla.
9	Natural gasoline and allied products: Natural gasoline and cycle products	Texas, Calif., La., Okla.
	Liquefied petroleum gases	Texas, Calif., Okla., La.
76	Nickel	Not separable by states
(4)	Ores (crude), etc.: Copper	Ariz., Utah, N.M., Nev.
	Dry and siliceous (gold and silver)	S.D., Colo., Calif., Nev.
	Lead	Mo., Idaho, Calif., Ill.
	Lead-copper	Mo., Utah, Ariz., Idaho
	Zinc	Okla., Kans., Tenn., Mo.
	Zinc-copper	Wash., Calif., Ariz.
	Zinc-lead	Okla., Idaho, Kans., Mo.
	Zinc-lead-copper	Ariz.
59	Peat	Me., N.J., Fla., Ohio
85	Pebbles for grinding	Minn., Wis., N.C., Texas
1	Petroleum	Texas, Calif., La., Okla.
25	Phosphate rock	Fla., Tenn., Idaho, Mont.
55	Platinum metals	Alaska, Calif.
24	Potassium salts	N. Mex., Calif., Utah, Md.
56	Pumice	Idaho, Calif., N. Mex., Kans.
49	Pyrites	Tenn., Va., Calif., Mont.
22	Salt	Mich., N.Y., Ohio, La.
13	Sand and gravel	Calif., Ill., Mich., Wis.

* Source: Bureau of Mines; data are for 1946.

others is entitled to receive the most for himself. Our economy is not so near perfection that this works out equitably, but it is the ideal toward which a competitive system strives.

Marketing Includes Many Activities.—In the study of marketing a very broad field is entered. All the business activities in transferring merchandise from the place where it originates to the place where it is consumed are involved. Buying, selling, and transportation are the most obvious parts. Yet, supplying capital, assuming risks, establishing grades and standards, providing storage, and furnishing information about both goods and markets are as important as any other activities. High-caliber men specialize in each of these functions, and vast business enterprises are built around each.

Warehousing, or storage, involves huge plants and the investment of large amounts of capital. Supplying information requires research, the publication of business papers, advertising, and the training of

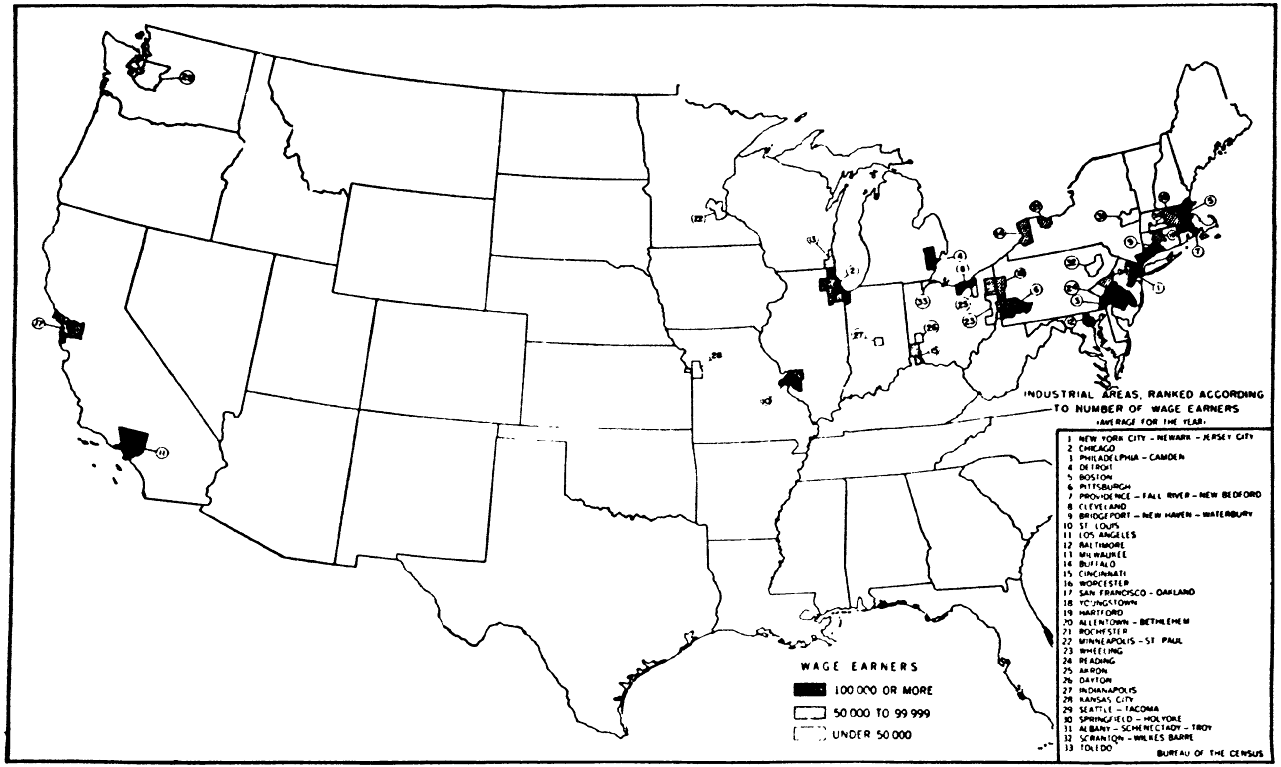

FIG. 2.—CHIEF INDUSTRIAL AREAS

A comparison of the above with Fig. 22 shows the close relationship between the industrial centers and the leading wholesale areas.

salesmen to understand and explain the nature of their goods so that customers may be able to appreciate quality and to judge and compare accurately. All these and more are items in the educational preparation for marketing.

In order to make a systematic study of the most important facts, the authors have considered the following comprehensive topics:

1. Population. Without people, there would be no markets. So the number and distribution of people constitute the basis of marketing study.

2. Goods and Services. Used in the most general sense, the term "goods" includes food, clothing, shelter, and the tools with which we work and play. There are so many different kinds of goods that, in order to study how they are supplied to consumers, a comprehensive classification is necessary. This is true also of services, which include transportation, supplying gas, electricity, and professional attention.

3. Marketing Functions. By this expression is meant the type of activity engaged in by all the middlemen in passing goods along to consumers. As mentioned above, buying, selling, and transporting are the more obvious functions, all of which will be considered.

4. Middlemen. As goods pass from the place of origin, the ownership changes several times. Many different firms have a part in passing goods along. To understand marketing one must understand the contribution of all the middlemen who have a part in distributing goods.

5. Techniques. In performing the various functions of marketing, many different kinds of skill, or techniques, are developed, such as research, advertising, and forecasting sales.

The person who expects to find a career in marketing will be interested in learning and acquiring one or more of these techniques. Others, who expect to engage in some different phase of business, will be interested in marketing as their employers' chief source of income; for profits come from sales, and all except the most routine workers will be interested in the methods of selling that make the existence of a business possible.

Figure 4 shows in graphic form the above divisions of the study of marketing. The close interrelationship of all the subjects to be studied is implied in the chart.

The Vocabulary of Marketing.—There are so many things included under marketing, the subject is so comparatively new, and the terms that it employs with a technical meaning are of such a general nature, that the common and technical meanings are often confused.

In the common jargon of the market place:

Production is the physical process of producing goods. It is creative.

Consumption is the process of using goods and services that have been produced. It is destructive.

Distribution, or marketing, is made up of those business activities that are involved in the movement of goods and services from the point of production to the point of consumption.[1]

The economist, however, takes a broader view of the entire subject

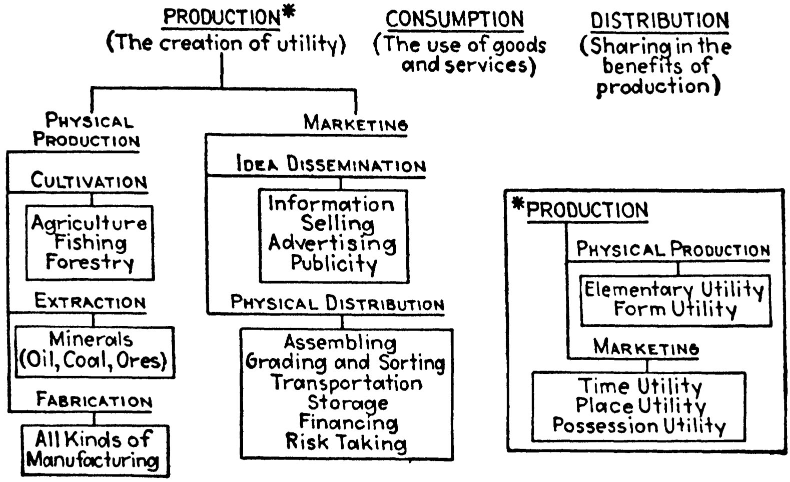

FIG. 3.—THE PLACE OF MARKETING IN THE FIELD OF ECONOMICS

of business. To him, production is the creation of utilities. A utility is the ability that a product or service possesses to satisfy wants.

Perhaps a brief review of the economic approach may help to make a clear picture of the relation of marketing to economics. The economist divides his subject into three divisions:

1. Production—the creation of utilities. There are five of these: elementary, form, time, place, and possession.
2. Consumption—the use to which goods are put.
3. Distribution—the division of society's production among the different factors necessary to production: land, labor, and capital.

Figure 3 offers a graphic presentation of the preceding paragraph. It shows where marketing fits in the general economic scheme.

Since marketing—the distribution of goods—creates the utilities of

[1] Definition, as adopted by American Marketing Association. This Association has, through a committee which for several years studied terms commonly used in marketing, written many definitions, which will be used in this text, also listed in the Glossary.

time, place, and possession, the economists treat marketing as a part of production. That is the economic basis of marketing.

Much confusion has resulted in the use of the term "distribution," for businessmen have commonly referred to the marketing processes as distribution of goods, or merely as distribution. Economists bor-

THE STUDY OF MARKETING COMPRISES

- PEOPLE
  - in various *places*
  - who are *able*
  - and *willing*
  - to purchase
- GOODS AND SERVICES
  - for *business* use
  - or *home* use
- THE FUNCTIONS INVOLVED
  - are *Buying*
    - *Selling*
    - *Transportation*
    - *Storage*
    - *Grading*
    - *Financing*
    - *Risk taking*
    - *Supplying market information*
- THE MIDDLEMEN
  - who perform these tasks are
    - *Individuals or groups*
    - in the *market place*
  - who use
- THE AVAILABLE TECHNIQUES
  - of *Selling and sales management*
    - *Advertising and public relations*
    - *Research and forecasting*
  - under
- CONDITIONS INVOLVING
  - *Governmental regulation* and
  - *Physical*, *psychological*, and *sociological changes*

FIG. 4.—DIVISIONS OF THE SUBJECT OF MARKETING

rowed the word and used it to mean the division of wealth among those who produced it. In this text, wherever "distribution" appears, it will be in the sense in which businessmen use it.

There is really no conflict between the two points of view. The businessman realizes that the economists deal with the whole field of creating wealth and must consider marketing from a broad angle. Of course, marketing is productive in the sense of satisfying human wants.

When production was largely a matter of handwork, such as picking berries, catching fish, or making a bow and arrow, selling or otherwise disposing of what one had produced was regarded, even by the layman, as part of production. If the producer of one of the three items mentioned failed to get it into the hands of someone who could consume it, it satisfied no need and so was not regarded as production.

Economic Utilities and Marketing.—With the coming of the division of labor and automatic machinery, which are synonymous with the industrial revolution, the distribution of commodities became much more difficult, and a generation grew up which devoted itself to the intricacies of marketing. Naturally, this generation developed its own terminology.

In Fig. 3 the student will observe that under marketing there appear in turn two subdivisions: idea dissemination and physical distribution. The former refers to those activities which have to do directly or indirectly with informing and persuading people to buy products or services. In our complex competitive business structure this general effort is essential, for how else would the busy person learn of goods produced by a manufacturer in some distant community? Physical distribution refers to those activities which directly or indirectly distribute, or facilitate the distribution of, the actual commodities after people have learned about them and want them. In actual business the two, idea dissemination and physical distribution, are carefully coordinated.

By the economist marketing is considered a part of production because it creates time, place, and possession utilities.

All the utilities are *allied* to marketing. Creating the *elementary* utilities, such as grain, fruits, wool, and cotton, may be directed by marketing research, which can estimate the approximate probable consumption of each. Also, if the research is sufficiently thorough and extensive, it will throw light on the locations where these commodities (utilities) will bring the best price. This is a form of market *information* indicated in the chart.

Form utility is the manufacturers' responsibility. How wise manufacturers use marketing research to determine what to make, how much to make, and of what quality, style, and ingredients is discussed on another page. These are all questions of the first magnitude for manufacturers of marketable goods.

Time utility is illustrated by the storage of eggs in the summer, when they are plentiful, for use in the winter, when they are scarce. This is an elementary marketing function—storage.

Place utility is another marketing function created by transportation.

Possession utility constitutes the functions of marketing most commonly discussed—buying and selling. Of course it involves giving information through advertising and publicity, as well as the personal contact of the salesman. This is illustrated by the sale of such an item as a printing press. If the press is destroyed while it is in the

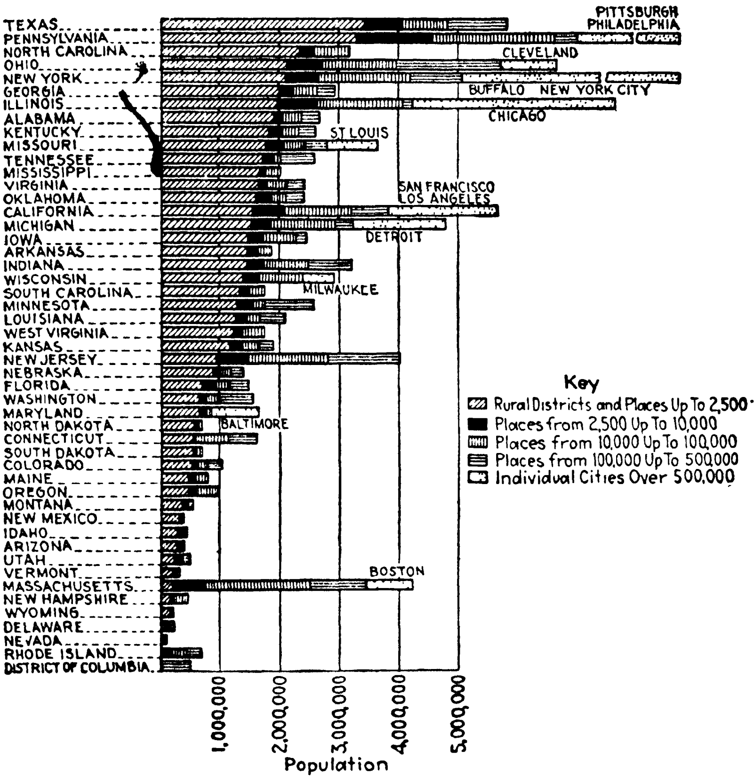

Fig. 5.—Graphic Study of the Population Groups of the United States

It is of major importance to the marketers of most products to know whether their markets are rural, small-town, or urban. Many of the people living in the first two of these areas buy a considerable part of their supplies from the cities. From a marketing consideration the state of New Jersey is almost as completely urban as the District of Columbia. The number of distributors and their location for all shopping goods should be determined primarily by the distribution of the population.

There are many farmers, for example, in New Jersey. But there are so many cities in that state, distances are so limited, and roads so good that most farmers get their supplies from the cities rather than from towns and villages as in Kansas, which, it will be noted, has a rural population only slightly larger than New Jersey.

The location of the population in regard to advertising is also important. Not only will different advertising media be used where most of the sales are in cities, but the cost of advertising per thousand population decreases roughly in proportion to concentration.

manufacturer's warehouse, only the cost of manufacture could be collected from the insurance company; if, while it is on the floor of the print shop, the same insurance company would repay the owner what he paid, less deterioration. That would mean the cost to make plus the cost of selling and delivering it to the printer. The difference in these two amounts is a measure of the possession utility.

Factors Making the American Market.—There are approximately forty million families in the United States. Each of these families consumes a large number of different items of merchandise besides requiring specialized services of a number of skilled and professional men and women. All the items of clothing, of food, or furniture, of cos-

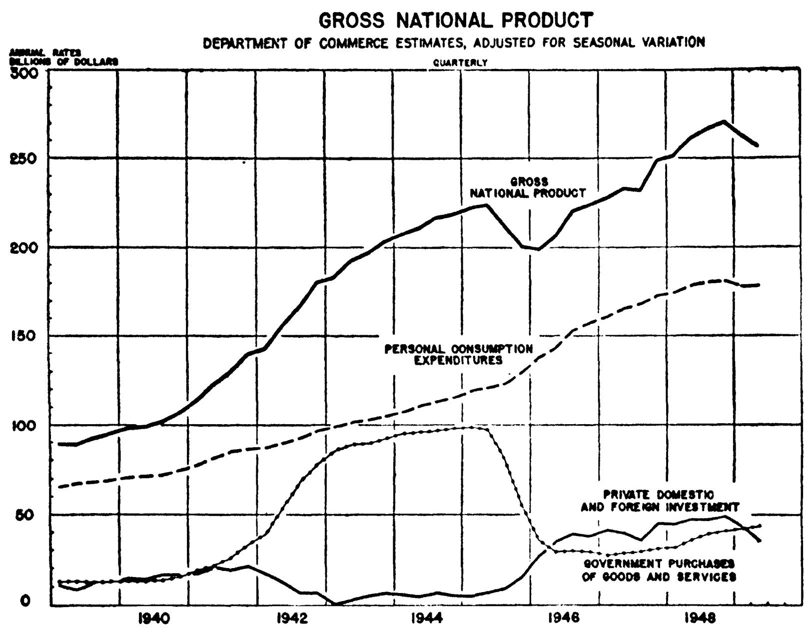

FIG. 6.—OUR PRODUCTION AND EXPENDITURES

metics, and of drugs constitute part of the material products that must be provided. People living in cities buy all of them. Farmers and residents of small towns may be able to provide part of what they need, such as vegetables and fruit from the garden, and perhaps poultry products. But those who keep chickens and cultivate gardens must buy seeds, garden tools, poultry food, and numerous other items. It is only the uncivilized who do not constitute a market for someone.

Add to the items mentioned all the things bought for education and recreation, for building and repairing the house, for the use and upkeep of the automobile, and the list becomes formidable. Perhaps the extent of the number of items required to supply a home can be pictured by considering the stores. The drug and hardware stores each stock about 5,000 items; the notion store, almost as many; and the grocery store, 2,000. All of these at one time or another find their way into homes. But these make no provision for clothing or household furniture, which add to the large number of commodities purchased.

In addition to all the items of merchandise required for the home, there is a long list of services, professional and others. Doctor, dentist, lawyer, nurse, teacher, entertainer, plumber, barber and hairdresser, painter and decorator are all called upon for specialized services. The laundress, the handy man, the gardener, and various repairmen for radios, watches, and electrical equipment constitute part of the artisans who contribute to running the home. Each of them may take a relatively small sum, yet the aggregate constitutes the family budget, and the combined budgets of the various families constitute the consumers' market of the United States.

In addition to the consumers' market, there is another that is called the "industrial" or "business" market. It is auxiliary to the consumers' market and exists for the purpose of supplying the consumers' market. There will be much more about this in a later chapter.

Styles Make and Break Markets.—Many studies have been made in an attempt to arrive at normal budgets in different income groups, but, in so far as the student of marketing is concerned, these studies of marketing are not very helpful. One of the reasons for this is that so many people buy outside their income levels. There are wealthy people who economize to the extent of denying themselves practically all luxuries. On the other hand, those of relatively small incomes will economize on many items in order to indulge their one great enthusiasm, such as a piano, a high-priced car, or home furnishings. Pianos are not sold to the wealthy alone but to music lovers. The diamonds sold to people with incomes of less than $5,000, taken together, far exceed in value those that are sold to people with more than $15,000. But the sale of high-priced diamonds is primarily to people of wealth.

The climate has much to do with the goods that are consumed in the home. People living in cold climates not only buy more fuel and heavy clothing but they also consume more electric light bulbs, more overshoes, more pancake flour, and, in general, a larger amount of reading material. On the other hand, in warm climates people buy more soft drinks, more prepared cereals, more spices, more screens, and more porch furniture. Not only the climate but also the church to which people belong often has a great influence on their purchases. The orthodox Jews insist on kosher meats. That means, in part, that the meat must be consumed within a few hours after slaughtering takes place. To satisfy the kosher requirements in New York City and its immediately surrounding vicinity, more than a dozen slaughtering houses are located on the island of Manhattan. Members of the Catholic faith do not eat any meat on Friday but do eat fish, which makes Thursday and Friday unusually heavy days in the fish market. The Quakers do not buy decorative clothing; the Mennonites, and some other worshipers holding similar beliefs, do not buy insurance, either fire or life, and do not permit fiction to be read in the family.

Changes of style are sometimes sudden and of widespread influence. In 1914–1915 practically all the shoe stores in the country were insolvent because of a sudden change of styles in women's clothing: women were shortening their skirts, and shoe manufacturers were prompted to lengthen the tops of shoes to meet the new hem line. This change, of course, caused shoes to become more expensive. However, just as suddenly the vogue swung from high-top to low shoes. During the transition, many manufacturers introduced new styles which they hoped would become the new fashion; the result was such an accumulation of passé styles and models that no merchant could have sold his stock for more than about half of the original cost. Only very liberal credits by the banks and the brevity of the transition period saved the dealers from disaster. Not many years ago, every well-furnished room was carpeted. Then carpets gave way to rugs and polished floors. Now there is a tendency to return to carpets again. When, a few years ago, women began to wear their hair short, an old occupation, hairdressing, came into new prominence. Also, the widespread use of cosmetics created an enlarged opportunity for the beauty parlor. A while ago, too, the fad for twin beds became so insistent that sleeping rooms in apartment houses were increased in size to allow extra space for placing two single beds in each. Natural ice was replaced by artificial ice, and now that has largely been abandoned for mechanical refrigeration.

Geographic Factors That Influence Buying and Selling.—There was a time when the man and the woman "from the country" could easily be identified by their clothing. That is no longer the case. Merchants in cities of 25,000 and less frequently say that they do not know which of their customers come from the country and which from the city. However, the larger the city and the denser the population, the greater the part of the family's supplies that must be bought from stores. Apartment dwellers in New York, Chicago, and San Francisco of necessity buy everything they use from stores and markets. On the other hand, the more isolated the home, the larger is the part of the home supplies that comes from the soil. Another condition also prevails in rural districts, for the farmer has to buy as a businessman. He uses various supplies and machines necessary for conducting a farm. These are supplied through different types of stores, and in this sense there is a farm market that is distinct from the city market.

The farmer may buy practically everything that the resident of the city buys and in very much the same grades. Fruits are now seldom preserved on the farm, as in the past generation. Many farmers now buy butter; some even buy milk and poultry products. This is particularly true of the farms that are designated as ranches. A wheat ranch may not be provided with a garden or a poultry yard, but that is the exception. The point is that farmers buy household furniture, radios, imported rugs, books, silverware, and jewelry, and about the same type of clothing that city people buy. In addition, the farmer has work clothing to buy for himself and for his employees. These work clothes may or may not be sold in the city.

There is nothing that people consume directly in proportion to the population. Even salt finds a much larger sale in some cities than in others and in farm homes than in city homes. In the city, much food is bought ready-prepared, in delicatessen and other stores. In farm homes, this is not the case, except for canned goods and bakery supplies. A logical conclusion is that a market must be investigated and studied before it can be cultivated with any hope of success.

Miscellaneous Influences.—There is another item not related to style but a sort of prejudice that influences much buying. For example, in New York white eggs are preferred, while in Boston brown eggs bring a premium price. In parts of Pennsylvania, fresh sausage is preferred without seasoning; in most parts of the country, highly seasoned sausage is preferred. In New York, red apples are preferred. The yellow and green apples are supposed to be good only for cooking. Throughout the West, where horseback riding is a common occupation or pastime, the well-known Pendleton hat has an immense sale. Cowboys not infrequently give nearly a month's pay for one of these hats. Also, cowboy shoes are shaped much like women's shoes, with the high heel, slanted toward the instep.

These are only a few of the many, many differences of taste that must be observed by those who supply the markets. It is a wise manufacturer and a wise merchant who recognize such conditions and sense the trends that make and break markets.

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Questions and Problems

1. About how long ago did the United States begin to develop commercially?
2. At the close of the Civil War what proportion of the population lived on farms?
3. How did inland farmers send barrels (hogsheads) of tobacco to market before the introduction of the railroad?
4. How were mill operators paid for their services before the middle of the last century?
5. Explain the statement, "When the maker of the product and the consumer of the product do not meet face to face, as they did before the advent of modern marketing, higher standards of morals in trade are necessary."
6. How was tinware introduced into America?
7. From where is the wealth of our people ultimately derived?

8. Why are the activities of marketing unnecessary in a primitive society?

9. What are the two outstanding reasons that our factories have located in relatively few strategic areas?

10. Explain the statement, "Each of us is expected to contribute to a sort of general fund of what the economists call 'utilities.'"

11. In your own words, write a brief definition of marketing.

12. Why is consumption destructive?

13. How does the economist divide his subject?

14. Differentiate between the marketing man's view of "distribution" and that of the economist.

15. What economic utilities are created by marketing?

16. Write a short article indicating the marketing influence of any *one* of the following: style, climate, diet, religion, custom, habit, location, "keeping up with the Joneses."

CHAPTER II

THE GREATEST MARKET IN THE WORLD

Americans Have Insatiable Appetites.—The American people are notoriously prodigal. They waste food; they discard clothing before it is worn out; they buy newspapers and magazines, discarding them before they are read; and they buy a multitude of things which they do not use and which are eventually tossed out because they are in the way. Farmers, particularly, are negligent in the care of machinery and allow thousands of dollars' worth to be impaired every year through neglect. But for all their wastefulness, there never was a people in the course of history so amply provided for or so luxurious in their living. A few figures give a true picture of our way of life as compared with that of some other countries. We have one automobile for each family. These automobiles are given such indifferent care and are driven so recklessly that it requires 5,000,000 a year to replace those which are scrapped.[1]

There are 34,867,000 telephones in use in this country, that is, only slightly less than 54 per cent of all the telephones in the world. We have at least five radios for every four families. A survey conducted on Oct. 1, 1948, revealed that there were 146,000,000 radio sets in the whole world. Of these, 75,000,000 were in America. One-third of the telegraph mileage of the world is in the United States. The movies are attended by 100,000,000 people a week. On the average, we eat more than our weight of meat every year and one-half as many pounds of sugar. People of foreign countries, particularly in Europe, cannot understand the general distribution of wealth or the luxuries supplied in this country. This is illustrated by their reaction to an advertisement of a Chicago construction company advising that there was more than sufficient parking space for the workmen's automobiles. An English newspaper, commenting on the advertisement, gave it as an example of American humor; to the editors it seemed incomprehensible that workmen should go to and from work in their own cars. Editors in other countries of Europe also commented on the "joke" and refused to believe that the advertisement was serious.

But however much we have, we are still looking forward to the pur-

[1] This pertains to the United States and Canada, which in a general sense are one economic unit although of totally different governments.

chase of many new things, including travel. Indeed, we are such extravagant spenders that the government has passed laws restricting the amount of credit that may be extended to those buying on the installment plan.

A market is composed of people willing and able to buy. The fact that the people of the United States buy so many things in such huge quantities and continue to buy even when prices are high makes this the world's greatest market.

Where Does the Money Come From?—It requires a vast amount of money to support 40,000,000 families in such comfort and provide as many luxuries as the American people are accustomed to. What is their source of income to provide the highest known standards of living? That is a marvel for all the other countries of the world. The answer seems to lie, at least partially, in our attitude toward work. The Americans are a hard-working people, and instead of looking on labor as degrading, as is the case with many who have a peerage or other rank of nobility, we look upon idleness as a disgrace. No matter how much money one has, we still feel each one should be doing something to contribute to the well-being of the country, health permitting.

Consequently, we have 60,000,000 people working at all kinds of jobs; in other words, they are producers. There are 6,000,000 farms in the country that have 12,000,000 employees besides the owners. There are 3,000,000 men engaged in business who are operating on their own capital. More than half the people (53.6 per cent) own their own homes.

In addition to those who work for wages or salaries, there are 8,000,000 or more who own stock in our great corporations. In Table 1, ten companies have been taken more or less at random from among the billion-dollar corporations of America.

TABLE 1

Name of company	Number of stockholders	Number of employees
Bell Telephone System	710,000	439,146
Chase National Bank, N.Y.	91,000	6,000
Pennsylvania Railroad Co.	209,618	169,011
Standard Oil Co. of N.J.	147,300	49,319
General Motors Corp.	423,780	448,848
United States Steel Corp.	238,268	340,498
Consolidated Edison Co. of N.Y.	141,321	24,752
Commonwealth & Southern Corp.	172,452	16,561
E. I. du Pont de Nemours & Co.	90,041	115,600
Bethlehem Steel Corp.	76,620	289,232

In spite of the fact that in many cases the stockholders outnumber the employees, it is the latter group who receive the major part of the earnings. For example, from 1929 to 1942 in the bituminous coal industry, the employees shared from 97 per cent to 116 per cent of the earnings. Further, during two of those years nothing at all remained for the stockholders. From 1929 to 1945 the average for the principal manufacturing concerns was 86 per cent of the income that went to the employees. The record is not complete for that period for the U.S. Steel Corporation but the owners of the company had $534,500,000 profit while the employees earned the stupendous sum of $7,071,400,000 (that is, a ratio of $1 to $13.23). These are just a few cases that are typical and tend to prove false the complaint of the agitators that the corporations are making unreasonable profits while the employees are underpaid. It is also frequently charged that the highest salaried executives get the "lion's share" of the payroll. One example, perhaps, would be sufficient to show the falsity of that contention. If the three top officials in General Motors would turn their salaries over to the employment department, the sum would be sufficient only to furnish one package of cigarettes a week to each employee.

Our Varied and Affluent Population.—Ministers of the gospel and teachers, particularly those dealing with social science, are often found poorly informed on economic problems.[2] For example, among a large number interviewed by the Opinion Research Corporation the consensus of opinion was that 66 per cent of wages and salaries is earned by people who have an income of more than $5,000. Professor Edward A. Keller, Director of Economic Research of Notre Dame University, on analyzing American incomes from returns compiled by the U.S. Treasury, found that the people with incomes greater than $5,000 received only 10.2 per cent of our total wages and salaries whereas those earning less than $5,000 received 89.8 per cent. It was further revealed that after the more affluent population had paid its taxes, only 5.5 per cent remained in the more-than-$5,000 category.

Dividends and interest were also the subject of the inquiry. Preachers and teachers were under the misapprehension that no more than 29 per cent of income from these sources went to the group with the smaller incomes. Actual figures, however, show it to have been 69.4 per cent. This left the more affluent class 30.6 per cent, but that was before they had paid their Federal income taxes, which reduced their share to 17.3 per cent.

With the landlords the showing was about the same as with stockholders. It was found that 83.1 per cent of rents is collected by people

[2] As reported in *The Reader's Digest*, December, 1948, pp. 23–26.

of less than $5,000 income. That left only 16.9 per cent for those who earned $5,000 and up, before they paid their income taxes, and only 9.6 per cent after that levy had been deducted.

Another fact about incomes is that in 1917 the "privileged class" received only 6.7 per cent of the national income. During the next 25 years, the percentage had shrunk to 2.5. Again the government took so large a part that the wealthy population had only 1.3 per cent of our national income left for their share.

Subsequent studies by Dr. Keller have convinced him that the relationship between the two classes of income has not changed in the last two or three years. However, with the peak of production in 1948 (which was slightly more than $250,000,000,000) there were noticeable increases in salaries and wages; consequently, the number of those receiving $5,000 or more considerably increased so that to retain the same percentage in each income group the basic sum should be advanced to $6,000—so that the two groups would be those receiving $6,000 and less, and those receiving over $6,000.

This stupendous national income has gone chiefly to what Abraham Lincoln called the "common people": farmers, neighborhood-store clerks, laborers, carpenters, family physicians, and other people who live along the street and whom we meet daily. The variety of vocations found in this country would require a lengthy compilation. In a small city of about 5,000 inhabitants, the chief business and professional population consisted of five designers in a small stove factory, three watchmakers, five lawyers, twelve bookkeepers, nine cabinetmakers, eleven doctors, seven dentists, twelve proprietors of grocery stores, twenty other retail merchants, and two bankers. Nearly one-fourth of these owned one or more shares of stock in some incorporation. That seems to be typical of the country as a whole. This democracy of ownership is further illustrated by the stockholders in the American Telephone and Telegraph Company. At the beginning of 1948, there were more women than men stockholders and there was not one on the list who held as much as one-half of 1 per cent of the shares. One to five shares were owned by 207,800 holders, and 94 per cent of all the outstanding stock was held by people who owned less than 100 shares each. Those who had more than 100 shares were for the most part insurance companies, educational institutions, and other endowed institutions.

Will This Market Endure?—For more than a half century we have been told that the rich are getting richer and the poor, poorer. If that is really the case, we cannot expect our great and growing population to continue to live on the high economic plane which they now enjoy.

TABLE 2.—COMPARISON OF BUSINESS CONDITIONS FOR 1939 AND 1946[1]

State and region	Salaries and wages, millions of dollars		Proprietors' income, millions of dollars		Bank deposits, millions of dollars		Number of automobile registrations		Number of telephones, in hundreds	
	1939	1946	1939	1946	Dec. 30, 1939	Dec. 31, 1946	1939	1946	1939	1946
United States	43,850	105,215	10,973	34,166	68,222	155,901	26,142,144	28,100,188	111,082	212,600
New England	3,629	7,970	550	1,419	6,861	12,293	1,642,761	1,841,893	10,765	17,714
Maine	248	565	57	183	333	693	157,426	171,784	809	1,498
New Hampshire	170	348	29	87	284	522	102,409	109,510	581	973
Vermont	104	221	33	86	169	324	81,041	88,117	350	662
Massachusetts	1,963	4,215	279	656	4,197	7,114	760,838	834,836	5,812	9,071
Rhode Island	310	688	39	100	501	1,011	154,916	167,431	782	1,305
Connecticut	834	1,933	113	307	1,377	2,630	386,131	470,215	2,431	4,205
Middle Atlantic	12,602	27,740	2,219	5,843	31,433	55,430	5,002,616	5,063,114	28,164	45,989
New York	6,965	15,208	1,303	3,254	23,529	40,097	2,315,503	2,268,932	14,442	22,131
New Jersey	1,877	4,310	289	779	2,149	4,815	889,081	948,296	4,667	7,877
Pennsylvania	3,760	8,222	627	1,810	5,755	10,518	1,798,032	1,845,886	9,055	15,981
East North Central	10,386	24,473	2,178	6,764	10,939	28,295	6,180,787	6,494,372	25,784	54,210
Ohio	2,748	6,566	528	1,525	2,615	6,954	1,702,761	1,843,892	6,503	14,480
Indiana	1,086	2,674	298	1,050	961	2,882	822,942	894,058	2,685	6,575
Illinois	3,461	7,881	723	2,121	4,781	10,944	1,624,031	1,611,046	8,970	16,418
Michigan	2,143	5,114	359	1,110	1,622	4,675	1,325,918	1,400,465	5,108	10,983
Wisconsin	948	2,238	270	958	960	2,840	705,135	744,911	2,518	5,754
West North Central	3,351	7,373	1,545	5,382	4,236	12,803	3,248,073	3,217,077	11,302	25,382
Minnesota	789	1,610	323	959	1,023	2,825	720,912	674,514	2,572	5,584
Iowa	570	1,190	429	1,384	673	2,216	671,858	623,405	1,968	5,454
Missouri	1,102	2,489	344	1,077	1,617	3,986	734,894	776,808	3,174	6,421
North Dakota	101	235	71	309	77	527	142,384	138,953	266	711
South Dakota	108	227	79	359	99	455	158,998	150,549	381	1,027
Nebraska	289	655	134	608	335	1,264	343,563	350,620	1,260	2,563
Kansas	392	967	165	686	412	1,530	475,464	502,228	1,681	3,622

South Atlantic	4,453	11,711	1,227	3,853	4,083	12,130	2,714,228	3,169,059	9,075	18,631
Delaware	101	271	25	62	245	548	56,744	57,845	288	545
Maryland	669	1,771	134	455	958	1,949	364,323	437,944	1,836	3,262
District of Columbia	594	1,320	57	122	362	1,022	149,745	110,250	1,354	1,938
Virginia	649	1,779	173	552	635	1,785	390,498	507,380	1,525	3,265
West Virginia	492	1,119	99	258	297	855	237,189	258,874	954	1,863
North Carolina	644	1,672	276	900	507	1,853	485,616	553,691	895	2,222
South Carolina	293	835	124	359	164	676	268,633	315,795	363	949
Georgia	545	1,529	205	613	503	1,702	348,773	450,072	1,183	2,491
Florida	466	1,415	134	532	412	1,740	376,707	477,208	677	2,096
East South Central	1,591	4,242	721	2,213	1,608	5,369	1,117,741	1,349,382	3,712	8,275
Kentucky	468	1,112	206	631	487	1,506	367,236	386,067	1,057	2,470
Tennessee	520	1,443	185	631	578	1,884	356,183	421,513	1,454	3,113
Alabama	410	1,156	162	541	332	1,226	262,847	323,079	745	1,736
Mississippi	193	531	168	410	211	753	185,475	218,723	456	956
West South Central	2,590	6,651	1,115	3,049	2,824	9,315	2,178,037	2,404,697	6,741	13,824
Arkansas	220	564	174	515	201	786	180,555	223,582	455	1,110
Louisiana	499	1,227	162	379	551	1,547	260,145	328,057	1,116	2,219
Oklahoma	426	945	195	506	461	1,408	455,771	429,621	1,447	2,900
Texas	1,445	3,915	584	1,649	1,611	5,574	1,281,566	1,423,437	3,723	7,595
Mountain	1,147	2,784	402	1,401	1,027	3,664	950,017	1,012,824	3,278	6,065
Montana	170	321	66	254	150	531	135,839	120,102	380	689
Idaho	124	298	57	208	101	436	121,589	124,048	364	721
Wyoming	83	187	36	106	70	228	64,836	66,812	193	370
Colorado	328	776	102	324	344	1,088	285,787	302,320	1,288	2,159
New Mexico	99	271	44	135	66	271	91,476	96,986	181	379
Arizona	140	365	39	159	91	393	106,924	124,037	291	585
Utah	151	423	46	158	164	553	110,980	139,402	496	978
Nevada	52	143	12	57	41	164	32,586	39,117	85	184
Pacific	4,101	12,271	1,016	4,212	5,211	16,600	3,053,884	3,547,770	12,266	22,510
Washington	668	1,944	157	686	577	2,156	449,333	525,964	1,861	3,883
Oregon	383	1,058	109	426	321	1,355	305,943	360,168	1,032	2,014
California	3,050	9,269	750	3,130	4,313	13,089	2,298,608	2,661,638	9,373	16,613

From circulars issued by the U.S. Department of Commerce

Before accepting that pessimistic statement, it is well to examine its accuracy.

In 1900, there were only 6,000,000 savings depositors in the United States; in 1946, there were more than 50,000,000. That is an average of five savings accounts for every four families. The total amount of savings in 1900 was $2,440,000,000; in 1946 that was increased to more than $50,000,000,000. At the turn of the century, $381 was the annual pay of 6,000,000 employees in the American manufacturing industries;

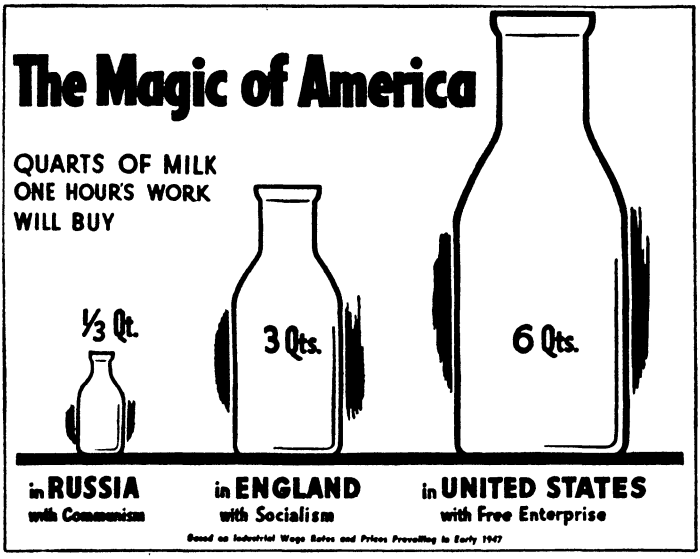

FIG. 7.—PURCHASING POWER IN RUSSIA, ENGLAND, AND THE UNITED STATES

in 1946, 14,000,000 such employees earned $2,400 a year each. It is true that a dollar would not buy as much in 1946 as in 1900. Statistics provided by the Federal Reserve Bank of New York show that the buying power of the dollar today is only 40 per cent what it was 50 years ago. However, annual wages in manufacturing industries were six times as high in 1946 as they were 46 years before.

The above figures apply, of course, only to the employees in various factories of the country. In 1899, the average wage on the farm was $14 a month and board. The U.S. Department of Commerce reports that on July 1, 1946, the average wage was $84 a month and board. That means that the farm worker received more for a week's work in 1946 than for a whole month's work in 1910. Even if the dollar had dropped to 40 cents measured by what it would buy, the economic status of the worker was vastly improved (from $14 to $33.60).

While prices on many staples have increased, many luxuries are cheaper now than they were even a quarter of a century ago. Ford's first automobile was sold for $3,000. Since that time, cars that have been decidedly better have sold for less than $1,000. Five-cubic-foot electric refrigerators cost about $540 a quarter of a century ago. Now a more improved one can be bought for half that price. Electric light bulbs which cost from 50 to 75 cents each at the turn of the century can now be had for from 10 to 25 cents. Many other items that were formerly regarded as luxuries have been so reduced in price that they are now regarded as necessities. That is true of practically all the electrical equipment for the home. Some of our staples, like sugar, also cost more in 1900 than 46 years later.

At all events, laborers in the United States receive a great deal more for their time than those in any European country, as is shown by Table 3.

Table 3.—One Hour's Wages Will Buy

Country	Bread, lb.	Butter, lb.	Beef, lb.	Baskets of food	Potatoes, lb.	Coffee, lb.	Cigarettes, no.
United States....	7.5	1.6	2.1	2.83	35.1	2.6	112
Great Britain....	5.2	0.8	1.4	1.23	13.8	0.5	21
France..........	5.0	0.5	0.8	1.11	18.1	0.6	40
Belgium........	4.9	0.4	0.7	11.1	17.2	0.6	58
Germany.......	2.5	0.5	0.9	1.02	20.5	0.3	30
Italy........	2.8	0.3	0.5	0.65	9.2	0.1	15
Russia......	1.9	0.2	0.3	0.40	7.3	0.1	16

The above figures are for 1939, the last of the so-called "normal years." However, the relationship has remained about the same for several years.

Competition in America.—Some people who regard themselves as advanced liberals maintain that the age of competition is past. They regard competition as a "cutthroat" procedure in which the smaller competitors suffer most. We who evaluate America's progress in comparison with that of other countries still believe in the competitive system, and this, of course, implies private property.

Competition is deeply ingrained in our lives and way of thinking. Indeed, it is one of the most powerful factors in our behavior. Social standards are largely competitive. All games are founded upon competition. The Germans have never had a national game primarily because they become so crushed by defeat. That attitude is thoroughly un-American; we do not regard defeat as a disgrace, an attitude true in our business as well as in our games. An English manufacturer who had been scrutinizing the American market with envy complained to an American friend that it was not "cricket" for us to handicap imports with tariffs. He thought this was not giving him or manufacturers in other countries a fair chance. The American rejoined that we had been building our market for 80 years and, further, that we had spent in advertising from $1,000,000,000 to $2,500,000,000 a year in its development. "Now that we have it developed at so great an

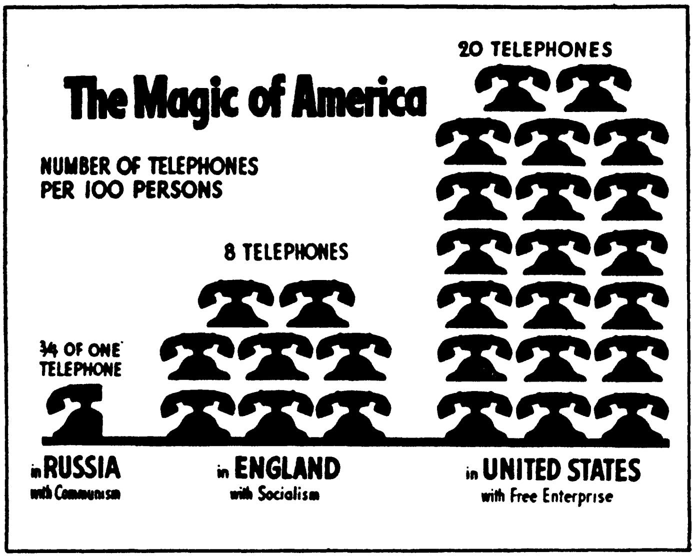

FIG. 8.—TELEPHONES IN RUSSIA, ENGLAND, AND THE UNITED STATES

expense," he added, "should we permit others who have contributed nothing toward its building to compete on even terms?"

Competition in the broadest sense is concerned only slightly with prices. There are more than 250,000 factories in the United States and about 2,000,000 retail stores, which are all in competition for the consumer's dollar. That competition will be won by the manufacturer or retailer who can convince customers that he offers more satisfaction for each dollar spent with him than would be received elsewhere.

This competition has crowded down profits and prices, and simultaneously it has increased quality and service. Meat handled by the large packing houses returns a profit of less than ½ cent a pound. That has been brought about by competition. In 1926, Ford realized that people generally regarded a Chevrolet as a more advantageous purchase than a Ford. He closed his factory and for a year worked on a new model. He wanted to be in a position to offer customers more for their money than he had in the past—to give them what they wanted most in a car. It was currently reported that the new model cost him $100,000,000. Competition was responsible for the improved car.

The Conference Board of the U.S. Treasury Department made a computation some time ago which was startling in its effect. The leading manufacturers of the country were surveyed and it was found that, on the capital they had invested, the returns were only 3.67 per cent per annum for the years between January, 1925, and January, 1942. The largest margin was in the food, liquor, and tobacco fields. That margin reached the enviable amount of 5.24 per cent. Lumber and wood products were the lowest, with only a 0.34 per cent return. During the years 1930 to 1934, many of these manufacturers suffered losses on the year's business. The majority of them attributed the low profits to competition.

However, it is not those who make the best product or who sell a satisfactory product for the least money who are always awarded the business. There are so many items that must be bought from the family budget that not all of them can be examined and appraised. Therefore, the manufacturer or merchant who presents his merchandise in the most appealing manner and whose offering is the most convincing is the one who will probably secure the sale. This has resulted in competition in advertising, the most recent form of business rivalry. Its value to the American people has not yet been definitely established.

Retail Buying as Affected by Vocation.[3]—Retail sales for the whole country were approximately $51,000,000,000 in 1941. Of that about 22 per cent went to food stores. But in Arkansas only 13.17 per cent of sales was for food, while in Rhode Island the percentage was 26.41. That does not mean that the people of the one state ate more than the other. It is possible that, as Rhode Island has many well-to-do people, they bought more expensive foods. It is also possible the conditions can be explained on the grounds that people of Arkansas produced a much greater part of their own food than did those of Rhode Island, as the former state is primarily agricultural, and the latter largely industrial. Although less than one-tenth of the population of Rhode Island is rural, more than 68 per cent of Arkansas is rural. It is obvious that people living in agricultural districts buy a much smaller proportion of their food than do people living in large cities.

Further investigation of the census reports shows that the sale of food in Rhode Island amounted to $84,061,709.50 (26.41 per cent of

[3] In Table 8 in Chap. IV there are shown several of the census tables from which the summary figures that appear in this paragraph were taken. The student is referred to that chapter for further particulars.

$318,295,000). Similarly, the sale of food in Arkansas was approximately $26,650,000. The per capita sale of food in the two states was $122 and $15. These figures refer to the sales by food stores rather than to total sales of food, as some of the stores under this classification sell things other than food.

TABLE 4.—WHERE CONSUMER DOLLARS GO[1]
(Figures in billions of dollars)

	1909	1919	1929	1940	1941	1944 prices	
						1950	1960
Total consumer expenditures	28.8	60.8	80.3	70.6	80.4	116.2	134.2
Food, liquor, and tobacco	9.9	22.3	23.7	21.9	25.3	36.2	41.1
Food	7.4	18.8	19.9	16.4	19.0	27.2	30.8
Liquor and tobacco	2.5	3.5	3.7	5.5	6.3	9.0	10.3
Clothing and personal care	4.4	9.8	12.1	9.8	11.5	16.2	18.7
Housing	6.8	10.1	14.4	12.6	13.3	19.3	21.4
Rent[2]	5.5	7.9	11.3	9.1	9.7	14.0	15.4
Fuel	1.0	1.5	1.7	1.7	1.8	2.5	2.8
Electricity	0.1	0.3	0.6	0.9	1.0	1.6	1.8
Household equipment and operation	2.8	6.2	10.6	8.7	10.3	15.0	17.4
Appliances	0.2	0.4	0.8	1.0	1.3	1.8	2.4
Consumer transportation	1.6	5.2	8.6	7.3	8.6	12.7	16.4
Autos and private planes[3]	0.6	3.5	6.0	5.7	6.8	9.6	12.7
Local bus and streetcar	....	....	0.8	0.7	0.8	1.5	1.5
Intercity bus	....	....	0.1	0.1	0.2	0.2	0.2
Airlines	....	....	[4]	[4]	[4]	0.1	0.5
Railroads	0.4	0.8	0.6	0.3	0.3	0.4	0.3
Medical care, insurance, and death expenses	1.1	2.8	4.5	4.7	5.2	7.7	8.7
Recreation	0.9	2.1	3.8	3.3	3.7	5.7	6.9
Radio and television sets	0.2	0.7	1.0	0.6	0.8	1.1	1.3
Private education, religion, and welfare	1.2	2.2	2.7	2.3	2.4	3.4	3.7

[1] Courtesy of McGraw-Hill Publishing Company, Inc.
[2] Includes estimated rent for owner-occupied homes.
[3] Includes original cost and operating expenses.
[4] Less than $50,000,000.

In New York only 13.4 per cent of the money spent in retail stores is credited to automobiles and accessories. That is the lowest percentage of all the states. In the two Dakotas, which are practically the same, 26.5 per cent of retail sales is for these items. However, the complete figures show that the per capita expenditure for automobiles and accessories in New York is $94 and in the Dakotas, $82. In New York the percentage of retail sales is practically the same for wearing apparel as for automobiles, being 13.3 and 13.4 per cent, respectively.

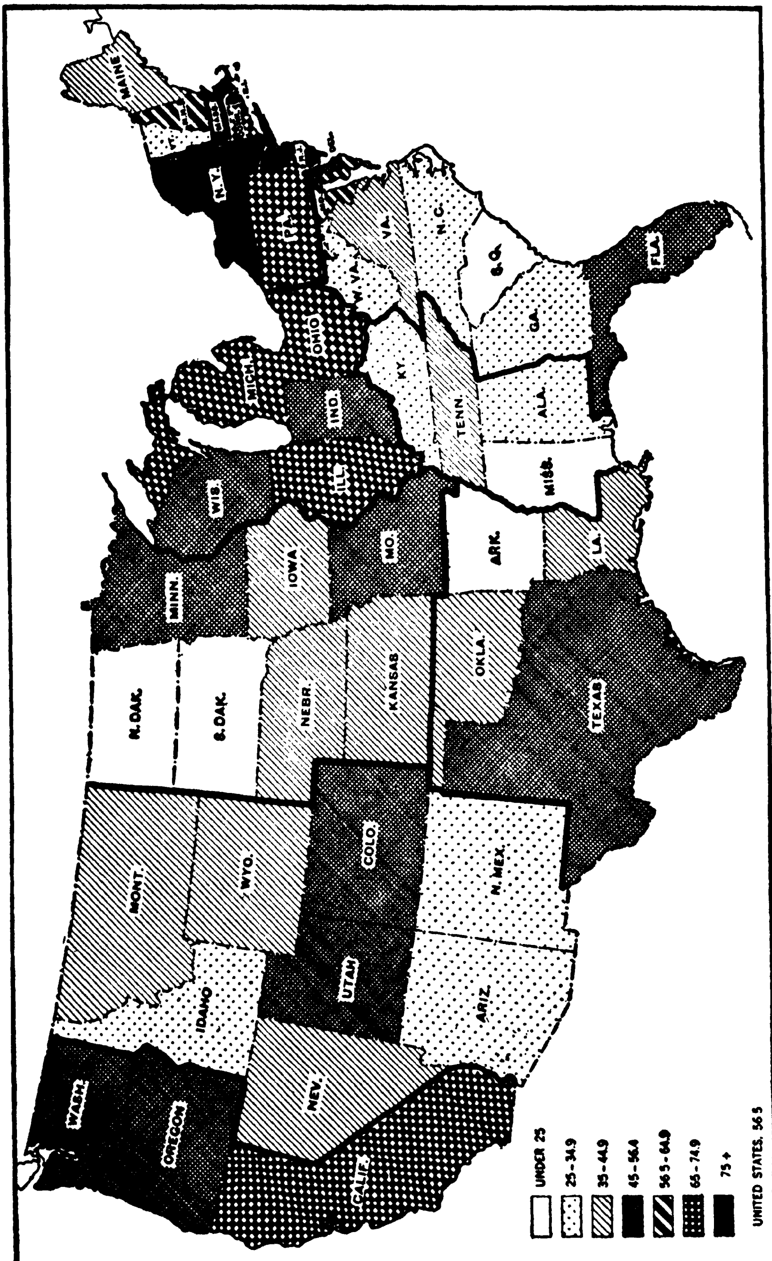

FIG. 9.—PERCENTAGE OF URBAN POPULATION OF THE UNITED STATES

Few other states have such a close parallel. In the neighboring state of New Jersey the clothing stores sell only half as much as the stores handling automobiles and equipment, while in Vermont 24 per cent of the retail sales is given for automobiles and slightly less than 6 per cent for clothing. In Mississippi, which is not popular for well-maintained roads, the automobile salesmen receive 21.7 per cent of retail sales while the apparel dealer is given but 3.6 per cent. Other states show equal vagaries. In Mississippi, for example, 0.001 of retail sales are made by the book stores; in the District of Columbia, book stores are credited with 0.6 per cent of the sales, or nearly sixty times as much.

Although these figures are not current, they are the most recent available and doubtless show the same relationship that exists at the present time. It has been found that family budgets do not vary a great deal from year to year in any one district or locality as to the portion allotted to the various items.

A careful study of the figures in Table 7 (page 69) will reveal the per capita sales of the various types of stores and the total amounts sold at retail by the same types of stores.

How Factories Have Located.—If each city could be provided with just enough factories to satisfy local consumption, including the trading area of which the city is the center, marketing would be reduced to raw materials and the passing of goods from the manufacturer to the retailer or consumer of his home town. Unfortunately, such an industrial organization is not possible. In choosing a location for a factory, many things must be taken into consideration. The determining factors differ with different kinds of merchandise. In the case of the flour mill, the direct and least expensive form of transportation of wheat and flour is the principal requirement; hence, the location of large flour mills at such points as Minneapolis and Buffalo. In the manufacture of glassware, the first requirement is inexpensive fuel. Gas is much preferred. In millinery and clothing, the factory must be at a style center to make its offerings acceptable.

Workers go where factories are, and factories often change locations. The petroleum center of Oklahoma is Tulsa. This city is not so close to the oil fields as Sapulpa, which, at one time, was the larger of the two, but the latter was not provided with good hotel accommodations and the oilmen went to Tulsa for week ends. This city became a meetingplace. Offices were opened there, and, thus, by accident, Tulsa became the oil center. The automobile business has centered in Detroit because the bankers there were especially liberal in fostering the new industry. They had had previous experience with wagon and carriage makers who had numerous factories in the nearby territory. Knowing something of the vehicle industry, they were more kindly disposed to automobile manufacturers than were bankers in numerous other places, particularly those of New England. Other stories are current concerning other industries. Perhaps none of them presents a true picture, but they do show comparatively trivial incidents that were at least influential in locating the newly incubated industries.

While mere chance has affected the locating of centers of industry, usually there is some distinct reason for an industry's being centered about a certain point. Grand Rapids, Mich., is located on the Grand River, where water power was available in earlier days. It was also in the center of a district with a large supply of different varieties of timber, particularly of hardwoods. Paper mills, which require a large amount of power and relatively pure water, have centered primarily in a few districts which have become outstanding—Massachusetts, West Virginia, Michigan, and Wisconsin. In South Bend and La Porte, Ind., there are numerous factories for farm equipment. That is also true of Chicago and Moline, Ill., and of Milwaukee, Wis. This is not surprising as these cities are in the midst of the greatest farming district in the country. Also, in the early days they were adjacent to great quantities of timber used in the manufacture of farm equipment.

There is another influence that is frequently the determining one in locating a factory once the industry is established. That is the immobility of labor. Skill on the part of artisans is one of the universal requirements in manufacturing. The furniture business in Grand Rapids has attracted thousands of the best cabinetmakers. A new furniture factory, starting in a city where it stood alone, would find the greatest difficulty in attracting the requisite number of skilled workmen. There would be too few opportunities to induce artisans to move to a city where there was but one opportunity and one employer. If they find it necessary to change their location, they will go to Grand Rapids, where many opportunities for labor are to be found. Consequently, the new firm that proposes to engage in the manufacture of furniture will be wise in establishing its factory at the point where skilled labor is available. This has operated in establishing the machine-tool industry in New England, the manufacture of automobiles in Detroit and vicinity, and the manufacture of silk products in northern New Jersey. So, because of the importance of proximity to raw materials and other manufacturing requirements, including sources of skilled labor, it is impossible to distribute most kinds of factories in accordance with the demands for their products.

This congregation of factories greatly oversupplies the local demand for the products, and it becomes necessary to look far and wide to find consumers. On the other hand, the consumers who are looking for supplies either direct from the manufacturer or through the distributors who pass them along find it necessary to seek out a source of supply.

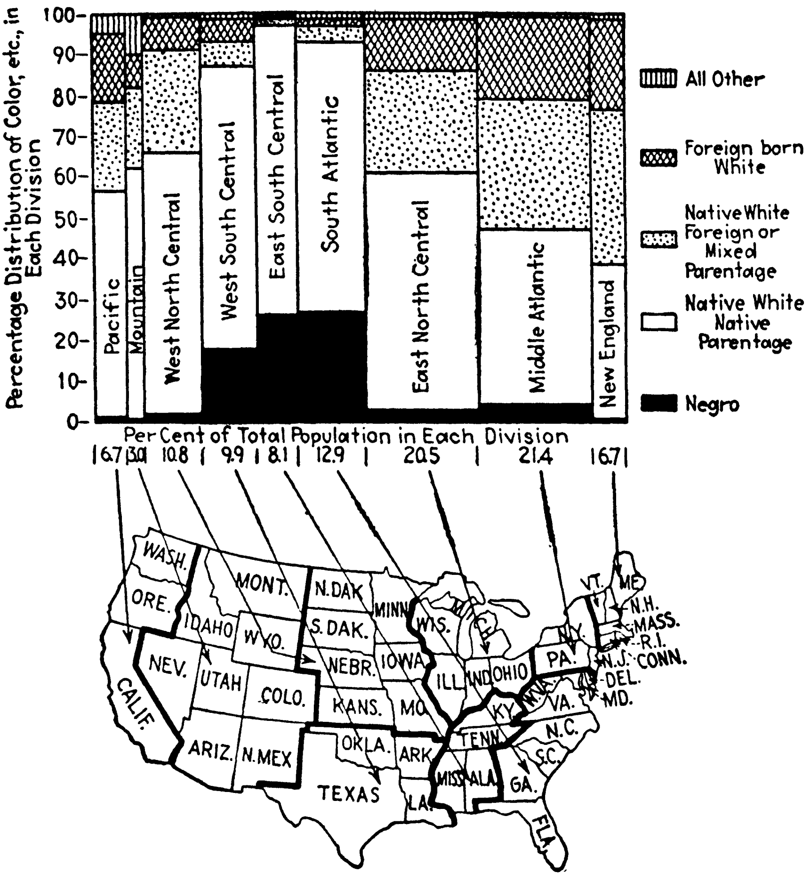

FIG. 10.—COLOR OR RACE, NATIVITY, AND PARENTAGE BY DIVISIONS OF THE UNITED STATES

Race, nativity, and parentage, because of customs and traditions, affect eating habits, living conditions, and the readiness with which people accept new ideas and new products. These variations in addition to the factors of urban and rural communities result in marketing problems that the manufacturer or distributor must carefully study.

From the distant manufacturing centers, someone must undertake to bring goods to fill the demands of those who often do not know even the location of the factory.

Whole Industries Change Locations.—Where factories are located and where lines of transportation converge, population naturally gathers. As we have seen, there are many influences that operate in the location of a factory and, consequently, in attracting population to that point. Frequently, the nature of an industry is such that the factory districts are only temporary. In 1850, the center of the lumber industry was in New York. A few years later it moved to Pennsylvania, then to Michigan, and later to Wisconsin, and now it is in Oregon and Washington, although Alabama, Georgia, and Mississippi are, at the time this is written, supplying a very large part of the lumber for construction in the Eastern states.

At the time the lumber industry is active, there will be, in addition to the logging camps and sawmills, a large number of affiliated factories, such as tanneries. At the beginning of the twentieth century, Cheboygan, Mich., was a great lumber town. Since it was at the head of the Great Lakes, there was much shipping and most of the lake boats made it a port of entry. Railroads on both sides of Lake Michigan facilitated the shipment of lumber products to the South and East. The tanning business, which uses a large amount of oak and chestnut bark, employed many men. As the supply of timber was exhausted, the mills closed and were moved away; first the large lumber mills, then the shingle mills, then the tanneries. The writer has seen as many as a hundred empty houses clustered in a little village, at one time prosperous but now deserted, after the lumber industry had moved on. Again, the location of a new center for this type of industry, such as Longview, Wash., develops a thriving city within a few years.

What is said here of the lumber industry may be true to a lesser extent of many other industries. At one time, cotton spinning and weaving were practically all centered in the New England states. Now a large part of this industry has gone to the Southern states, near the source of cotton where cheap labor is plentiful. The petroleum industry, since the first Titus well was sunk in Pennsylvania in 1857, has shifted over much of the map. Ohio continues to produce a considerable amount of petroleum, southern New York very little. Oklahoma for a time was the greatest petroleum producer and still has many active wells, being ranked with Texas and California. There are also many wells in Louisiana. However, now the most promising field is the Teapot Dome district of Wyoming, Colorado, and Utah.

How Efficient Is Our Distribution?—There is much discussion about the rising costs of distribution of goods. Many critics blame advertising for what they term exorbitant costs. Middlemen also are blamed, as it is claimed that they are too numerous and that they get too large a share of the consumer's dollar. The purpose of studying marketing is to analyze these criticisms, to sift out all that is sound and usable and apply it to reducing marketing costs wherever that is possible. Not only that, but the student of marketing is interested in devising new means and methods of distributing goods efficiently and economically. Besides, he strives to analyze distribution costs with a view to reducing them when this can be done without causing the consumers inconvenience. Throughout the country as a whole, it costs nearly $39,000,000,000 to distribute a little over $27,000,000,000 worth of goods from the factories. This means that for each dollar's worth the manufacturer puts on the market, it requires nearly a dollar and a half to place those goods in the homes where they are consumed.

Of course, averages are not always significant. There are many items that are now marketed at less cost probably than at any time in the past. This is true of sugar, to give a specific example. For some other products, the cost of distribution runs as high as four times the manufacturing costs. All this will be considered more in detail and the critic's objections will be taken up and discussed in later chapters. Also attention is given to the question of whether the cost of distribution is actually increasing. That is a question to which there are many sides. Does it cost any more now to distribute the same items than it cost 50 years ago? Is this increase in cost of distribution due to a shift in population to the cities, where practically everything consumed has to pass through the regular channels of distribution? Or is it brought about by the much larger number of items consumed in the homes now than previously and the very great distances these items have to be transported? Is it brought about by the demand for increased service, such as sending goods to the home for trial, and demanding very large assortments from which a choice may be made?

One large store in New York found that nearly 30 per cent of the furniture it delivered to various homes was subsequently returned. The reasons for the returns were primarily the fault of the customers. Inasmuch as it cost the store $12 to deliver or return such articles as tables, sideboards, or large chairs—with other pieces in proportion—the price of furniture was necessarily about 25 per cent higher than it would have been had each sale "stuck." Large assortments mean more money invested in stock, more space occupied, and therefore more rent, more insurance, and a very much larger part of the stock to be sacrificed by markdowns at the end of the season. These extra expenses are incurred, not because the merchandise is poor, but because customers are notional. Most of them are ignorant of the fact that the added expense for the store to supply such large assortments and such service is added to the price of the goods they buy. These are also some of the "headaches" that constantly worry marketing men. However, it seems that no sooner is one difficulty overcome than the finicky customers find other ways of making it expensive to sell them goods.

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Questions and Problems

1. Cite two examples to support the contention that American people are prodigal.

2. Define "market" in the most concise terms at your command.

3. What is the philosophy of the American people with respect to work?

4. Cite two examples to prove false the complaint of the agitators that the corporations are making unreasonable profits while the employees are underpaid.

5. By how much did the number of savings accounts and the amount of savings increase in the 46 years after 1900?

6. How much more milk can be bought in the United States than in Russia for one hour's work?

7. Comment upon the statement, "Competition in the broadest sense is concerned only slightly with prices."

8. Refer to the data in Table 4, "Where Consumer Dollars Go."

a. Calculate the percentage increase in 1950 over 1909 for total consumer expenditures; for household equipment and operation; for recreation; for private education, religion, and welfare.

b. How would you account for the difference in percentage increase in the latter three groups?

9. What are some of the things to be taken into consideration in choosing the location for a factory?

10. Does distribution cost too much?

CHAPTER III

CLASSIFICATION OF GOODS, MARKETS, AND FUNCTIONS

Some Classifications of Goods.—Unconsciously, when we think of making a purchase such as fruits or vegetables, we think in terms of the *convenience* class. Shall we go to the corner grocery, to the chain store, to the super market, or shall we drive into the country to a roadside stand? All these handle the convenience class of goods. If we are considering a combination radio phonograph or television set we unconsciously put it into the shopping class. We read the advertisements, we talk with friends who know about these instruments, and we visit stores where they are for sale. If it is a supply of laundry soap that is needed, again we automatically think in terms of convenience. Over the telephone the order is given for "a quarter's worth of laundry soap." The favored brand may, or may not, be stated. If the first brand requested is out of stock, as a matter of *convenience* a substitute will be accepted, to save the trouble of making another call. Hence, we call this a "convenience" good.

Retailers recognize the importance of careful classification of goods. Stores for food, for clothing, furniture, books and stationery, and electrical appliances are but a few of the many specialized stores to be found in almost every shopping center. Of course, there is a large number of "general" stores, which do not adhere to these classifications any more than do the department stores. But such an establishment should be regarded as a cluster of stores (departments), each of which is limited as to the number of items in its class that can profitably be carried in stock. In policy these stores are the opposite of the chains. They attempt to supply a large number of items to each of a comparatively few customers, while the chains aim to supply a restricted number of items to a large number of buyers. This is, of course, a relative picture, and applies to the system as a whole, not one individual store against another, with all getting as many customers as they can.

All that has been said about restricting the classes of goods for retailers applies even more emphatically to wholesalers, while brokers are of necessity still more narrowly limited.

Manufacturers, especially if their capital is limited, tend to produce a very few closely related items, or even to concentrate on a single product. Even the large operators, who welcome new products, carefully keep within their class, and that is determined primarily by the kind of wholesalers and stores to which they sell. They want all their products to go through the same trade channels.

When a manufacturer has a valuable by-product, he may find it necessary to market it through different channels and even with a different sales organization. Then the main product will be in one class, the by-product in another.

Industrial and trade publications insistently keep both editorial and advertising within the class they have chosen to represent.

Another commonly used classification, for both consumer and industrial goods, is durable and consumption goods, or capital goods and supplies and consumption goods. The term "durable" is self-explanatory, and to call such goods "capital" goods is readily understandable. Most machines used in a factory, or an electrical refrigerator for the home, will endure for a long time; so they become part of the capital of the owners. Fuel and lubricating oils are consumed from day to day, which illustrates the classification of consumption goods.

What Is Involved in Classification?—Science begins with observation, measurements, and classifications. Before marketing can develop into a real science, many improvements must be made in both classifications and measurements. Of the measurement of marketing forces we know little. We know that advertising is a force, but we know little about measuring that force. That may be regarded as a qualitative measure. In the quantitative measurements of things bought and sold great progress has been made in the past few years, and that progress continues.

Classifications are quite as important as measurements, but so far, even the leading students of marketing have not made a serious effort to apply a really scientific classification to those items, the buying and selling of which constitute trade and commerce. The authors believe the following classification to be all-inclusive and distantly approaching scientific method in nature. Everything bought and sold can be fitted into some of the divisions.

1. Commodities.
   a. Agricultural products: fruits, vegetables, grains, cotton, and domestic animals, including their by-products: wool, eggs, butter, milk, etc.
   b. Industrial or business goods.
      (1) Buildings and structures: blast furnaces, wharves, tubs and vats in paper mills, and any other structures erected for use in production and of no value except to the particular business. (This does not include general buildings.)
      (2) **Power and transmission machinery.**

(3) Fabricating machines: looms, printing presses, turret lathes, etc.
(4) Raw materials: iron, rubber, pulp wood, wood, raw cotton—all of the things that go into the finished product.
(5) Supplies: detergents, tools, lubricants, and other supplies that do not go into the finished product.
(6) Operating equipment: small tools, trucks, and power-driven tools such as air pumps.
(7) Office equipment: desks, furniture, and office machines.

c. Consumers' goods (in general, supplies for the individual and the home)
(1) Convenience goods: groceries, drugs, tobacco, etc.
(2) Shopping goods: radios, furniture, clothes, automobiles, etc.

2. Services.[1]

a. Social welfare group.
(1) Education.
(2) Health preservation.
(3) Legal.

b. Public utility group.
(1) Transportation.
(2) Illumination and power.
(3) Communication.
(4) Heating and fuel.

c. Finance group.
(1) Banking.
(2) Financing.
(3) Insurance.
(4) Investment.

d. Shelter and food group.
(1) Hostelry.
(2) Catering.

e. Personal service group.
(1) Valet.
(2) Beautifying.

f. Recreational group.
(1) Theater.
(2) Playground.
(3) Music.
(4) Travel aid.

g. Miscellaneous.
(1) Information.
(2) News.
(3) Repair.

3. Securities.

a. Federal, state, and municipal notes and bonds.
b. Stocks, bonds, warehouse receipts, and others of individual firms.

[1] Services, as contrasted with commodities, are intangibles. They possess the quality of serving people through the direct or indirect performance of labor, or the supplying of an idea, or both. In our complex economic life, many standardized services are so essential to the well-being of all that to be without even the least would change our mode of living. Services tie together those factors which make the marketing of tangible goods possible.

4. Real estate.
   a. Residential.
   b. Farms and ranches—including riparian and irrigation rights.
   c. Business property.
   d. Public property—including parks, undivided lands, water rights, etc.

General Nature of Commodities.—The weakest part of this analysis is the division of *commodities.* The first of these is "agricultural," a term that involves both their source and their nature. The next division is *industrial* or *business* goods. This involves a wholly different idea from the one in class (*a*), for this refers neither to the nature of the goods, nor to their source, but to their use. Scientific method requires the same base for all classifications in a series, which this group certainly lacks. The subdivisions under class (*b*), industrial goods, are better, for they refer primarily to the uses.

Under (*c*) there is another new base introduced. Here the main classification refers to those who use the products—consumers. The base changes for each classification: (*a*) source and nature; (*b*) use; (*c*) the persons who use the goods. Unscientific as this classification is, the authors believe that because of its wide adaptation and general use it will serve the purpose better than a more logical, but new and strange, classification.

Of course, real estate might be considered under "commodities," but because it differs from all other commodities in that it cannot be removed when purchased—its position is fixed—we have not included it in this classification of marketable products. The urban real-estate market depends largely upon the population, and in judging its value a study of the growth or movement of population is the chief point to be considered. Zoning and the location of schools and churches with reference to the property must also be considered. With agricultural real estate the value depends upon the distance from markets, the fertility of the soil, the climatic conditions, its accessibility to hard-surface highways, etc.

Another type of commodity not included in this classification is securities. The Stock Exchange of New York City is the principal exchange where securities are traded in, and here supposedly a buyer may be found any business day in the year for any listed security, brokers being the principals through whom the securities are bought and sold. There are several books dealing with the stock market. This text, however, will deal chiefly with the marketing of commodities such as are listed in the above classification.

The General Nature of Services.—In a consideration of the marketing characteristics of services, it should, perhaps, first be stated that because of their intangibility, services do not lend themselves to the same type of classification as do commodities. The latter were divided into agricultural, industrial or business, and consumer groups. This was possible because the products designated in each group were physically different from the others, in most cases.

There are two general types of service. One involves labor, either physical or mental or both. The other type of service is the temporary loan of goods or equipment. Teachers, lawyers, preachers, musicians, and other servants of that class perform mental labor. Skilled physical labor is part of many other professions. The gardener, the laundress, and the barber do labor that is primarily physical. The mental part is secondary. The surgeon and the dentist do both physical and mental labor. The second class of services can be illustrated by the telephone. The telephone company puts its equipment temporarily at the disposal of the one who benefits by the service. The same is true of railway, streetcar, or bus transportation. Yet, in each of these there is the element of labor involved in the operation of the different kinds of equipment for the benefit of the traveler. The sending of a telegram not only involves the use of equipment but also includes skilled labor.

So great is the importance of many services that the public has demanded that they be regulated and has set up laws and regulations through its legislative bodies to that end. These legislative bodies supervise and, in some instances, absolutely control the policies and practices to be employed by the marketer. For example, the people long ago took over the postal service. Making and maintaining highways and bridges, maintaining fire departments, and supplying or supervising education of the young are among the important services most often supervised or performed by the government. State and Federal legislation have established commissions to supervise and control the marketing of such services as transportation, communication, electric lighting, power, and gas. More recently this supervision, to a degree, has been extended to merchandise.

The government tends more and more to extend the function of supervision over banking, financing, investment, and insurance. Always, and in various ways, the government has been concerned, because of the public interest at stake, with the marketing of the more personal services, such as qualifications for teaching, practicing medicine and dentistry, and acting as public accountant.

Individual and Industrial Service.—It is apparent that some services are definitely "individual," some "industrial"; yet, as has been stated, others are often so nearly identical that to distinguish between them is not practical. The freight train is operated primarily to transport goods and materials for industry and a very great part of the freight carried by the railroads goes to industries, but the same freight train may also carry household goods or other commodities for individual use. The electrical power company provides electricity for lighting individual homes and also for lighting factories; the current from the same dynamo may run the sewing-machine motor in the home and propel the great power motors of manufacturing plants.

The traveling salesman "represents" an industrial institution, but who would say whether the hotel that provides him with food and shelter and the railroad that gives him Pullman service are serving an individual or serving a business concern?

The "drive yourself" renting of automobiles is a personal service. Yet, a used-car dealer who makes a contract with a manufacturer to provide automobiles for his salesmen is supplying an industrial service —a transportation service. If the remuneration is according to the number of miles covered, there is no labor involved in the service, in which it differs from railway, aviation, and trucking services operated by the owners.

Many machines are leased to operators on a royalty basis, which is a service. This is common practice with shoemaking machinery and such business machines as code-punching machines, which are all in the industrial field.

Service Affects Selling.—Selling is coming to be more and more concerned with service. One buys a commodity, but connected with it is a service that may be the determining factor in making the choice. This is often true of the automobile business. The decision between two different makes of cars may be the reputation for good service that one has and the other lacks. Also, when a woman buys a sewing machine, a considerable part of the price is for the instruction—very definitely a service—she is given in operating it. Another example would be a towel service, which supplies both the equipment and the labor required to keep the equipment in usable condition. This combines both types of service—the use of a commodity and labor. Typewriters are sold with a provision that they will be kept in working order. That is also true of oil burners and mechanical refrigerators. Another example, which is more in the form of a lease, is air-conditioning equipment for automobiles operating across the Great American desert. This is sold by one of the oil companies with a chain of gas stations. The conditioner can be turned in at the end of the trip and the purchase price refunded, except for a moderate service charge.

An extreme consideration of this attitude toward selling can be gained from an automobile manufacturer's summation. "We are not interested merely in selling a machine," he said, "but in selling transportation—a highly specialized transportation. This includes a certain speed, appearance, comfort, and dependability, and an assurance of minimum cost, and it is our responsibility to deliver that transportation. This may be illustrated by the man who buys an automobile and on the trial run collides with a stone wall. He has as much rubber, as much steel, as much upholstery and almost as much paint as before the collision, yet the value is gone. That means the service is gone; he no longer has transportation."

In general, when a tangible product is sold with "service" as an important factor, such service is distinguished from marketable services because its function is to aid in selling the product rather than to serve as a distinct item in itself.

Goods Classified According to Use.—Staples and specialties are two other classifications, of declining popularity. Generally, these terms are applied according to their commonly accepted meanings. The product is a staple when it is for more or less routine use and of a standard type, usually sold in bulk. A specialty, on the other hand, is a product that is not common, but different from others. In some instances, authorities have held that a speciality is any branded product, simply because the branding gives to the commodity something of the individuality of the maker. Sometimes this individuality is achieved by a special process or formula in manufacture; sometimes it is achieved by a patent right, protecting some features or the complete product against copying; and sometimes, by sheer originality or distinctiveness.

The above formal classification of consumers' goods does not include these two terms, for the reason that the authors can see little to be gained by their use. The difficulty of dividing a long list of standard household supplies into staples and specialities, when the consumers never think of them as such, is illustrated by the following: milk, fruits, meats, and soap are staple products in most homes; that is, they are routine necessities. But when the buyers insist on Borden's milk, Sunkist oranges, Armour's meats, and Ivory soap, are these products, from the marketing angle, staples or specialties? The authors believe that the whole question becomes too academic for profitable discussion, and they accordingly prefer to classify consumers' goods in terms of people's characteristic behavior in buying them: "convenience goods," and "shopping goods."

Few of the above classifications are definitely fixed. When a yarn mill buys a farmer's clip of wool, that wool immediately changes from an agricultural product to an industrial product. The yarn made from the wool, if sent to a fabric mill, will still be an industrial product; but, if it is sent through the usual trade channels to a retail store, it becomes a consumption (consumer) product. A carload of coal on the way to a power-generating plant is an industrial good. But if it is halted and transshipped to a coaldealer's yard, it becomes a consumer good. A framed oil painting is regarded as a durable good, whereas a lithographed colored reproduction of that picture distributed in a magazine is a consumption good.

This overlapping of classifications seldom leads to confusion or misunderstanding in practical business affairs. However, the rate of obsolescence frequently becomes a matter of controversy in making inventories and in fixing net profits for taxation purposes. The precise durability of machines, buildings, and equipment is an accounting rather than a marketing problem. Obsolescence is the answer to the question of how rapidly *capital* goods lose their capital value.

Home Supplies.—Inasmuch as most of this text will be devoted to the marketing of consumer goods, it may be well to consider somewhat formally their characteristics. First it may be said that they are for the personal use of the individual or the family. This includes both durable and consumption items. Building materials and equipment for the home, such as furnaces, steel cabinets, as well as automobiles, pianos, and rugs, are all durable goods. Since they are bought and used by the family, they are also regarded as consumer goods.

The retail store frequently has charge of demonstrating for such products as power washing machines, ironers, and even vacuum cleaners. However, such selling is usually done through an arrangement with the manufacturer who trains the demonstrator and shares in the expense of his work. Pianos are also sold in this way for the most part as well as most farm machinery. Added to this is the very great number of items that are staples around the home: foods, clothing, reading material (except books), and items bought for amusement—all of the consumption variety. This means they are used up in a short time and replaced as a matter of routine purchase, whereas the durable goods are generally bought on infrequent occasions and, most of them, after family consultation. Farmers buy many supplies such as seeds, feeds, and equipment, which are sometimes classed as industrial products, but as they are used wholly by the family, it seems more logical to group them with the consumer items. Even when the goods are identical, the reasons or motives for buying consumer goods are different from those for buying industrial goods. In general, it is true that goods bought for personal or family consumption have the following characteristics:

1. The total number of users for a large number of consumers' goods is limited, theoretically, only by the total population of the country. Extensive consumers' markets promote quantity production.

2. Generally the buyers are people in all walks of life, with or without technical training, and with or without an extensive knowledge of the merchandise they buy.

3. The distribution of the market bears a definite relationship to the distribution of the population, for the people are the markets.

4. Products are purchased from the viewpoint of satisfying a want, which may or may not be of a utilitarian nature. Relatively speaking, utility as a buying motive is of far less importance in the consumer field than in the industrial field. This is chiefly because people buy "satisfaction" when they purchase for their own use or consumption, being actuated by either rational or emotional motives.

5. Women play a predominant part as buyers. It has been estimated that they "control" about 85 per cent of all consumers' purchases. The Fawcett Research made an investigation along that line in the spring of 1948; their findings are presented in Fig. 19 (page 108). They showed that with strictly household articles, women did buy practically everything, but with such items as automobiles and accessories, smoking tobacco, razor blades, and a host of other items, women played only a minor part. Then there was a considerable number of items on which the men and women of the family exerted equal influence—in selecting radios, men's ties, refrigerators, and ginger ale. Other household utilities and utensils were left for the women to choose.

6. Prices vary, but not with the same sensitiveness as in the industrial field. Many of the daily price fluctuations that occur in the raw-material markets are never felt in the corresponding consumers' markets, unless, of course, a decided change in the basic price either up or down is established. But even so, the effect on the consumers' product price is not felt for some time, usually the length of time it takes the dealers to dispose of inventories bought at the old price level.

7. Buying is almost universally according to (*a*) brand name, either manufacturer's or distributor's; (*b*) store label; (*c*) convenience of location; (*d*) confidence in the seller. And of these, probably the most important is the brand name. Specifications are employed for some durable items, primarily those entering into the building or alteration of the home, but they are not generally used for the many consumption goods purchased. It should be noted, however, that during the past

WHY DO DISTRIBUTORS CHANGE LINES?

Lack of an exclusive franchise, small profits, and too little sales promotion by manufacturers, are the three leading reasons given by the tire distributors for shifting to another manufacturer. Conclusions are based on a 1939 field survey:

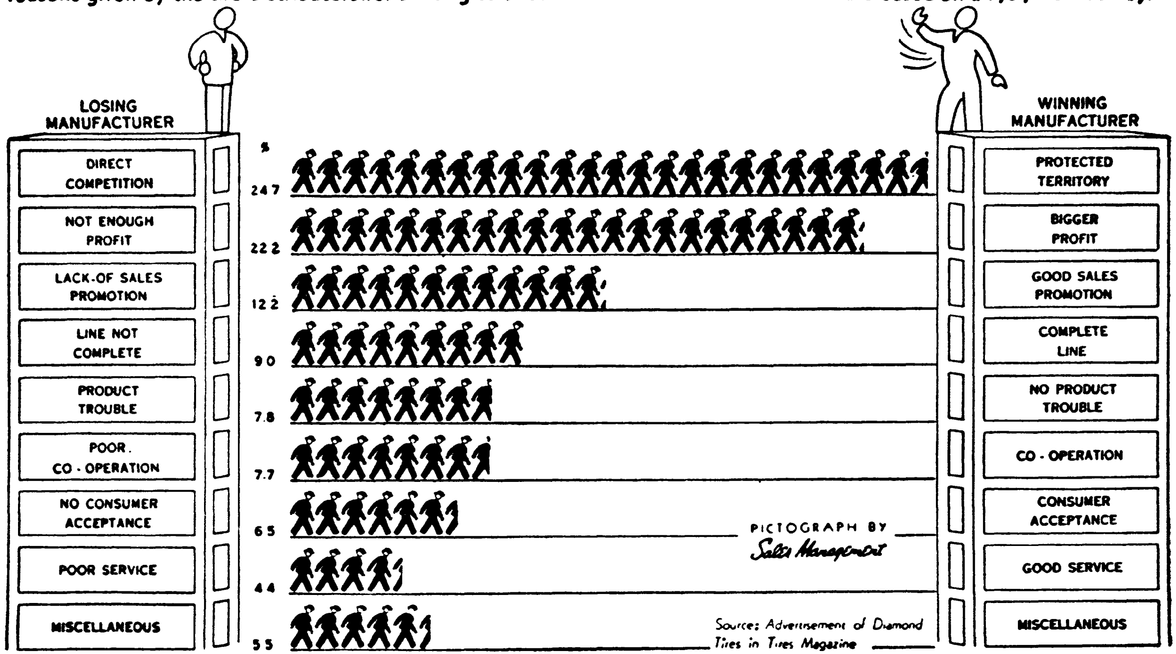

FIG. 11.

few years consumers' research-service agencies and consumers' cooperative-buying organizations have established a trend toward buying all types of consumers' goods on the basis of specifications or analysis.

8. About 95 per cent of consumer goods are bought at retail stores, and the authors estimate that, aside from the homes consumers live in, 90 per cent of their purchases are for immediate consumption.

9. The majority of advertising that one sees in magazines, newspapers, and posters, as well as what is heard through the radio, is for consumer goods. Frequently this advertising is directed at creating new markets, sometimes at introducing new goods. Soluble coffee and tea, electrical equipment, such as mixers and egg beaters, are all of recent introduction in the home.

Classification of Markets.—A market may be thought of today as a place or as a group of people. Originally, markets were places. They developed when people with surplus goods to dispose of came together at a designated spot to exchange their surplus goods for those of others. As time passed, these meeting places evolved into routine market places with trading taking place at regular intervals: monthly, weekly, or daily.

Some of these places established reputations for certain kinds of goods, and they grew into specialized markets. One market specialized in woolen goods, while others sold cotton goods, tinware, or some other type of product.

The influence of these early market places is in evidence today. We have, with modern adaptations and improvements, the same sort of specialized market places. They are illustrated by the wool market in Boston, the coffee exchange in New York, the livestock market and the wheat pit in Chicago, the cotton sales in Galveston and New Orleans, and the wholesale and retail produce markets of every city. Wholesale markets for manufactured goods are now common, such as the Chicago Merchandise Mart, the St. Louis Mart, and many others for particular kinds of merchandise.

In a restricted sense, every retail store constitutes a market place where people go to supply their needs. We still speak of the meat "market." The retail store gradually replaced most of the old consumer markets; it developed along with the advancement of quantity and specialized production. Today the retail store is almost wholly the consumers' market place; it differs from the old consumer markets in that it is usually owned by one person. The original markets contained many sellers as well as many buyers, and they were commonly owned by the municipalities.

Thus it is seen why the statement was made that markets may be thought of as places. Classifying these briefly, the following is observed: wholesale market places consist of such institutions as commodity exchanges, produce markets, and merchandise marts; retail market places are divided among retail stores, super markets, city markets, etc.

Markets in terms of people are becoming more and more important in marketing as we know it today. This is so because of the general development of communication and transportation. People are told about products through advertising, salesmanship, and publicity; excellent transportation facilities enable them to travel many miles to any one of their favorite trading centers. The system of existing retail outlets enables people to buy many products at any one of hundreds of stores. There is no one so poor or whose scale of living is so meager but what he constitutes a part of some market. The vast crowds on the city streets, the sport fans at the stadiums, the enthusiasts at the sand-lot baseball game, the farmers at the country auction sales, the throngs at the beach—all constitute markets for volumes of various items. To supply the tables, to keep the lamps lighted and the furnaces burning, to buy clothing for each member of millions of homes, and to provide recreation and amusement for 149,500,000 people every day in the year is to supply the markets of the United States. Habit and convenience restrict this number, of course, but potentially the number is large. Where there are people to buy, there will be a market.

With many products the manufacture involves so large an investment for machinery that only one plant may be required to supply the population of many states. For example, in a small Ohio city a match factory is located. Wood is fed into the processing machine from one direction, paper from another, sulphur from another, phosphorus from still a fourth, and finally, all these are converted into a usable product, assembled, counted, packaged and delivered—all by an automatic machine. It is evident that such a complex mechanism is expensive to purchase and to operate. It is also obvious that a large machine of such efficiency can supply millions of people with the product that it produces—in this case matches.

Many other items are made in a similar manner. One of our great textile mills can produce enough cloth to supply millions of homes; a few automobile factories produce almost all the cars made—some can turn out 3,000 a day. Steel mills, meat packers, flour mills, and even lead-pencil factories operate on a huge scale. Quantity production is necessary for economic production, which makes low prices possible.

The distribution of the various outputs of these huge factories requires the services of a large number of people—for shipping, storing, dividing into smaller packages that the retailer can handle, and finally for packaging smaller divisions for home consumption. No wonder that with such an item as matches it costs more to move them from the factory into the distant home than it does to produce them.

Marketing Activities Are Necessary.—All those activities involved in buying from the producer and delivering to the consumer constitute marketing. Common usage in the field refers to each activity as a "function." The one who performs the activity or function is referred to as the "functionary," although that term is more restricted than the shorter form just cited.

When oranges are marketed, they are taken from the ranch to the packing house where they are scrubbed, sorted, graded for size, and finally placed in a "gas chamber." In this airtight room, in which a kerosene flame is left burning, the oranges remain approximately 24 hours. In addition to having the skin toughened so that they will not be damaged in going through the grader, they also attain a brilliant color which makes them look more appetizing. Each orange is wrapped and placed in a box according to size and then shipped by refrigerating cars to the cities where they are consumed.

It is often pointed out that marketing costs too much in that the grower receives only about one-third, or less, of the retail price for his fruit; yet when one studies the various steps taken to put the fruit on the market, it is evident that growing and picking the oranges are a very small part of their final production. So it is with many farm products (see Fig. 56, page 285).

Primary Functions in Marketing.—Reduced to the simplest form, the primary marketing functions are

1. Functions of exchange.
   a. Assembling, or buying.
   b. Distributing, or selling.
2. Functions relating to physical supply.
   a. Transporting.
   b. Storing.
3. Facilitating functions.
   a. Grading, sorting, and standardizing.
   b. Financing.
   c. Risk taking.
   d. Collecting and distributing marketing information.

Some of these functions enter into all forms of marketing in greater or less complexity. In the sale of wheat, assembling, storing, and grading are the primary functions in so far as the elevator is concerned. With fresh fruits, storing (which frequently involves refrigeration), transportation, and selling are very important. With meat packers, refrigeration, particularly in transit, is one of the most important functions. It was near the turn of the century before refrigerating cars were so scientifically constructed that packers could carry fresh meat from Chicago to New York and deliver it in first-class condition. With the advancement of the frozen-food industry, refrigeration has become even more important because all stages of storage and transportation are involved.

Of course, in all forms of trade there is a necessity for providing capital, or financing. Also, very little, if any, trade can be conducted without assuming risks. In the importation of silk, the financing is so important that the raw silk received at Seattle is rushed to the manufacturing districts in New York and New Jersey by fast express. These trains have the right of way over all other trains except through passenger trains. The idea is that the interest on the investment is so great that the saving in time is more important than the difference in transportation costs.

Assembling or Buying.—In the following discussion of each of our primary functions, it must be remembered that rarely will one function be performed independently of the others. The relative importance of each function varies with the product being marketed and the agency involved. For example, assembling may include buying, grading, sorting, storing, transportation, financing, and the assumption of risks. Yet, it is apparent that the primary function of a grain elevator is assembling wheat or oats from many farms so that the grain may be sold and shipped more economically.

For a wholesale grocer to supply many food stores with goods, those goods must first be assembled. That is, they must be bought from the various manufacturers and transported to the warehouses from which they will be dispersed when sold. Yet, the function of selling is so much more important to the wholesaler than that of buying or assembling that he thinks of himself as being engaged in distribution. The operator of a grain elevator, on the other hand, has to exert careful discrimination in grading the wheat before buying, while selling is primarily by grade, with prices fixed by auction. Hence, the elevator operator is fundamentally an assembler.

Distributing or Selling.—From the legal standpoint, selling is a transference of ownership and may involve no more than the exchange of a bank check and a receipt. This legalistic interpretation of selling is unfortunately adopted by many economists and is perhaps primarily responsible for their apparent misunderstanding of the realities of our complex system of marketing. Few economic texts pay attention to the problem of developing markets and assume that the buyer should seek the seller when in need. Anyone who has ever tried to run a business, large or small, knows how essential sales promotion, advertising, and active selling efforts are in transacting business. Particularly is this true of all merchandising institutions. It is to be regretted that so many economists have no place in their theories for market-stimulating activities.

Selling may in itself be a real service to the buyer. This is illustrated by all the electrical equipment which must be demonstrated before it can be used to the best advantage. When a woman buys a sewing machine she wants not only to see how it runs but to have all the attachments, including the motor, explained and demonstrated. This is all a part of selling. It doubtless increases the price which the consumer pays—for the valuable time of someone is required in the demonstration and explanation, but without this service the machine would be less valuable to the purchaser and might even be damaged through amateurish operation. Few power washing machines, electrical ironers, or even vacuum cleaners are bought without a demonstration in the home.

The following example is in the industrial field. A certain type of printing press sells for about $1,500. Assume that it costs $800 to manufacture. On the floor of the factory, these presses represent $800 in value. The insurance would provide for that amount, but when a printer has bought one of these presses, the cost of selling, shipping, and installing brings the price up to $1,500, and the same insurance company, which accepted a risk of $800 for the press while it was in the factory, increases its liability to $1,500 after the press has been installed in the print shop. Not all of the $700 difference is represented in transportation and installation costs. It is well known that the cost of selling this type of machine is pretty well standardized and it is regarded as a service not only to the manufacturer but to the buyer. Suppose the printing press had been destroyed by fire or accident while in transit. The buyer and not the shipper would look to the insurance company for reparation, and the amount collected would be the amount of loss to the buyer, who would have to pay the full contract price. In other words, possession is a utility in itself, and transferring ownership from one to another is a service that enhances the value of the product.

Standardizing and Grading.—At the present time, perhaps no two subjects pertaining to marketing are more commonly discussed by consumers than those of standardizing and grading. The U.S. Patent Office does not register grade marks as a part of a trade-mark, which complicates the practical handling of the subject. Under the Consumer Movement the subjects of standards, uniform grading, and descriptive labeling will be considered at length. It may be noted here that agricultural products have been more carefully standardized than manufactured products. This has been necessary for the conduct of the commodity exchanges, and buying by telegraph.

The critics of marketing have launched their strongest complaints on the ground that there is no basis by which a consumer can judge the value of the products he is buying. Such staples as sheetings, nails, paper, heavy chemicals, and a few others have been of sufficiently continuous competition and have conformed to such generally accepted standards that they can be bought by description, but for the great mass of consumers' goods, known standards are the exception. The good will of the manufacturers, and to a less extent of the distributors, is the chief protection of the final consumer.

For the purpose of adopting standards, some of the large industries combined in 1919 with the U.S. Bureau of Standards to establish what is now the American Standards Association. The purpose of this association, however, is to eliminate unnecessary weights, sizes, styles, and forms, so that manufacturers and distributors can reduce the cost of providing products for consumers, rather than to establish standards of value. An example of their work was the simplification of windowpanes through standardization. Anything outside these standard sizes is regarded as special, and its price is fixed upon the cost of special construction. Paper, perhaps, is standardized as well as any of the major staples. Sizes, weights, tensile strength, and raw materials of manufacture are so well standardized that a "machine-finished book, 25 inches by 38 inches, 80 pounds to the ream," as an example, means the same for all the paper mills, paper merchants, and printers.

Some of the chief standards have been adopted by the trade in accordance with the following requirements:

1. Quality (canned goods: standard, extra-standard, and quality).
2. Size (eggs; apples; oranges; canned peas; etc.).
3. Quantity (standard unit containers).
4. Variety (hard red spring wheat, common white wheat; Baldwin apples, etc.).
5. Color (apples; oranges; honey).
6. Flavor (tea; coffee; tobacco).
7. Method of packing (bulk, barreled, boxed, etc.).
8. Geographic district of source (Penang cloves; Wenatchee apples; Alaska salmon; Rio coffee; Darjeeling tea; Texas pink grapefruit).

It may be noted that most of the above apply to farm products, but they are by no means the only agricultural goods that have been so graded and standardized that they can be bought and sold by specification. Wool, cotton, hogs, cattle, butter, tobacco, and beans are some of the others.

In supplying raw materials to manufacturers in industrial marketing, standardized grading has been so commonly adopted that it is the rule rather than the exception. Iron, steel, copper, rubber, and lumber, as well as a number of semiprocessed items, are bought by description, made possible by generally accepted grades.

The matter of individual taste and personal preference enters so generally into the choice of most consumer products that attempts to standardize quality and service are often impractical. For example, a haberdasher received a shipment of neckties. They varied in quality and in price, but he picked out those patterns that he knew would be most popular and priced them all alike. Then he made another assortment of less popular patterns and a third assortment of the least pleasing patterns. He had three price levels according to the attractiveness rather than the wearing qualities. If his customers had been skilled judges of silk, it is evident that he could not have done this. So, in many instances, the ignorance of the consumer is practically unprotected. That is one of the reasons why the popularity of the trade-marked articles has increased so rapidly since the basic trademark law was passed in 1905. When a reputable firm puts a trademark on a product, it assures the public that each of its products is offered at the same price, if similar in quality, and that established qualities will be maintained.

For some things, such as tea and coffee and goods in which the style element is paramount, the judgment of the buyer is the only criterion. Good coffee is the kind you like. An acceptable hat is the kind that makes you look best. No buyers' guilds or consumers' leagues can do anything about it. Apparently, the most that can be done in this wide field of merchandise is to penalize misrepresentation and deception so heavily that it will no longer be profitable. This will largely eliminate the sale of unbranded merchandise, which a few overreaching merchants attempt to foist upon their customers in place of the standard merchandise that is requested.

Financing and Risk Taking.—The subject of financing, like transportation, is so immensely involved that even a consideration of the basic elements would require an amount of space not here available. It is generally regarded as poor business not to carry fire insurance, not to bond important officers, which is a form of insurance, and not to hedge against changes of price. That means that many risks can be carried more economically by firms organized to assume those risks than by individuals and firms less able to calculate the extent of the risk. That capital is necessary for every marketer, from the peanut vendor to the large department store, or wholesaler, is so obvious that mere mention suffices. The way in which capital invested in marketing should be compensated is still a question that is open to wide discussion. Should the owner of a factory, a wholesale house, or a store

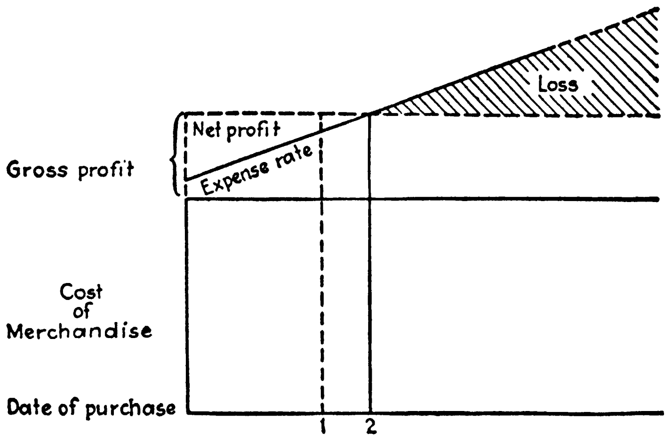

FIG. 12.—THE EXPENSE-PROFIT RATIO AND THE TIME ELEMENT

1. End of period which normally will be required to accomplish the sale of the commodity. It will be noted that a normal net profit will result if the commodity is sold on this date.

2. On this date the accumulation of carrying charges will have brought the total of expenses to a point where net profit is wiped out. After this date there is a growing loss on the product as long as it is carried. The ratio, explained here, is an important factor in the establishment of price policies.

be compensated by the amount of investment, the sales he makes, the amount of risk he assumes, the amount of actual service he performs, the amount of costs he incurs, or by a combination of two or more of these? We can only leave this with the question, because neither economists nor businessmen are agreed on the best practices.

Reference has already been made to risk taking and to the fact that the commensurable risks are provided for by some form of insurance already available. It is such risks as style changes, overstocking, damage in handling goods, and the expenses of selling that no manufacturer or merchant can estimate accurately. Yet adequate provision must be made for all of them if business is to succeed. These functions are too complicated and too much involved for analysis here, as was illustrated under the consideration of the printing press in a previous paragraph. The manufacturer's risk is of an entirely different nature from that of either the insurance company or the final consumer. The man who made the press and the owner of the print shop, who bought it, were both relieved of the risk of loss by fire, as they employed insurance companies to assume the fire risk. But the manufacturer has a much greater risk in the cost of selling than in the loss by fire. If a customer were not found in a reasonable time, the cost of selling might double, and there would be nothing he could do about that. The buyer of the press had a different kind of risk. If he could not get work to keep the press busy, it would be a losing venture. If, by carelessness of a workman, or some other mischance, the press were broken, he would suffer loss. Against neither of these risks could he get insurance, yet each might be more serious than that of fire. The ones who furnished the capital for the factory and for the print shop assumed these risks. Should they not be amply rewarded for their enterprise?

Market Information.—There are many types of market information, varying all the way from informal telegraph and telephone reports to extensive reference books. *Thomas' Register* is a book of 2,000 pages that lists and classifies practically all the manufacturers in the United States. *The Standard Rate and Data Service* is a publication in five sections that gives information on the principal advertising media, including the circulation, advertising rates, subscription rates, and the conditions that these media place on accepting advertising copy. There are many organizations that make a business of sending out information in regard to the stock market to the board of trade where grains are auctioned and to stock yards. The nature of this information varies as widely as the forms that it takes. These are only a few of the large number of concerns and the different kinds of information relative to markets that are either sold or given to customers and prospective customers. A careful analysis and classification of the different kinds of market information is given below. This is not exhaustive, but it is sufficiently broad so that it comprises the general classifications and services performed and the chief sources.

1. Types of market information.
   a. General information—long run in its effect. This shows general tendencies, for example:
      (1) Changes in housing conditions.
      (2) The growing industrialization of Middle Western states.
   b. Specific information—short run in its effect. This gives market news that is of little value unless it is up to date.
      (1) Day-to-day changes in prices of commodities.
      (2) The presence or absence of rain in certain wheat belts.
      (3) Particular product and market information as related to

(a) Details of competitor's product.
(b) What people will buy.
(c) What prices should be.
(d) Size of market.
(e) Location of market.
(f) Many other types of specific product and market information.

2. Services performed by market information. These make possible individual efficiency, which in turn leads to general efficiency.
   a. Results in orderly marketing.
      (1) Aids in prevention of waste.
      (2) Aids in lowering of prices.
   b. Aids in better distribution of products.
   c. Encourages consumer's expression as to what he wants.
   d. Shows the long-time trends in the habits of businessmen and consumers and hence has educational and historical values.
3. Sources of market information.
   a. The United States government, state governments, etc., through their various departments, bureaus, commissions, etc.
   b. Other sources—promoted by private organizations. These include business papers, house organs, promotional material and bulletins to the trade and to various representatives, all put out by private business. In addition, many firms are organized for the purpose of supplying information. These range from such institutions as the Associated Press to research companies which report on the popularity of radio programs.

Organized Sources of Information.—In the hundreds of trade and industrial magazines, an important part of the editorial content is taken up with reports of surveys and investigations. This type of publication is said to be unique in the United States. At least, no other country has developed to the same degree such extensive sources of information as the business publications of the United States. There is no business and no industry of any extent which is not supplied with its own newspaper, magazine, or annual. In many industries there are more than one. These have contributors in every field of information pertaining to business, and some of these publications have been the advanced investigators in their fields. For example, it is said that *Hoard's Dairyman* has published everything on the production, development, and care of dairy products that has appeared in print. This, of course, does not mean that nothing else has been printed, but that all the information on this broad subject has appeared in the *Dairyman* at one time or another, that it has covered all the topics. Probably as much could be said about many other publications in other fields.

There are many agencies organized to secure highly specialized information. These are research agencies and will be treated more extensively in the chapter on Research. Some of these are so highly specialized that they devote the full efforts of the organization to a very narrow line of information, such as seeking out the amount of money spent by each firm for magazine advertising for each of its products. Other agencies undertake special investigations, such as the number of fountain pens sold in the country in a year. This information is usually regarded as confidential and is subject to use only by the firm who pays for it. Furthermore, there is a tendency for some of the trade associations to take over investigations that pertain to a whole industry. That is a logical thing to do.

Summary of Marketing Functions.—In addition to the basic functions that were given in an earlier paragraph, it will be apparent to many that there are functions other than those specifically named. For example, under distributing or selling would come advertising, sales promotion, market investigations, and perhaps numerous other activities related to selling. Under assembling there may be packaging, dividing original bales or bundles, branding, sorting, and arranging for display. Each of these, of course, is a function in itself, but for the student to become familiar with a broad classification first seems essential; then subsequently these fundamental activities may be subdivided according to the particular problem at hand.

Classification is one of the elements of science. Measurements is another. One of the most urgent needs of the present time is the accurate analysis and evaluation of the different marketing functions. The Federal Trade Commission is now conducting an extensive investigation to get just such accurate cost figures on the different activities involved in marketing.

Preparation for work in marketing involves an understanding of the general field, with an expert training in some particular activity. The time is long since past when anyone may be a specialist in all the fields of marketing. It is impossible at the present time for one person to follow all the developments in the different fields.

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Questions and Problems

1. Science has been defined as an organized body of knowledge. Why is a system of classification necessary to the establishment of a science? Discuss the classification system in the field of marketing, a social science.

2. List five commodities that are commonly termed industrial or business goods.

3. Explain the statement, "Services tie together those factors that make the marketing of tangible goods possible."

4. Why is real estate not classified under the heading "Commodities"?

5. Name three illustrations of an industrial service. Explain.

6. In what manner does the salesman who markets diesel engines perform a service?

7. Name two grounds upon which manufacturers may establish individuality for their products.

8. Why has the concept of "the market" changed from that of "a place" to that of "a group of prospective buyers"?

9. Outline the three primary functions of marketing.

10. Why must the function of financing be regarded as a market function?

11. Why is the grain-elevator operator regarded fundamentally as an assembler (buyer) rather than as a distributor (seller)?

12. In general the writers of texts on economics pay little attention to the problem of developing markets and assume that the buyer will seek out the seller when he is in need. Why is this position quite untenable in modern society?

13. Why is a system of grading mandatory for the efficient marketing of agricultural products?

14. What is the essential difference between "financing" and "risk taking"?

15. Make a list of as many sources of marketing information as you can think of.

CHAPTER IV

THE FIELD OF RETAILING

The Weakest Link in Distribution.—The final disposition of most consumer goods is found in the retail store where they are turned over to the people who will consume them. It is to these stores that home buyers go to make their purchases and to obtain information regarding those purchases. It is fair for the customer to assume that the seller knows something about the product he is selling. Of course, he will be familiar to the point that he recognizes the product, but too often he cannot give an intelligent reason why it is to be preferred to a competing item. Although occasionally the clerk behind the counter is thoroughly familiar with the merchandise he handles, and although the salespeople in the first-class metropolitan stores are often experts, unfortunately that is the exception, not the rule.

Prior to the war nearly half of all retail establishments in the country did less than $10,000 worth of business in a year, an average of about $30 a day. If you glance at Table 5 you will see that the margin on goods sold in most stores runs from 20 to 60 per cent of the cost price. This means that the profit on $30, a day's sale, would run from about $6 to $18. That, of course, will not be net, as out of it must be deducted the store rent, the cost of lighting, fuel, and all the incidental expenses before the proprietor can take anything for himself. It is easy to see that the merchants in this class, nearly 700,000 of them, have less income than janitors. Most of them know little about the goods that they handle and are incapable of helping their customers to make intelligent selections. More than 75 per cent of all merchants sell less than 25 per cent of goods bought in retail stores.

Though some of the chain stores and large department stores are run very efficiently, even some of the outstanding ones are not up to date in their methods, particularly in the treatment of their employees. In New York City less than a dozen of the retail stores have made any kind of provision for old-age pensions for their employees. Among the delinquents are several stores selling from $25,000,000 to $50,000,000 a year.

The Store of Fifty Years Ago.—In Greenfield Village at Dearborn, Mich., there is a little old "general" store which is highly representative of thousands of small stores that were in business a half century ago. The stock covers most of the items that were bought for the home during the eighties of the last century. There is a small collection of dishware; women's hoop skirts and "ironside" corsets; bolts of calico, gingham, and sheeting; kerosene lamps and chimneys; plug chewing tobacco; a few common drugs and chemicals; a small assortment of shoes; perhaps a dozen items of hardware and cutlery; besides

RETAIL STORES PER 1,000 POPULATION

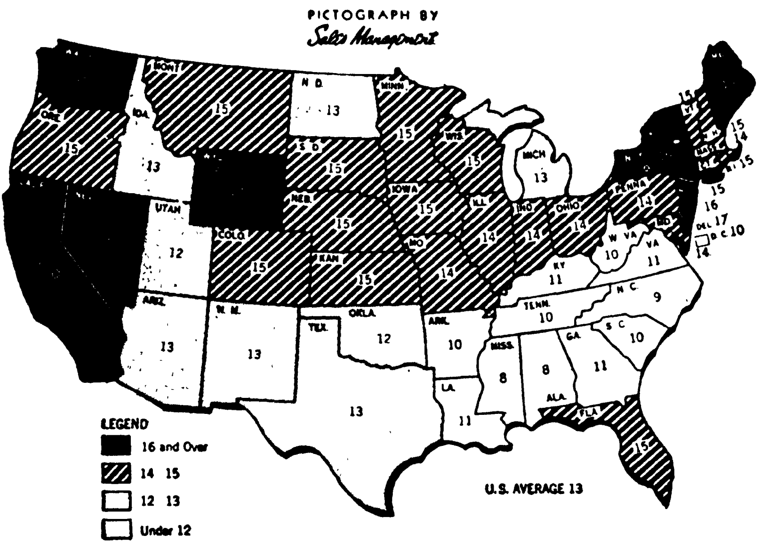


FIG. 13.

The wealth is according to the latest figures available. The relationship changes very little from decade to decade.

spices, extracts, and a few garments then in vogue both for men and for women. It is an authentic store, which was bought by Henry Ford and moved to Greenfield from northern New York after it had been closed for many years.

In the newest districts of the country, pack peddlers went from house to house carrying a variety of merchandise on their backs. The protective covering was a square of ticking tied at the four corners to cover the yardage goods and notions, which were the most commonly offered merchandise. Many of these peddlers afterward opened stores and became small-town merchants, some of whom grew into prominent businessmen.

Most of the articles in those early days came from such stores as the

TABLE 5.—MARKUP REQUIRED FOR EACH KIND OF RETAIL BUSINESS TO PRODUCE A PROFIT

Number of retailers reporting	Kind of retailer	Markup of cost of goods sold[1]			
		Number reporting profit	Per cent[2]	Number reporting loss	Per cent[2]
1209	Automobiles (new and used)	897	27.26	312	20.51
68	Automobile accessories	49	53.24	19	38.08
18	Beauty parlor; barbershop supplies	11	68.99	7	61.73
97	Books	65	71.46	32	46.36
129	Cigars and cigarettes	105	32.67	24	23.33
41	Clothing (installment)	36	81.00	5	51.30
381	Clothing, men and boys (cash)	291	51.10	90	35.99
831	Clothing, men and boys	640	53.86	173	42.95
329	Confectionery	247	66.22	82	40.45
196	Dairy products	150	54.96	46	44.75
131	Delicatessen	108	35.52	23	23.62
377	Department stores	257	41.41	120	39.55
67	Dresses (cash)	46	44.81	21	32.00
143	Dresses	117	55.24	26	50.47
778	Drugs (cash)	589	58.30	189	41.78
1078	Drugs	796	50.43	282	39.92
1292	Dry goods	998	44.73	294	26.85
988	Filling stations	806	48.30	182	35.00
145	Florists	94	163.80	51	154.67
575	Furniture	422	61.17	153	46.98
738	Furniture (installment)	555	65.94	183	58.65
1151	General stores (cash)	888	26.45	263	19.94
3228	General stores	2,550	27.11	678	20.23
720	Grocers (cash)	564	32.47	156	12.83
1731	Grocers	1,385	33.61	346	17.29
432	Groceries and meats (cash)	348	30.62	84	17.69
1189	Groceries and meats	943	24.45	246	21.50
1175	Hardware	859	42.85	316	33.66
502	Jewelry	368	127.84	134	78.56
147	Jewelry (installment)	122	107.30	25	74.77
123	Men's furnishings (cash)	94	54.00	29	47.60
238	Men's furnishings	178	54.55	60	39.90
105	Radio	82	91.49	23	84.05
79	Radio (installment)	55	75.70	24	64.00
237	Sporting goods	175	56.16	62	43.15
174	Tires	117	55.20	57	42.61
559	Under-a-dollar variety stores	468	47.04	91	34.28

[1] Gross profits divided by the cost of goods sold.

[2] *Dun and Bradstreet Review*. It was prepared to show the markup required for each kind of retail business to produce a profit. It is significant only as giving averages.

TABLE 6.—NUMBER OF DISTRIBUTION ESTABLISHMENTS—1948 ESTIMATES[1]

Kind of business	Number of stores	Average annual business per store	Average population per store
Retail:			
Grocery	373,000	$ 74,000	390
Eating and drinking	340,000	36,000	430
Filling stations	242,000	27,000	610
Miscellaneous	234,000	49,000	620
Food Nongrocery	129,000	39,000	1,130
Apparel	94,000	81,000	1,550
Motor vehicles	62,000	206,000	2,350
Drugs	61,000	59,000	2,400
Hardware and farm implements	53,000	72,000	2,750
Dept. and gen. merchandise	52,000	283,000	2,800
Building materials	50,000	140,000	2,900
Home furnishings	50,000	78,000	2,900
Meat and seafood	36,000	61,000	4,100
Country general stores	32,000	60,000	4,600
Automotive parts	29,000	59,000	5,000
Radio and appliances	27,000	74,000	5,400
Liquor	26,000	65,000	5,600
Shoe	21,000	67,000	6,900
Total, retail	1,911,000	$ 68,000	76
Service:			
Barber and beauty	235,000	$ 3,000	620
Business services	150,000	10,000	970
Laundry and cleaning	113,000	11,000	1,300
Miscellaneous personal	100,000	8,000	1,450
Auto repair	98,000	8,500	1,500
Amusements	35,000	25,000	4,200
Hotels and lodgings	22,000	60,000	6,600
Movie theaters	15,000	100,000	9,700
Total, service	768,000	$ 11,400	190
Total, wholesale	250,000	620,000	580
Combined distribution	2,929,000	......	50

[1] From data furnished by Robert L. Niles, Assistant Chief, Domestic Commerce Staff, U.S. Department of Commerce; and M. M. Zimmerman, Editor and Publisher, *Super Market Merchandising*.

one in Greenfield Village, and even today there are thousands of stores which do not specialize in any class of goods but rather supply general merchandise for the home. As is shown in Table 8 these general stores sell about 16 per cent of all goods bought from the retailers of Kentucky; in Alabama it is over 20 per cent and in Mississippi more than 28 per cent. When a merchant handles so many items and employs only one clerk or perhaps is assisted by a member of his family to

TABLE 7.—ESTIMATED PER CAPITA CONSUMER EXPENDITURES DURING 1948

Item	Per capita expenditures	Per cent of total
Groceries[1]	$ 291	21.9
Direct taxes	165	12.4
Apparel	113	8.5
Housing	108	8.1
Alcohol	58	4.4
Medical and burial	54	4.0
Meals	48	3.6
Insurance (net[2]) and business	43	3.2
Autos	41	3.1
Miscellaneous household operation	41	3.1
Tobacco	30	2.3
Gas and oil	27	2.0
Public transportation	26	2.0
Furniture and rugs	25	1.9
Fuel	22	1.7
Miscellaneous recreation	22	1.7
Electric appliances	21	1.6
Shoes and footwear	20	1.5
Utilities	19	1.4
Cleaning, laundry, and clothing expenditures	15	1.1
Domestic service	13	1.0
Toys	13	1.0
Tires and auto parts	12	0.9
Newspapers, magazines, and books	12	0.9
Religion and welfare	11	0.8
Telephone	10	0.7
China, tableware, and utensils	10	0.7
Radios, players, and musical instruments	10	0.7
Movies	9	0.7
Jewelry	9	0.7
Cosmetics and personal items	8	0.6
Barber and beauty	8	0.6
Auto repair	8	0.6
Education (private)	8	0.6
Total	$1,330	100.0

[1] Alcohol, meals, and tobacco, etc., shown separately.
[2] Excess of premiums over benefits.

wait on customers, it is not surprising that he is unable to become very familiar with the goods he stocks.

The Extent of Retail Trade.—In the United States there are approximately 2,000,000 stores which employ nearly 5,000,000 people. In addition to this, there are approximately 1,700,000 proprietors of unincorporated merchandise businesses. That is equivalent to the total population of one of our largest states such as Texas or Michigan.

TABLE 8.—STANDARD SUMMARY OF RETAIL FACTS—NATIONAL AND BY STATES[1]

		United States	New England Division: Maine	New England Division: New Hampshire	New England Division: Vermont	New England Division: Massachusetts	New England Division: Connecticut	New England Division: Rhode Island	Middle Atlantic Division: New York	Middle Atlantic Division: New Jersey	Middle Atlantic Division: Pennsylvania
1	Population	122,775,046	797,423	465,293	359,611	4,249,614	1,606,903	687,497	12,588,066	4,041,334	9,631,350
2	Ratio of retail workers to total population (per cent)	4.90	4.80	5.0	4.94	6.07	5.6	6.01	6.04	5.07	5.25
3	Counties	3,074	16	10	14	14	8	5	62	21	67
4	Cities of 10,000 to 30,000	644	7	8	3	44	12	10	47	33	72
5	Cities of more than 30,000	310	2	2	......	29	8	4	22	22	20
6	Number of retail stores	1,543,158	11,091	6,557	5,189	54,183	22,202	9,542	190,017	60,010	135,275
7	Total annual sales (in thousands of dollars)	$49,114,653	$307,627	$184,285	$152,175	$2,054,976	$768,510	$318,295	$7,070,414	$1,843,545	$3,803,941
8	Per cent of credit sales to total sales	34.29	30.65	28.14	34.98	32.66	34.26	34.22	31.00	32.17	32.57
9	Full-time employees	3,833,581	22,925	13,643	10,278	177,214	58,934	27,281	513,434	126,751	317,099
10	Part-time employees	676,559	5,000	3,288	2,171	32,625	10,611	5,311	71,253	22,227	56,045
11	Proprietor owners (not included above)	1,510,607	10,379	6,354	5,312	48,294	19,794	8,749	175,597	55,959	132,931
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
12	Proportion of part-timers to total employees	13 to 14	12 to 15	15 to 18	11 to 14	14 to 16	13 to 15	15 to 16	11 to 12	13 to 14	13 to 15
13	Extreme variation in seasonal employment	7	11	9	7	7	6	4	7	5	8
	Proportion of men and women employees:										
14	Men	68	69	72	73	65	71	70	67	73	65
15	Women	32	31	28	27	35	29	30	33	27	35
16	Total annual pay roll (in thousands of dollars)	$5,189,670	$28,012	$16,786	$12,763	$241,100	$87,196	$36,183	$792,285	$193,503	$411,939
17	Average annual salary per full-time employee	$1,312	$1,174	$1,177	$1,197	$1,315	$1,429	$1,281	$1,506	$1,483	$1,257
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
18	Average wage cost (per cent of sales)	14.28	12.86	13.05	12.13	14.65	14.91	14.83	14.84	14.72	14.96
19	Average rental cost (per cent of sales)	4.17	2.81	2.95	2.21	4.29	4.32	4.09	5.38	5.08	4.59
20	Average operating expenses (per cent of sales)	24.83	22.02	21.70	20.14	26.28	25.27	25.50	26.77	25.53	25.94
21	Proportion of sales in leased premises to total sales	72.19	65.67	67.82	62.47	79.94	64.88	75.52	79.67	71.02	62.38
	Proportion of total sales—										
22	By single-store independents	64.11	72.60	70.44	73.38	60.55	68.23	64.99	63.82	67.78	63.79
23	By local multiunit independents	8.84	7.48	10.52	7.78	13.70	7.89	9.68	9.72	7.48	9.50
24	By local chains	6.71	2.73	2.99	1.51	6.46	5.79	8.19	9.22	7.68	5.20
25	By sectional and national chains	12.52	10.43	12.67	8.91	16.36	15.27	15.00	13.43	13.88	15.01
26	By all other types of operation	7.82		......	......	......	......	......	......	......	......
	Proportion of total sales—										
27	By stores selling entirely for cash	34.93	33.67	37.70	25.30	39.16	39.82	37.56	46.82	42.91	38.82
28	1 to 50 per cent credit	30.73	35.81	33.56	40.82	27.93	24.90	29.57	21.63	25.11	27.25
29	More than 50 per cent credit	34.34	30.52	28.74	33.88	32.91	35.28	32.87	31.55	31.98	33.93

		United States	New England Division						Middle Atlantic Division		
			Maine	New Hampshire	Vermont	Massachusetts	Connecticut	Rhode Island	New York	New Jersey	Pennsylvania
30	Proportion of stores with sales of less than $10,000	43.66	41.11	40.06	41.13	39.59	40.55	47.02	37.79	41.87	51.51
31	Proportion of total sales in such stores	5.69	6.05	5.87	5.41	4.48	5.23	5.92	4.54	5.65	7.02
32	Proportion of stores with sales between $10,000 and $30,000	31.51	......	......	......	......	......	......	......	......	......
33	Proportion of total sales	17.59	......	......	......	......	......	......	......	......	......
34	Proportion of stores with sales between $30,000 and $200,000	23.01	24.41	26.07	26.77	25.00	25.33	20.09	24.37	22.42	19.03
35	Proportion of total sales	45.25	53.63	56.57	56.74	41.78	46.23	37.46	40.29	45.08	42.41
36	Proportion of stores with sales between $200,000 and $1,000,000	1.68	......	......	......	......	......	......	......	......	......
37	Proportion of total sales	19.13	......	......	......	......	......	......	......	......	......
38	Proportion of stores with sales of more than $1,000,000	0.14	0.05	0.03	......	0.22	0.15	0.25	0.21	0.13	0.10
39	Proportion of total sales	12.34	2.79	1.23	......	17.61	9.05	17.31	18.89	9.68	15.16
40	Proportion of stores which are proprietorships	84.07	83.00	85.40	86.91	78.99	79.5	82.71	81.96	81.88	88.41
41	Proportion of business by such stores	51.40	54.97	65.19	66.96	40.70	44.3	42.63	44.98	48.34	54.89
42	Proportion of stores which are corporations	15.77	16.79	14.37	12.97	20.94	20.4	17.24	17.98	18.07	11.50
43	Proportion of business by such stores	48.23	44.29	33.80	32.22	59.13	55.5	57.29	54.87	51.52	44.95
44	Proportion of stores which are cooperatives	0.16	......	......	......	......	......	......	......	......	......
45	Proportion of business by such stores	0.37	......	......	......	......	......	......	......	......	......
46	Sales by kind of business groups[2]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
47	Food group[2]	22.07	23.65	27.47	20.90	27.05	26.56	26.41	25.06	30.69	24.78
48	General stores (country general stores)	5.23	6.85	5.44	10.25	0.58	0.96	0.63	1.02	0.71	3.96
49	General merchandise group	13.12	8.60	8.70	7.24	14.78	10.88	13.30	11.95	10.18	16.01
50	Apparel group	8.63	8.72	7.27	5.89	9.46	9.86	9.46	13.30	8.27	9.62
51	Automotive group	19.58	21.25	21.79	24.08	16.75	18.98	17.54	13.40	17.64	16.56
52	Furniture and household group	5.61	4.54	4.61	4.03	4.92	6.43	5.73	6.63	5.89	6.08
53	Restaurant group	4.33	2.54	3.21	2.15	4.76	3.76	3.95	6.34	3.79	3.53
54	Lumber and building group	5.34	4.73	4.45	4.70	4.09	6.38	6.25	4.27	6.87	4.50
55	Hardware and farm-implement stores	2.50	3.17	2.49	3.71	1.51	1.67	1.70	1.64	1.97	1.88
56	Farmers' supply stores	2.29	5.03	3.96	7.36	1.85	2.06	1.34	1.52	1.86	1.81
57	Book stores	0.24	0.13	0.23	0.14	0.24	0.24	0.12	0.51	0.07	0.18
58	Cigar stores and cigar stands	0.83	0.48	0.28	0.43	0.69	0.74	0.67	1.32	0.88	1.06
59	Coal and wood yards—ice dealers	2.06	3.34	3.13	3.12	4.53	3.71	4.22	2.88	3.71	2.01
60	Drugstores	3.44	3.33	3.70	2.77	3.13	2.97	3.58	2.88	2.74	2.98
61	Jewelry stores	1.09	0.79	0.73	0.74	1.18	1.15	1.24	1.71	0.75	1.20
62	All other stores	3.64	2.85	2.54	2.49	4.48	3.65	3.86	5.57	3.98	3.84

[1] *Census of Distribution*, 1929, U. S. Department of Commerce.

[2] Food store sales are not entirely sales of food. Other commodities are sold as well. The same is true of other kinds of stores. Sales classified by commodities can be computed from commodity tables in each State report. The summary above is by kinds of business, not by commodities.

TABLE 8.—STANDARD SUMMARY OF RETAIL FACTS—NATIONAL AND BY STATES.—(*Continued*)

		United States	East North Central Division					West North Central Division[1]				
			Ohio	Indiana	Illinois	Michigan	Wisconsin	Minnesota	Iowa	Missouri	North Dakota	South Dakota
1	Population	122,775,046	6,646,697	3,238,503	7,630,654	4,842,325	2,939,006	2,563,953	2,470,939	3,629,367	680,845	692,849
2	Ratio of retail workers to total population (per cent)	4.90	5.26	5.01	5.79	4.98	5.03	4.96	4.95	5.26	3.79	4.41
3	Counties	3,074	88	92	102	83	71	87	99	115	53	69
4	Cities of 10,000 to 30,000	644	36	21	38	25	17	11	14	11	4	5
5	Cities of more than 30,000	310	23	13	20	15	10	3	7	5	....	1
6	Number of retail stores	1,543,158	83,717	41,618	96,900	55,958	39,474	30,725	32,716	47,039	8,077	8,845
7	Total annual sales (in thousands of dollars)	$49,114,653	$2,864,831	$1,222,384	$3,711,903	$2,226,398	$1,237,442	$1,051,930	$972,136	$1,448,220	$234,540	$255,197
8	Per cent of credit sales to total sales	34.29	38.16	32.80	29.90	36.09	33.83	34.89	32.01	32.23	34.91	27.34
9	Full-time employees	3,833,581	229,870	100,677	296,785	161,245	88,535	81,729	70,538	123,694	14,297	16,469
10	Part-time employees	676,559	41,163	20,531	52,471	26,413	20,806	14,527	18,409	20,268	3,485	5,106
11	Proprietor owners (not included above)	1,510,607	78,846	41,058	92,936	53,540	38,571	30,903	33,470	46,958	8,017	9,013
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
12	Proportion of part-timers to total employees	13 to 14	13 to 15	15 to 17	12 to 14	12 to 13	15 to 17	12 to 14	17 to 19	12 to 14	14 to 16	19 to 22
13	Extreme variation in seasonal employment	7	7	5	9	4	6	7	6	5	8	5
	Proportion of men and women employees:											
14	Men	68	64	66	64	67	67	64	67	67	71	69
15	Women	32	36	34	36	33	33	36	33	33	29	31
16	Total annual pay roll (in thousands of dollars)	$5,189,670	$318,273	$125,966	$440,280	$241,870	$121,077	$103,816	$86,094	$153,142	$17,931	$20,556
17	Average annual salary per full-time employee	$1,312	$1,341	$1,206	$1,438	$1,459	$1,311	$1,228	$1,164	$1,200	$1,203	$1,181
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
18	Average wage cost (per cent of sales)	14.28	14.64	14.11	15.16	14.10	13.54	13.32	12.72	14.14	11.59	12.16
19	Average rental cost (per cent of sales)	4.17	4.10	3.65	4.60	4.03	3.68	3.54	2.94	3.59	2.73	2.49
20	Average operating expenses (per cent of sales)	24.83	25.50	23.73	26.77	24.64	23.52	23.38	21.82	24.69	20.71	20.41
21	Proportion of sales in leased premises to total sales	72.19	75.70	71.37	75.60	72.18	57.93	66.58	69.35	75.33	54.04	62.25
	Proportion of total sales—											
22	By single-store independents	64.11	66.08	68.20	59.57	64.18	67.43	63.66	62.89	59.17	63.11	62.54
23	By local multiunit independents	8.84	8.01	7.02	9.21	8.33	7.43	7.78	6.70	7.69	4.73	5.12
24	By local chains	6.71	6.61	5.24	9.00	7.97	5.73	3.16	4.77	4.80	2.56	3.48
25	By sectional and national chains	12.52	14.51	13.25	13.42	14.40	10.30	9.90	9.79	12.38	10.20	10.31
26	By all other types of operation	7.82	....	....	....	....	....	....	....	....	....	....
	Proportion of total sales—											
27	By stores selling entirely for cash	34.93	30.96	34.59	39.20	32.35	27.56	20.72	28.81	32.47	20.81	25.81
28	1 to 50 per cent credit	30.73	32.72	31.98	30.36	30.40	41.25	42.71	44.76	35.74	45.50	51.79
29	More than 50 per cent credit	34.34	36.32	33.43	30.44	37.25	31.19	36.57	26.43	31.79	33.69	22.40

		United States	East North Central Division					West North Central Division				
			Ohio	Indiana	Illinois	Michigan	Wisconsin	Minnesota	Iowa	Missouri	North Dakota	South Dakota
30	Proportion of stores with sales of less than $10,000	43.66	39.84	42.47	38.95	34.02	40.43	36.13	35.19	46.22	35.01	34.29
31	Proportion of total sales in such stores	5.69	5.01	6.02	4.45	3.88	5.68	4.88	5.47	6.57	5.54	5.40
32	Proportion of stores with sales between $10,000 and $30,000	31.51										
33	Proportion of total sales	17.59										
34	Proportion of stores with sales between $30,000 and $200,000	23.01	25.26	24.12	25.69	28.86	25.01	25.94	26.62	20.63	27.16	27.97
35	Proportion of total sales	45.25	45.85	50.97	42.01	45.35	49.87	45.65	53.69	40.95	57.24	57.14
36	Proportion of stores with sales between $200,000 and $1,000,000	1.68										
37	Proportion of total sales	19.13										
38	Proportion of stores with sales of more than $1,000,000	0.14	0.15	0.07	0.19	0.20	0.09	0.14	0.07	0.17		0.01
39	Proportion of total sales	12.34	12.34	5.22	19.51	13.56	7.74	15.11	4.99	18.46		0.61
40	Proportion of stores which are proprietorships	84.07	80.52	83.42	83.05	81.16	83.56	82.79	84.91	84.37	81.56	82.72
41	Proportion of business by such stores	51.40	46.70	56.16	46.02	49.92	53.08	52.64	65.44	46.75	60.47	63.55
42	Proportion of stores which are corporations	15.77	19.33	16.30	16.83	18.61	16.03	16.49	14.65	15.37	17.82	16.62
43	Proportion of business by such stores	48.23	53.06	43.35	53.81	49.67	46.08	46.15	33.49	52.50	38.50	35.06
44	Proportion of stores which are cooperatives	0.16										
45	Proportion of business by such stores	0.37										
46	Sales by kind of business groups[2]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
47	Food group[2]	22.07	24.00	22.20	22.81	22.09	21.33	18.53	16.94	19.01	13.22	12.93
48	General stores (country general stores)	5.23	2.17	3.87	1.95	2.57	6.29	7.72	7.85	5.77	16.28	14.75
49	General merchandise group	13.12	13.97	12.06	17.24	12.81	11.28	15.73	9.94	16.87	7.39	7.29
50	Apparel group	8.63	8.73	7.54	9.42	8.59	7.52	7.63	6.85	7.77	3.90	4.45
51	Automotive group	19.58	21.25	22.44	16.72	22.76	20.19	20.35	23.13	19.05	26.47	26.84
52	Furniture and household group	5.61	5.98	5.59	5.68	5.39	5.23	4.36	4.35	5.34	3.32	3.21
53	Restaurant group	4.33	3.92	3.51	4.92	4.25	3.99	3.60	3.64	4.07	3.38	3.55
54	Lumber and building group	5.34	5.32	6.58	5.24	6.96	7.99	5.93	8.45	4.67	8.67	9.06
55	Hardware and farm-implement stores	2.50	2.39	2.70	2.05	2.50	4.01	4.49	5.26	2.19	9.18	8.96
56	Farmers' supply stores	2.29	1.69	2.64	1.25	1.22	2.67	2.01	3.57	3.72	1.42	2.27
57	Book stores	0.24	0.20	0.16	0.35	0.17	0.13	0.11	0.11	0.36		
58	Cigar stores and cigar stands	0.83	0.80	0.87	0.98	0.71	0.59	0.92	0.94	0.45	1.25	0.84
59	Coal and wood yards—ice dealers	2.06	1.78	2.16	2.72	2.35	2.15	2.46	2.07	2.12	0.74	0.55
60	Drugstores	3.44	3.17	3.81	3.55	3.54	2.91	2.67	3.40	4.13	2.63	3.16
61	Jewelry stores	1.09	1.10	0.92	1.02	1.10	0.89	0.81	0.80	0.99	0.61	0.52
62	All other stores	3.64	3.63	2.95	4.10	2.99	2.83	2.68	2.70	3.49	1.54	1.62

[1] See following page for Nebraska and Kansas.
[2] Food store sales are not entirely sales of food. Other commodities are sold as well. The same is true of other kinds of stores. Sales classified by commodities can be computed from commodity tables in each State report. The summary above is by kinds of business, not by commodities.

TABLE 8.—STANDARD SUMMARY OF RETAIL FACTS—NATIONAL AND BY STATES.—(*Continued*)

		United States	West North Central Division[1]		South Atlantic Division								
			Nebraska	Kansas	Delaware	Mary-land	District of Columbia	Virginia	West Virginia	North Carolina	South Carolina	Georgia	Florida
1	Population	122,775,046	1,377,963	1,880,999	238,380	1,631,526	486,869	2,421,851	1,729,205	3,170,276	1,738,765	2,908,506	1,468,211
2	Ratio of retail workers to total population (per cent)	4.90	4.95	5.03	5.40	4.97	8.25	3.62	3.20	2.94	2.64	3.36	5.06
3	Counties	3,074	93	105	3	24	....	100	55	100	46	161	67
4	Cities of 10,000 to 30,000	644	6	17	....	3	....	8	7	13	7	10	9
5	Cities of more than 30,000	310	2	3	1	3	1	6	3	8	2	5	5
6	Number of retail stores	1,543,158	17,637	25,605	3,688	21,082	5,931	26,120	17,244	28,831	15,036	28,687	22,449
7	Total annual sales (in thousands of dollars)	$49,114,653	$562,944	$744,586	$103,513	$619,573	$336,262	$600,929	$447,877	$653,419	$300,220	$635,440	$504,523
8	Per cent of credit sales to total sales	34.29	30.76	35.09	38.47	37.36	41.32	36.73	33.64	37.10	30.02	37.77	29.23
9	Full-time employees	3,833,581	39,780	54,605	7,774	53,480	31,453	52,287	32,532	49,900	24,580	57,554	45,618
10	Part-time employees	676,559	10,012	13,529	1,680	7,492	3,600	9,411	5,484	13,035	6,595	11,068	7,932
11	Proprietor owners (not included above)	1,510,607	18,474	26,412	3,417	20,162	5,136	26,076	17,377	30,172	14,744	29,022	20,765
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
12	Proportion of part-timers to total employees	13 to 14	17 to 19	16 to 17	15 to 18	11	8 to 10	13 to 15	12 to 15	18 to 21	19 to 21	14 to 16	12 to 14
13	Extreme variation in seasonal employment	7	5	8	7	8	15	8	7	8	5	6	13
	Proportion of men and women employees:												
14	Men	68	69	71	73	69	67	74	69	74	78	75	73
15	Women	32	31	29	27	31	33	26	31	26	22	25	27
16	Total annual pay roll (in thousands of dollars)	$5,189,670	$49,678	$66,612	$9,842	$64,292	$44,385	$61,386	$42,106	$58,066	$26,128	$60,599	$52,749
17	Average annual salary per full-time employee	$1,312	$1,193	$1,165	$1,218	$1,170	$1,373	$1,136	$1,259	$1,116	$1,019	$1,020	$1,121
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
18	Average wage cost (per cent of sales)	14.28	12.60	12.96	13.07	13.89	15.21	14.66	13 99	13.58	13.14	13.52	14.63
19	Average rental cost (per cent of sales)	4.17	2.98	2 68	3.75	3.64	4.58	3 58	3 65	3.55	2.98	3.40	4.28
20	Average operating expenses (per cent of sales)	24.83	21.48	21.63	21.87	24.37	27.12	24.22	22.94	22.27	20.98	22.98	25.30
21	Proportion of sales in leased premises to total sales	72.19	69.24	68.28	56.54	62.58	78.25	69.20	66.55	70.04	70.65	69.69	77.71
	Proportion of total sales—												
22	By single-store independents	64 11	65.69	62 90	70.60	67.10	62.36	65.53	64.27	67.65	68.40	64.74	69.21
23	By local multiunit independents	8.84	7.28	7.34	6 67	6.64	10.21	5.64	7.00	5.72	7.13	5.53	9.16
24	By local chains	6 71	4 61	6.13	1.33	5.51	4 41	5.13	4.66	4.77	3.30	2.98	4.19
25	By sectional and national chains	12 52	7.91	9 39	14.39	12.60	20.62	10 92	12.43	10.91	9.42	13.31	12.93
26	By all other types of operation	7 82	.....	.....	....	....	....	....	....	....	....	....	....
	Proportions of total sales—												
27	By stores selling entirely for cash	34.93	29.79	27.23	33.36	33.20	30.55	31.22	34 62	31.02	40.19	29.23	43.46

[1] Continued from preceding page.

		United States	West North Central Division: Nebraska	West North Central Division: Kansas	South Atlantic Division: Delaware	Maryland	District of Columbia	Virginia	West Virginia	North Carolina	South Carolina	Georgia	Florida
28	1 to 50 per cent credit	30.73	42.31	39.25	27.17	29.27	25.07	31.63	31.99	31.24	31.01	31.97	29.15
29	More than 50 per cent credit	34.34	27.90	33.52	39.47	37.53	44.38	37.15	33.39	37.74	28.80	38.80	27.39
30	Proportion of stores with sales of less than $10,000	43.66	35.42	39.09	49.10	49.47	28.05	54.27	49.13	54.30	58.35	56.12	54.79
31	Proportion of total sales in such stores	5.69	4.95	6.05	7.22	6.87	2.40	8.70	8.17	8.51	9.68	8.79	9.18
32	Proportion of stores with sales between $10,000 and $30,000	31.51	......	......	......	......	......	......	......	......	......	......	......
33	Proportion of total sales	17.59	......	......	......	......	......	......	......	......	......	......	......
34	Proportion of stores with sales between $30,000 and $200,000	23.01	28.24	25.95	19.28	18.47	33.10	17.56	21.35	18.56	16.23	16.22	17.25
35	Proportion of total sales	45.25	54.13	55.21	44.11	40.24	37.69	48.17	53.25	52.57	52.07	45.30	48.62
36	Proportion of stores with sales between $200,000 and $1,000,000	1.68	......	......	......	......	......	......	......	......	......	......	......
37	Proportion of total sales	19.13	......	......	......	......	......	......	......	......	......	......	......
38	Proportion of stores with sales of more than $1,000,000	0.14	0.08	0.04	0.11	0.18	0.47	0.03	0.04	0.03	......	0.07	0.06
39	Proportion of total sales	12.34	5.25	1.89	6.08	17.52	24.38	3.08	2.04	2.12	......	8.80	4.28
40	Proportion of stores which are proprietorships	84.07	86.54	85.92	85.33	87.75	73.31	85.89	84.05	86.94	86.63	87.23	80.62
41	Proportion of business by such stores	51.40	65.25	70.25	50.25	50.87	35.23	53.33	51.83	59.61	57.17	55.21	45.80
42	Proportion of stores which are corporations	15.77	12.50	13.56	14.61	12.20	26.64	14.00	15.82	12.99	13.30	12.72	19.32
43	Proportion of business by such stores	48.23	32.77	28.47	49.72	48.94	64.74	46.28	48.08	40.28	42.76	44.69	54.05
44	Proportion of stores which are cooperatives	0.16	......	......	......	......	......	......	......	......	......	......	......
45	Proportion of business by such stores	0.37	......	......	......	......	......	......	......	......	......	......	......
46	Sales by kind of business groups[1]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
47	Food group[1]	22.07	15.54	17.32	25.32	27.09	24.29	19.50	17.88	17.87	19.43	18.94	22.37
48	General stores (country general stores)	5.23	9.21	7.58	3.04	4.27	0.03	12.61	21.57	15.45	16.87	11.42	5.33
49	General merchandise group	13.12	9.35	8.77	8.44	16.24	15.77	11.29	10.70	12.95	12.50	15.57	10.52
50	Apparel group	8.63	6.11	5.24	8.42	7.35	12.75	7.86	7.96	5.90	5.37	6.61	7.31
51	Automotive group	19.58	24.64	26.86	20.00	16.25	16.02	19.75	18.99	21.78	21.15	20.25	23.27
52	Furniture and household group	5.61	4.69	4.69	6.28	5.65	5.29	5.49	5.58	5.01	5.33	5.12	5.05
53	Restaurant group	4.33	3.41	3.38	2.62	2.70	5.52	2.50	3.14	2.66	1.93	3.09	4.54
54	Lumber and building group	5.34	9.46	8.06	7.42	4.63	2.39	4.52	3.55	2.74	3.08	2.52	4.82
55	Hardware and farm-implement stores	2.50	5.42	6.02	1.82	2.07	1.99	2.68	1.76	3.52	2.37	2.41	2.64
56	Farmers' supply stores	2.29	3.26	3.60	3.85	2.14	0.51	3.08	1.97	3.94	3.86	3.44	3.44
57	Book stores	0.24	0.21	0.19	0.10	0.10	0.47	0.18	0.10	0.24	0.17	0.31	0.07
58	Cigar stores and cigar stands	0.83	0.75	0.43	1.99	0.52	0.56	0.52	0.42	0.27	0.22	0.30	0.50
59	Coal and wood yards—ice dealers	2.06	1.11	0.80	3.26	2.64	2.82	2.04	0.28	1.06	0.97	1.41	0.44
60	Drugstores	3.44	3.62	4.12	2.43	3.08	4.88	3.77	2.98	3.82	3.96	4.39	4.88
61	Jewelry stores	1.09	0.77	0.79	1.15	1.18	1.39	1.13	0.91	0.71	0.61	0.87	1.60
62	All other stores	3.64	2.45	2.15	3.86	4.09	5.32	3.08	2.21	2.08	2.18	3.35	3.22

[1] Food store sales are not entirely sales of food. Other commodities are sold as well. The same is true of other kinds of stores. Sales classified by commodities can be computed from commodity tables in each State report. The summary above is by kinds of business, not by commodities.

TABLE 8.—STANDARD SUMMARY OF RETAIL FACTS—NATIONAL AND BY STATES.—(*Continued*)

		United States	East South Central Division				West South Central Division				Mountain[1] Division	
			Kentucky	Tennessee	Alabama	Mississippi	Arkansas	Louisiana	Oklahoma	Texas	Montana	Idaho
1	Population	122,775,046	2,614,589	2,616,556	2,646,248	2,009,821	1,854,482	2,101,593	2,396,040	5,824,715	537,606	445,032
2	Ratio of retail workers to total population (per cent)	4.90	3.2	3.43	2.77	2.65	2.99	3.58	4.11	4.45	4.83	4.12
3	Counties	3,074	120	95	67	82	75	64	77	254	56	44
4	Cities of 10,000 to 30,000	644	9	4	11	11	7	5	13	23	5	2
5	Cities of more than 30,000	310	4	4	3	2	2	3	3	13	1	....
6	Number of retail stores	1,543,158	27,117	23,384	21,442	17,256	17,937	23,288	27,339	66,918	6,951	4,916
7	Total annual sales (in thousands of dollars)	$49,114,653	$587,340	$643,817	$527,101	$413,737	$412,680	$476,643	$795,028	$2,043,020	$243,828	$169,087
8	Per cent of credit sales to total sales	34.29	37.74	38.20	37.44	35.02	34.94	33.18	37.82	36.61	40.93	34.20
9	Full-time employees	3,833,581	46,749	55,147	43,632	29,244	29,710	47,058	59,259	160,308	16,125	11,313
10	Part-time employees	676,559	8,289	9,324	7,586	5,618	6,250	4,227	11,327	29,231	3,120	2,256
11	Proprietor owners (not included above)	1,510,607	28,553	25,291	22,001	18,381	19,444	23,900	27,846	69,470	6,713	4,779
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
12	Proportion of part-timers to total employees	13 to 14	13 to 15	12 to 15	12 to 15	12 to 16	13 to 17	7 to 8	12 to 16	11 to 15	12 to 13	11 to 16
13	Extreme variation in seasonal employment	7	3	7	5	7	8	4	7	7	6	10
	Proportion of men and women employees:											
14	Men	68	71	72	73	75	75	72	72	73	70	71
15	Women	32	29	28	27	25	25	28	28	27	30	29
16	Total annual pay roll (in thousands of dollars)	$5,189,670	$53,266	$61,176	$48,123	$30,747	$33,034	$48,982	$74,266	$191,961	$23,317	$15,386
17	Average annual salary per full-time employee	$1,312	$1,103	$1,078	$1,071	$1,017	$1,073	$1,022	$1,212	$1,161	$1,398	$1,309
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
18	Average wage cost (per cent of sales)	14.28	14.00	13.03	13.08	11.41	12.48	14.47	13.21	12.96	13.33	12.64
19	Average rental cost (per cent of sales)	4.17	2.11	3.32	3.36	2.60	2.72	4.26	3.21	3.23	2.92	2.75
20	Average operating expenses (per cent of sales)	24.83	22.56	22.51	21.64	18.66	20.06	24.37	22.24	21.91	22.40	21.66
21	Proportion of sales in leased premises to total sales	72.19	64.40	74.99	69.88	60.44	66.68	67.58	71.95	74.24	62.84	71.81
	Proportion of total sales—											
22	By single-store independents	64.11	63.21	64.80	59.49	62.50	64.54	70.57	62.32	63.08	70.18	62.76
23	By local multiunit independents	8.84	6.35	6.92	7.83	6.07	6.24	7.50	8.96	8.43	6.89	8.70
24	By local chains	6.71	2.87	2.49	3.89	3.74	4.05	4.09	8.34	7.55	6.84	5.11
25	By sectional and national chains	12.52	11.94	11.65	10.05	3.62	7.05	8.59	9.35	8.28	7.97	15.43
26	By all other types of operation	7.82	......	....	....	....	....	....	....	....	....	....
	Proportion of total sales—											
27	By stores selling entirely for cash	34.93	31.37	29.33	30.99	26.96	30.29	36.42	29.63	30.06	25.53	33.88
28	1 to 50 per cent credit	30.73	36.30	31.21	31.73	40.57	37.05	32.16	31.08	32.86	31.66	29.59
29	More than 50 per cent credit	34.34	32.33	39.46	37.28	32.47	32.66	31.42	39.29	37.08	42.81	36.53

		United States	East South Central Division				West South Central Division				Mountain Division	
			Kentucky	Tennessee	Alabama	Mississippi	Arkansas	Louisiana	Oklahoma	Texas	Montana	Idaho
30	Proportion of stores with sales of less than $10,000	43.66	54.23	49.06	53.06	53.66	52.62	65.19	45.32	47.42	35.97	31.96
31	Proportion of total sales in such stores	5.69	9.16	7.28	7.83	7.66	8.09	11.40	6.50	6.21	4.47	4.17
32	Proportion of stores with sales between $10,000 and $30,000	31.51	...	...	...	...	...	...	...	...	...	...
33	Proportion of total sales	17.59	...	...	...	...	...	...	...	...	...	...
34	Proportion of stores with sales between $30,000 and $200,000	23.01	17.72	19.60	18.88	19.02	19.52	13.45	23.91	22.52	30.44	31.73
35	Proportion of total sales	45.25	49.70	44.20	48.51	50.25	51.77	45.52	51.76	48.28	57.25	59.08
36	Proportion of stores with sales between $200,000 and $1,000,000	1.68	...	...	...	...	...	...	...	...	...	...
37	Proportion of total sales	19.13	...	...	...	...	...	...	...	...	...	...
38	Proportion of stores with sales of more than $1,000,000	0.14	0.05	0.13	0.06	0.03	0.02	0.07	0.09	0.13	0.04	0.04
39	Proportion of total sales	12.34	3.62	10.64	5.05	1.43	1.69	7.37	5.00	7.87	1.86	1.44
40	Proportion of stores which are proprietorships	84.07	88.17	87.82	86.93	89.98	89.15	88.05	84.44	86.42	78.87	78.21
41	Proportion of business by such stores	51.40	59.76	56.03	59.59	69.64	69.87	50.68	62.47	59.32	53.16	54.56
42	Proportion of stores which are corporations	15.77	11.78	12.10	12.93	9.90	10.71	11.91	15.36	13.48	20.79	21.60
43	Proportion of business by such stores	48.23	40.12	43.83	40.15	30.09	29.85	49.26	37.04	40.54	46.31	45.21
44	Proportion of stores which are cooperatives	0.16	...	...	...	...	...	...	...	...	...	...
45	Proportion of business by such stores	0.37	...	...	...	...	...	...	...	...	...	...
46	Sales by kind of business groups[2]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
47	Food group[2]	22.07	20.57	17.73	16.26	13.93	13.17	16.93	16.69	17.06	18.13	17.08
48	General stores (country general stores)	5.23	15.29	10.97	20.28	28.46	24.25	16.39	7.45	9.05	10.77	9.27
49	General merchandise group	13.12	10.28	15.46	12.89	10.98	10.52	12.76	10.76	13.06	10.56	12.81
50	Apparel group	8.63	7.29	6.86	5.66	3.62	4.01	7.75	5.87	5.50	5.42	3.95
51	Automotive group	19.58	18.34	20.02	19.70	21.72	21.63	19.81	27.50	24.76	25.08	25.63
52	Furniture and household group	5.61	4.67	5.52	5.53	3.88	4.66	4.94	5.30	5.32	3.92	5.01
53	Restaurant group	4.33	3.42	3.34	2.69	2.33	2.80	3.94	3.76	3.57	4.04	3.28
54	Lumber and building group	5.34	5.27	4.21	3.18	3.57	3.99	4.55	7.29	6.99	6.29	6.21
55	Hardware and farm-implement stores	2.50	2.72	2.42	2.16	1.97	2.23	1.63	3.00	2.61	4.85	4.93
56	Farmers' supply stores	2.29	2.77	2.99	2.52	3.24	5.16	1.62	3.33	3.16	1.59	2.87
57	Book stores	0.24	0.16	0.09	0.10	0.01	0.15	0.12	0.10	0.13	0.10	0.13
58	Cigar stores and cigar stands	0.83	0.28	0.44	0.24	0.14	0.20	0.42	0.34	0.24	1.86	1.55
59	Coal and wood yards—ice dealers	2.06	1.45	1.60	1.40	0.65	0.47	0.67	0.50	0.51	1.34	1.31
60	Drugstores	3.44	3.88	3.91	4.44	3.95	4.19	4.42	4.69	4.75	2.94	3.28
61	Jewelry stores	1.09	0.85	1.11	0.79	0.45	0.52	1.10	0.75	0.88	0.73	0.74
62	All other stores	3.64	2.76	3.33	2.16	1.10	2.05	2.95	2.67	2.41	2.38	1.95

[1] Continued on following pages.

[2] Food store sales are not entirely sales of food. Other commodities are sold as well. The same is true of other kinds of stores. Sales classified by commodities can be computed from commodity tables in each State report. The summary above is by kinds of business, not by commodities.

TABLE 8.—STANDARD SUMMARY OF RETAIL FACTS—NATIONAL AND BY STATES.—(*Continued*)

		United States	Mountain Division[1]						Pacific Division		
			Wyoming	Colorado	New Mexico	Arizona	Utah	Nevada	Washington	Oregon	California
1	Population	122,775,046	225,565	1,035,791	423,317	435,573	507,847	91,058	1,563,396	953,786	5,677,251
2	Ratio of retail workers to total population (per cent)	4.90	4.75	5.73	3.41	4.99	4.79	5.48	5.80	5.94	6.6
3	Counties	3,074	23	63	31	14	29	17	39	36	58
4	Cities of 10,000 to 30,000	644	2	5	3	...	1	1	10	5	30
5	Cities of more than 30,000	310	...	3	...	2	2	...	5	1	17
6	Number of retail stores	1,543,158	2,983	13,993	4,191	5,068	5,249	1,310	22,110	14,570	85,691
7	Total annual sales (in thousands of dollars)	$49,114,653	$103,437	$466,959	$119,758	$198,620	$196,559	$50,401	$761,808	$455,931	$3,210,863
8	Per cent of credit sales to total sales	34.29	41.36	38.98	38.64	41.02	36.96	43.55	40.00	35.84	39.877
9	Full-time employees	3,833,581	6,718	39,339	8,596	14,445	16,374	3,108	58,768	35,579	251,148
10	Part-time employees	676,559	1,038	6,700	1,501	2,091	2,942	494	10,752	6,158	36,107
11	Proprietor owners (not included above)	1,510,607	2,963	13,361	4,320	5,206	5,027	1,389	21,228	14,933	87,364
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
12	Proportion of part-timers to total employees	13 to 14	11 to 13	11 to 14	12 to 14	10 to 12	11 to 15	11 to 13	14 to 15	12 to 14	10 to 12
13	Extreme variation in seasonal employment	7	12	7	7	6	11	6	10	7	9
	Proportion of men and women employees:										
14	Men	38	73	67	75	73	68	73	65	65	67
15	Women	32	27	33	25	27	32	27	35	35	33
16	Total annual pay roll (in thousands of dollars)	$5,189,670	$9,669	$50,731	$10,344	$19,900	$21,509	$5,096	$83,444	$48,154	$375,948
17	Average annual salary per full-time employee	$1,312	$1,400	$1,249	$1,160	$1,341	$1,272	$1,593	$1,369	$1,308	$1,455
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
18	Average wage cost (per cent of sales)	14.28	13.08	14.32	12.56	13.24	13.96	14.16	14.64	14.73	15.51
19	Average rental cost (per cent of sales)	4.17	3.02	3.70	2.79	2.84	3.52	2.95	4.21	4.13	4.56
20	Average operating expenses (per cent of sales)	24.83	22.60	25.00	20.81	23.00	23.96	22.94	25.61	25.96	27.26
21	Proportion of sales in leased premises to total sales	72.19	67.18	68.61	59.18	72.21	62.43	67.35	69.90	67.58	82.54
	Proportion of total sales—										
22	By single-store independents	64.11	73.61	67.60	67.33	62.76	66.59	77.84	68.48	69.06	60.75
23	By local multiunit independents	8.84	7.42	9.02	6.93	10.55	11.93	6.46	8.56	8.14	13.44
24	By local chains	6.71	3.59	3.13	4.87	7.78	4.75	1.60	6.48	4.08	11.23
25	By sectional and national chains	12.52	8.63	12.27	8.56	13.45	12.15	8.72	11.27	11.83	11.31
26	By all other types of operation	7.82	...	...	...	...	...	...	...	...	...

[1] See preceding pages for Montana and Idaho.

		United States	Mountain Division						Pacific Division		
			Wyoming	Colorado	New Mexico	Arizona	Utah	Nevada	Washington	Oregon	California
	Proportion of total sales—										
27	By stores selling entirely for cash	34.93	27.12	27.89	26.82	29.34	31.26	23.95	25.99	30.40	27.58
28	1 to 50 per cent credit	30.73	27.55	30.62	32.79	28.89	31.76	29.63	30.86	32.48	32.15
29	More than 50 per cent credit	34.34	45.33	41.49	40.39	41.77	36.98	46.42	43.15	37.12	40.27
30	Proportion of stores with sales of less than $10,000	43.66	35.13	42.77	49.49	41.37	40.20	37.56	40.53	43.95	40.13
31	Proportion of total sales in such stores	5.69	4.54	5.33	6.13	4.22	4.52	4.20	5.27	6.11	4.91
32	Proportion of stores with sales between $10,000 and $30,000	31.51	...	...	...	...	...	...	...	...	...
33	Proportion of total sales	17.59	...	...	...	...	...	...	...	...	...
34	Proportion of stores with sales between $30,000 and $200,000	23.01	32.85	24.25	22.98	26.62	26.48	30.68	24.44	23.07	24.41
35	Proportion of total sales	45.25	62.86	47.37	54.62	46.67	48.25	54.67	45.85	46.34	41.25
36	Proportion of stores with sales between $200,000 and $1,000,000	1.68	...	...	...	...	...	...	...	...	...
37	Proportion of total sales	19.13	...	...	...	...	...	...	...	...	...
38	Proportion of stores with sales of more than $1,000,000	0.14	...	0.11	...	0.20	0.15	...	0.17	0.12	0.23
39	Proportion of total sales	12.34	...	10.52	...	6.97	7.47	...	11.63	11.51	15.87
40	Proportion of stores which are proprietorships	84.07	79.92	80.99	86.47	84.27	75.82	81.37	81.69	83.72	86.20
41	Proportion of business by such stores	51.40	52.83	47.20	58.73	52.00	39.93	54.16	46.37	50.62	53.60
42	Proportion of stores which are corporations	15.77	19.85	18.90	13.39	15.67	23.76	18.47	18.03	16.15	13.72
43	Proportion of business by such stores	48.23	46.50	52.66	40.99	47.42	57.82	45.58	52.32	48.98	46.00
44	Proportion of stores which are cooperatives	0.16	...	...	...	...	...	...	...	...	...
45	Proportion of business by such stores	0.37	...	...	...	...	...	...	...	...	...
46	Sales by kind of business groups[1]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
47	Food group[1]	22.07	17.56	20.09	15.67	19.41	17.16	18.74	21.47	21.66	20.46
48	General stores (country general stores)	5.23	15.65	5.07	18.87	8.11	7.94	14.41	4.71	4.78	1.96
49	General merchandise group	13.12	7.03	14.29	10.27	14.31	13.75	8.39	14.35	14.80	12.28
50	Apparel group	8.63	5.18	6.38	3.56	3.90	7.25	5.45	6.55	6.09	8.84
51	Automotive group	19.58	26.01	23.99	24.18	24.92	23.66	25.56	22.33	23.20	23.50
52	Furniture and household group	5.61	4.17	4.75	3.71	4.55	7.31	4.02	5.01	4.73	6.55
53	Restaurant group	4.33	4.79	3.69	4.02	4.68	3.18	5.15	4.52	4.70	6.03
54	Lumber and building group	5.34	7.52	5.37	6.14	6.78	5.78	4.67	3.93	4.08	5.10
55	Hardware and farm-implement stores	2.50	2.72	2.63	2.94	2.48	1.60	3.08	2.42	3.04	2.12
56	Farmers' supply stores	2.29	0.96	2.20	2.74	2.12	1.48	0.39	3.74	2.92	2.65
57	Book stores	0.24	0.03	0.28	0.22	0.05	0.21	0.03	0.21	0.24	0.25
58	Cigar stores and cigar stands	0.83	1.20	0.72	0.35	0.76	0.98	1.62	1.56	1.25	1.06
59	Coal and wood yards—ice dealers	2.06	0.85	1.61	0.96	0.71	2.12	1.40	1.63	1.27	0.24
60	Drugstores	3.44	3.65	3.92	3.59	3.66	3.11	3.33	3.30	3.25	3.61
61	Jewelry stores	1.09	0.72	0.93	0.67	0.64	0.97	1.01	1.07	0.94	1.10
62	All other stores	3.64	1.96	4.08	2.11	2.92	3.50	2.75	3.20	3.05	4.25

[1] Food store sales are not entirely sales of food. Other commodities are sold as well. The same is true of other kinds of stores. Sales classified by commodities can be computed from commodity tables in each State report. The summary above is by kinds of business, not by commodities.

A reliable estimate of the total amount of retail sales is not available for 1949, but it is close to $128,000,000,000. That is a sum too vast for most people to grasp. Through the years since we first took a census of distribution, about 12 per cent of the population has been

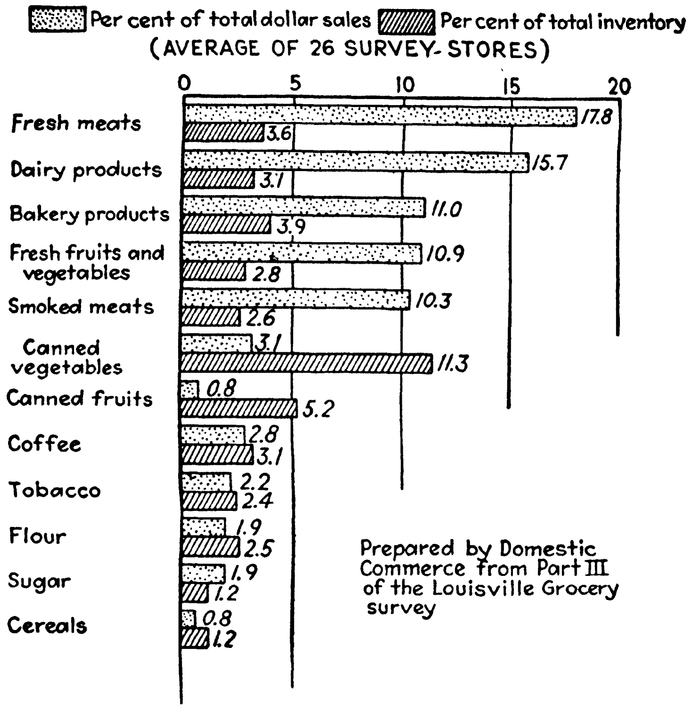


FIG. 14.—SALES AND INVENTORY INVESTMENT OF PRINCIPAL GROCERY COMMODITIES

This chart roughly divides into two parts the types of goods handled by the average grocery retailer: (1) perishables and (2) nonperishables. It suggests how the problems of selling these two types of commodities involve a close study of the eight functions of retailing given in the text.

engaged in some form of distribution. To put it another way—of our total population, 4.9 per cent, or one person in each twenty-three, is engaged in retailing.

As will be seen in Table 8 (Items 46–62), when stores are grouped according to the goods they sell, there are 15 different classes. The 16th division in the table is made up of all other stores, which sell about 3½ per cent of the goods that go through retail stores.

Classification of Stores.—With two million or more retail stores in the United States, it is to be expected that there will be very great differences in the types of shops, markets, super markets, and other emporia. Stores differ not only in the type of goods they carry but in their organization and their sources of supply.

The *summary* in Table 9 shows the number of stores and sales by types of operation in 1929, 1935, and 1939. "Other types" are market and roadside stands, itinerant vendors, rolling stores, leased departments, cooperatives, and "unclassified."

To understand the relative importance of these different types of stores, we must define them so that the statistics will have meaning. For example, when, in the above table, "independents" are compared with "chains" and "other types," it is important to know what stores are included under each of these terms. Some confusion arises in this respect because the classification used in the 1929 census has been changed slightly for each new census. Experience has shown the need for a regrouping or change of emphasis as between the various types of stores. Furthermore, from one census period to another some borderline stores that may have been doing a combined wholesale and retail business may be classed as wholesalers in one census and as retailers in another.

TABLE 9.—NUMBER OF DIFFERENT CLASSES OF STORES FOR 1929, 1935, 1939

Type of operation	Number of stores	Sales	Stocks on hand (end of year)	Per cent of total sales		
				1939	1935	1929
Total	1,770,355	$42,041,790,000	$5,116,583,000	100.0	100.0	100.0
Independents	1,624,665	31,409,859,000	4,048,753,000	74.7	73.3	77.6
Chains	123,195	9,105,825,000	876,948,000	21.7	23.3	20.3
Other types	22,495	1,526,106,000	190,882,000	3.6	3.4	2.1

The Census Bureau, for the purpose of comparing 1939 with 1935 and 1929, has regrouped and in some cases retabulated the material from the 1935 and 1929 census.

The Census classifies stores in three ways: (1) according to goods handled; (2) according to store organization, that is, independents, chains, and other types (the first Business Census gave a definition and a separate classification for department stores but more recently these have not been shown as a separate division); and (3) according to the way the goods are handled physically, as in rolling stores.

Independents.—Independents include four classifications. The chief characteristic of this classification is that these stores are local, individual enterprises, usually, but not always, "owner-operated." For purposes of classification in this census, three or less stores under one management-ownership have been classified as independents.

Included as independents are stores that are members of retailer-owned cooperative associations.

Single Store.—This type is, as the name implies, an establishment with one proprietor who conducts the business.

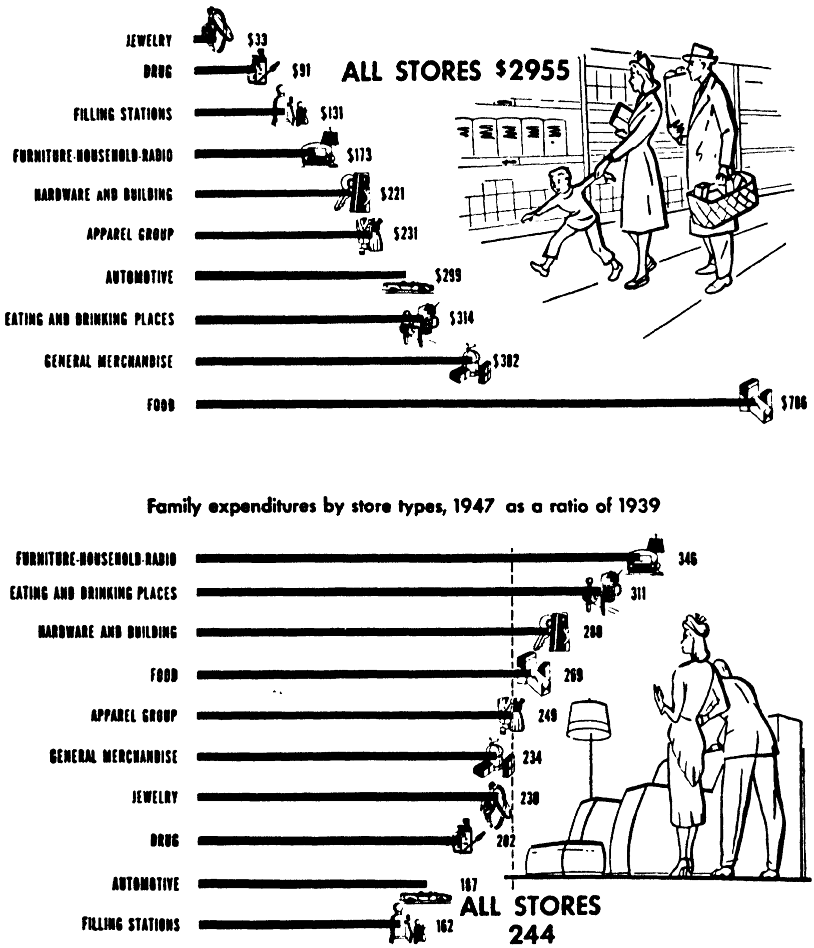


FIG. 15.—RETAIL STORE EXPENDITURES PER FAMILY AND SALES GAINED BY STORES FROM 1939 TO 1947

Multiunit.—Two or three stores operating under the same management are called "multiunit independents." Also included under this head are local branch systems usually found in the furniture- and department-store fields.

Market and Roadside Stands.—Included in this classification are market stands or stalls (in or adjoining public or central markets) and roadside or curbside stands (not part of a public or central market). Excluded from retail trade are farmers' stands at which the farmer sells his own fruits, vegetables, and produce.

Leased Departments—Independent.—This classification includes a section of a store, such as a section of a department store, operated by an outside independent operator rather than by the store itself. The lessee owns the merchandise and directs its pricing. The store provides supplies, delivery, heat, light, power, and protection, and may handle the receipts, both cash and charge.

Chains.—Chains include five classifications. The chief characteristic of this classification is that these stores are groups of four or more in the same general kinds of business, owned and operated jointly, with central buying, usually supplied from one or more central warehouses. The number of stores includes each retail establishment and is not a count of the number of chain-store groups. Neither does it include the warehouse or central buying offices maintained apart from the stores. Usually the operation of each store is in the hands of a manager, who is not identified as an owner. Central advertising and personnel policies are frequently other characteristics of chain operation.

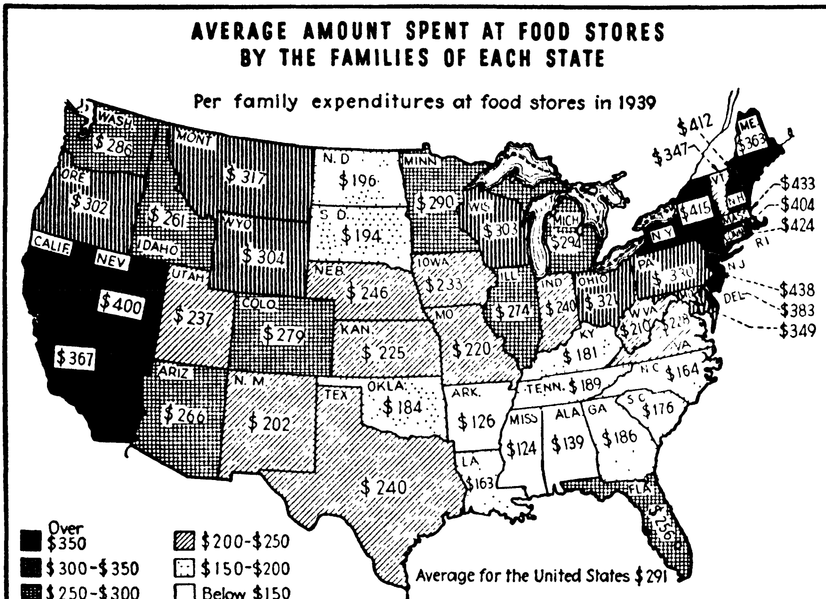
Local Chains.—Chains are local if substantially all of their stores are located in and around a city.

Sectional and National Chains.—This type of operation includes the chains with stores located throughout the country and chains operating stores in different cities of the same state or in a single section of the country. It excludes local chains, manufacturer-controlled chains, and leased-department chains, which are separately classified.

Manufacturer-controlled Chains.—These stores are operated to distribute at retail the products of a manufacturer or a group of manufacturers who are joint owners of the stores. Manufacturer-controlled chains are primarily interested in furthering the sale of predetermined commodities. Stores run by Firestone and Goodyear are examples.

Leased-department Chains.—These leased departments are similar to those described above under "leased departments—independent" except that they involve the characteristics of chain operation, namely, four or more units under a single ownership with the other characteristics of chain operation.

Department-store Chains.—In the past 15 years many department stores have established branches in suburban towns. These have materialized mostly because of the difficulty of urban traffic, the lack of parking facilities, and the crowded condition of commuter trains. Then, there has been another development in which one department store bought out one or more other department stores, not always of the same class. For example, Macy's of New York bought the store of L. Bamberger and Company in Newark, N.J. It has since bought the Emporium at San Francisco. These stores have no striking similarities in the type of goods they handle or in the way they are conducted, and neither is closely related to Macy's. Another combination



FOR LEADING CITIES

Washington, D.C. ... $507	New York ... $422	Houston ... $372	Savannah ... $344
Charleston, W.Va. ... 475	Baltimore ... 422	Portland Ore. ... 367	Detroit ... 309
Boston ... 472	Cleveland ... 397	Miami ... 367	Fort Worth ... 305
Buffalo ... 427	Roanoke ... 396	Grand Rapids ... 367	Shreveport ... 302
San Francisco ... 423	Toledo ... 387	Pueblo ... 362	Chicago ... 283
	Waterloo ... 381	Philadelphia ... 352	

FIG. 16.—FOOD-STORE SALES—U.S. CENSUS FIGURES

of this kind is Gimbel Brothers, who, like Wanamaker's, have had stores both in New York and Philadelphia for years. More recently Gimbel's has acquired the two Saks stores, the one on 34th Street and the other on Fifth Avenue in New York. The May Store in Cleveland has recently started a large department store on Wilshire Boulevard in Los Angeles. These are only a few of many of such combinations. One purpose in these combinations is substantially to increase the outlet for goods that the stores sponsor. For example, Macy's Red Star Brand covers a large number of toilet preparations, which are, of course, sold primarily in Macy's stores. Also there are advantages in having large buying units.

Other Types.—These other types may involve some of the characteristics of independents or chains, but are segregated because they represent important methods of retail distribution.

Utility-operated Stores.—These stores are characteristically household-appliance stores or salesrooms operated by gas or electric utility companies mainly for the sale of those appliances related to the major activity of the utility company.

Direct Selling (House-to-house).—These establishments are primarily the central offices or multiunit headquarters of crews of canvassers who sell from door to door.

Commissaries or Company Stores.—These establishments are operated by individuals or concerns as subsidiary to their primary activity, frequently such as mining or lumbering. They handle a general line of merchandise, may be multiunit or single unit, and while open to the public in general, are operated primarily for the convenience of the company's employees.

Farmer and Consumer Cooperative Stores.—Two general classes of stores are included in this classification: (1) cooperatives engaged primarily in buying hay, grain, feed, gasoline and oil, and other supplies for farmers and (2) consumer cooperative stores. In principle, the distinguishing features of cooperatives are patronage dividends and one-member-one-vote. They are open to the public, as a rule, but their patronage, for the most part, is by members of or persons affiliated with the association operating or sponsoring the business. Cooperative marketing associations maintained by farmers primarily for marketing their products are included in the *Wholesale Census.* Farmer cooperatives performing both buying and selling functions are classified as retail or wholesale according to the major portion of their business.

State Liquor Stores.—These stores are establishments selling at retail packaged liquor for consumption off the premises, and are operated by the state, county, or municipal government.

Mail-order Houses.—Mail-order houses are places of business confined to the sale of merchandise by mail from catalogues. This classification does not include the retail-store business of companies usually known as mail-order concerns.

Unclassified Types.—This classification, appearing at the head of *each* state table and the United States Summary, includes those stores not otherwise classified, such as wagon distributors with permanent headquarters from which the business is conducted, central offices or branch offices of vending-machine operators, military post exchanges operated as concessions, etc.

TABLE 10.—RETAIL TRADE BY TYPES OF OPERATION AND BY KINDS OF BUSINESS FOR THE UNITED STATES, 1939

Type of operation	Number of stores	Sales (000 omitted)	Per cent of total sales			Active proprietors of unincorporated businesses	Number of employees[1] (average for year)		Pay roll[1] (000 omitted)		Stocks on hand, end of year, at cost (000 omitted)
			1939	1935	1929		Total	Part-time	Total	Part-time	
Total—all types	1,770,355	$42,041,790	100.0	100.0	100.0	1,613,673	4,600,217	869,285	$4,529,499	$318,731	$5,116,583
Independents	1,624,665	$31,409,859	74.7	73.3	77.6	1,602,937	3,322,447	519,302	$3,259,854	$197,388	$4,048,753
Single-store	1,521,145	$27,417,200	65.2	64.9	68.7	1,541,060	2,839,921	450,633	$2,727,852	$171,168	$3,511,964
Multiunit	77,845	3,752,509	8.9	7.9	8.8	37,544	457,560	61,802	510,852	23,913	523,877
Market and roadside stands	18,014	103,162	0.3	0.3	[2]	17,281	10,656	3,461	7,675	1,078	1,798
Leased departments—independent	7,661	136,988	0.3	0.2	0.1	7,052	14,310	3,406	13,475	1,229	11,114
Chains	123,195	$ 9,105,825	21.7	23.3	20.3	3,102	1,118,374	323,409	$1,090,106	$108,937	$ 876,948
Local chains	25,455	$ 1,581,386	3.8	3.1	6.7	2,081	192,943	34,034	$ 207,430	$ 12,334	$ 143,462
Sectional or national chains	82,049	6,771,009	16.1	19.5	12.6	839	830,320	275,887	767,908	91,876	652,734
Manufacturer-controlled chains	10,123	583,062	1.4	0.4	0.7	36	70,414	7,570	91,781	2,835	65,823
Leased-department chains	5,568	170,368	0.4	0.3	0.3	146	24,697	5,918	22,987	1,892	14,929
Other types	22,495	$ 1,526,106	3.6	3.4	2.1	7,634	159,396	26,574	$ 179,539	$ 12,406	$ 190,882
Utility-operated stores	4,836	$ 151,539	0.4	0.4	0.3	138	25,928	10,642	$ 31,281	$ 5,735	$ 24,250
Direct selling (house-to-house)	5,199	153,397	0.4	0.4	0.2	3,492	40,883	7,993	42,982	2,575	7,803
Commissaries or company stores	2,007	148,248	0.3	0.3	0.3	231	11,980	1,524	13,183	533	16,868
Farmer and consumer cooperative stores	3,698	224,375	0.5	0.3	0.2	....	16,861	2,705	17,546	822	20,621
State liquor stores	2,618	249,430	0.6	0.5	.....	....	7,960	487	10,707	219	18,254
Mail-order houses	434	537,413	1.3	1.3	1.0	257	50,955	2,525	58,487	2,303	100,035
Other types of operation	3,703	61,704	0.1	0.2	0.1	3,516	4,829	698	5,353	219	3,051
Kind of business											
Grocery stores (without fresh meats)	200,303	$ 2,225,435	100.0	100.0	100.0	178,182	131,102	39,184	$ 110,663	$ 11,657	$ 196,202
Independents	179,335	$ 1,491,473	67.0	61.3	53.6	177,582	69,402	17,823	$ 49,191	$ 4,669	$ 148,916
Chains	20,093	720,427	32.4	38.3	45.7	129	58,892	21,075	59,886	6,915	46,062
Direct selling (house-to-house)	263	3,456	0.2	0.2		228	793	12	750	3	255
Commissaries or company stores	307	4,597	0.2	0.1	0.7	129	346	80	322	24	403
Other types	305	5,482	0.2	0.1		114	669	194	514	46	566
Combination stores (groceries-meats)	187,034	$ 5,496,318	100.0	100.0	100.0	173,799	408,900	108,718	$ 354,140	$ 33,310	$ 343,947
Independents	166,276	$ 3,366,153	61.3	60.7	67.6	173,302	238,454	49,303	$ 188,977	$ 13,358	$ 246,726
Chains	20,257	2,112,092	38.4	39.1	32.2	339	168,826	59,115	163,669	19,871	95,695
Commissaries or company stores	168	6,557	0.1	0.1	0.2	27	472	60	516	20	633
Other types	335	11,516	0.2	0.1		131	1,148	240	978	61	893

Type of operation	Number of stores	Sales (000 omitted)	Per cent of total sales 1939	Per cent of total sales 1935	Per cent of total sales 1929	Active proprietors of unincorporated businesses	Number of employees[1] (average for year) Total	Number of employees[1] (average for year) Part-time	Pay roll[1] (000 omitted) Total	Pay roll[1] (000 omitted) Part-time	Stocks on hand, end of year, at cost (000 omitted)
Dairy products, milk dealers	16,834	$ 740,011	100.0	[3]	[3]	13,318	101,900	6,791	$ 157,970	$ 2,815	$ 8,096
Independents	13,603	$ 418,408	56.5	.....	.....	13,199	59,344	4,135	$ 80,877	$ 1,670	$ 5,674
Chains	3,076	306,028	41.4	.....	.....	78	40,406	2,577	73,646	1,108	2,266
Other types	155	15,575	2.1	.....	.....	41	2,150	79	3,447	37	156
Candy, nut, confectionery stores	48,015	$ 295,300	100.0	100.0	[3]	45,777	30,576	8,633	$ 20,144	$ 2,844	$ 14,602
Independents	45,579	242,183	82.0	84.2	.....	45,533	19,952	6,103	12,058	1,917	13,562
Chains	2,223	51,043	17.3	13.8	.....	66	10,383	2,485	7,883	920	941
Other types	213	2,074	0.7	2.0	.....	178	241	45	203	7	99
Department stores	4,074	$ 3,974,998	100.0	100.0	100.0	560	566,052	113,449	$ 611,706	$ 50,199	$ 561,493
Independents	1,371	$ 2,312,279	58.2	61.4	72.1	535	371,903	56,535	$ 423,654	$ 27,111	$ 317,610
Chains	2,672	1,194,517	30.0	26.7	16.7	25	150,064	54,696	137,626	20,923	153,840
Mail-order houses	24	464,289	11.7	11.7	11.2	....	43,635	2,156	49,876	2,143	89,519
Other types	7	3,913	0.1	0.2		....	450	62	550	22	524
Variety stores	16,946	$ 976,801	100.0	100.0	100.0	9,892	211,766	104,603	$ 121,804	$ 30,920	$ 139,654
Independents	10,555	$ 128,909	13.2	9.2	9.8	9,755	22,283	8,454	$ 11,014	$ 1,737	$ 36,257
Chains	6,372	847,686	86.8	90.8	90.1	121	189,469	96,146	110,778	29,183	103,377
Other types	19	206	[2]	[2]	0.1	16	14	3	12	[4]	20
Men's-boy's clothing, furnishings, hat stores	21,501	$ 773,312	100.0	100.0	100.0	17,846	66,583	10,336	$ 91,250	$ 4,139	$ 224,535
Independents	19,621	$ 598,737	77.4	78.2	77.9	17,726	52,080	8,322	$ 70,182	$ 3,281	$ 194,072
Chains	1,816	171,579	22.2	21.2	21.2	68	14,208	2,008	20,749	856	30,105
Other types	64	2,996	0.4	0.6	0.9	52	295	6	319	2	358
Family clothing stores	10,053	$ 429,454	100.0	100.0	100.0	8,317	56,334	11,951	$ 58,478	$ 3,883	$ 106,800
Independents	8,935	$ 352,639	82.1	79.0	71.5	8,235	44,543	9,146	$ 46,419	$ 2,939	$ 94,446
Chains	1,082	76,283	17.8	20.9	27.3	50	11,732	2,794	$ 12,000	942	12,252
Other types	36	532	0.1	0.1	1.2	32	59	11	59	2	102
Women's ready-to-wear stores	25,820	$ 1,009,494	100.0	100.0	100.0	20,711	133,586	27,105	$ 132,674	$ 9,927	$ 127,752
Independents	22,424	$ 694,119	68.8	72.3	74.3	20,448	93,253	16,684	$ 94,931	$ 6,393	$ 101,125
Chains	2,880	263,102	26.1	25.2	22.7	130	33,869	8,973	31,987	3,125	21,520
Leased departments	386	31,705	3.1	1.7	3.0	100	3,913	1,259	3,303	375	2,523
Other types	130	20,568	2.0	0.8		33	2,551	189	2,453	34	2,584

TABLE 10.— RETAIL TRADE BY TYPES OF OPERATION AND BY KINDS OF BUSINESS FOR THE UNITED STATES, 1939.—(*Concluded*)

Type of operation	Number of stores	Sales (000 omitted)	Per cent of total sales			Active proprietors of unincorporated businesses	Number of employees[1] (average for year)		Pay roll[1] (000 omitted)		Stocks on hand, end of year, at cost (000 omitted)
			1939	1935	1929		Total	Part-time	Total	Part-time	
Shoe stores (all kinds)	20,487	$ 617,064	100 0	100 0	100 0	12,005	64,146	20,226	$ 69,750	$ 6,916	$ 152,967
Independents	13,215	$ 253,822	41 2	43.4	53.5	11,581	24,509	5,401	$ 27,870	$ 1,790	$ 88,077
Chains	5,721	306,816	49 7	50.0	38.0	109	33,466	13,112	35,146	4,569	54,730
Leased departments	1,522	52,549	8 5	6 3	8.5	294	6,004	1,706	7,388	556	9,850
Other types	29	3,877	0.6	0 3		21	167	7	346	1	310
Furniture stores	19,902	$ 973,157	100 0	100.0	100.0	17,361	104,151	6,300	$ 146,311	$ 3,149	$ 213,375
Independents	19,091	$ 829,830	85.3	86.0	83.9	17,295	88,445	5,637	$ 122,900	$ 2,652	$ 190,559
Chains	784	141,864	14 6	13.5	14.2	44	15,474	644	23,106	490	22,628
Other types	27	1,463	0.1	0.5	1.9	22	232	19	305	7	188
Household appliance dealers	11,095	$ 294,518	100 0	[3]	[3]	4,846	49,185	12,260	$ 60,301	$ 6,620	$ 45,979
Independents	5,007	$ 92,436	31.4	.....	.....	4,713	11,304	1,492	$ 12,580	$ 782	$ 14,072
Chains	1,214	53,973	18 3	.....	.....	12	12,242	169	17,289	57	8,865
Leased departments	252	5,147	1 7	.....	.....	32	730	16	886	7	647
Utility-operated stores	4,449	138,635	47.1	.....	.....	9	23,947	10,199	28,473	5,495	22,134
Direct selling (house-to-house)	162	4,028	1.4	.....	.....	77	920	381	1,033	277	211
Other types	11	299	0.1	.....	.....	3	42	3	40	2	50
Radio—household appliance dealers	6,907	$ 190,180	100.0	[3]	[3]	6,463	19,512	2,129	$ 23,596	$ 1,097	$ 28,968
Independents	6,529	$ 160,020	84.1	.....	.....	6,370	16,655	1,920	$ 18,961	$ 1,004	$ 25,069
Chains	169	19,392	10.2	.....	.....	10	1,407	61	2,343	23	2,182
Leased departments	49	1,514	0.8	.....	.....	41	158	19	155	11	295
Utility-operated stores	123	7,436	3.9	.....	.....	8	1,162	119	1,960	55	1,147
Direct selling (house-to-house)	29	332	0.2	.....	.....	34	42	9	39	4	72
Other types	8	1,486	0 8	.....	.....	....	88	1	138	[4]	203

[1] Employees and pay roll include paid executives of corporations but not the number and compensation of proprietors of unincorporated businesses.
[2] Less than one-tenth of 1 per cent.
[3] Comparable data not available.
[4] Less than $500.

Heavy Business Mortality in the Retail Field.—In 1929, 673,000, or 43.66 per cent of all stores, sold less than $10,000 worth of goods a year. Their combined sales were only 5.69 per cent of the retail sales for the country. In 1933, this condition was even less favorable; 982,000, or 64.36 per cent of the total, were in the $10,000 quota. Yet, because of the increase in the number, the proportion of the small-store sales had increased to 13.85 per cent of the total volume. Unfortunately the census reports of 1940 do not cover this item.

With the gross income of a business as small as $10,000, which is about $30 for each business day of the year, there is no wonder that a very large number of stores failed during the five years for which statistics are available. In that time, 569,584 either went into bankruptcy, were closed out, or were absorbed by some other institutions, all of which are included in the census figures as failures.

The number of these failures amounted to nearly five-sixths of the number of stores that did less than $10,000 worth of business. It must not be assumed, however, that all the failures were among the small stores. There were failures of stores of all sizes, but the very great majority were among the small stores. The total amounted to 36.4 per cent of all who were in business in 1929. During the same period, 1929 to 1933, 548,253 new stores entered the field. Without attempting a classification, it is apparent that about 9 per cent of the stores failed each year, which offers a prospective life of only 11 years for the average. This is not applicable in a general way, as the period under consideration was in a great depression when failures in every line of business were much more numerous than in normal times. Also the failure of grocery stores, owing in part to the ease with which one may enter the grocery business, is heavier than for most merchandise.

Contrary to general belief, installment selling does not increase failures. Furthermore it seems to be slowly decreasing. The ratios of open-account and installment sales shown by the credit stores reporting a breakdown of their credit sales indicate that installment sales

TABLE 11.—COMPARISON WITH PREVIOUS YEARS OF CREDIT SALES AT RETAIL

Year	Total sales, millions	Credit sales, millions	Per cent of total sales		
			All credit sales	Open-account credit	Installment credit
1939	$42,042	$14,372	34.2	22.8	11.4
1935	33,011	10,640	32.2	21.3	10.9
1929	49,115	16,790	34.3	21.3	13.0

represent one-third of the total credit sales, which is a slightly smaller proportion of installment credit than that of 1929.

Causes of Failures.—There has been much discussion and a great deal of study given to the causes of retail failures. Dun and Bradstreet, the credit-rating institution, has investigated many failures and from these studies concluded that poor management is one of the chief causes. Little can be done about that, other than to refuse credit to institutions that are poorly managed. Wrong pricing and too liberal extension of credit are the other principal causes.

Failures often result from wrong pricing, that is, from prices that afford insufficient margin to defray expenses and still provide a profit. Table 5 (page 67) gives some helpful suggestions, which have been found adequate or inadequate, as the case may be, by the examination of a large number of records.

It is an accepted principle of retailing with all of the 2,000,000 stores that the success of the store will depend upon its ability to offer the right goods in the right assortment, at the right place, at the right time, and at the right price. In later paragraphs the different functions performed by the various types of stores will be considered. It will be recognized that some stores offer fewer services than others. Consequently, their prices should be reduced in proportion. For example, in a cash-and-carry store there is little aid from salespeople, no delivery, no extension of credit. The problem of the proprietor of such a store is just how much to reduce his prices to make up for the omission of these services. It is very difficult to get an accurate solution for this problem. Stores that extend credit estimate that their losses run about 1 per cent, but many of them make the mistake of computing their loss on their total sales rather than on the part of the sales which are made on credit. Also, the expense of collection averages about 5 per cent, so that the actual cost of extending credit is very much more than the loss in uncollectible accounts. Delivery service and the cost of sales help is much easier to estimate accurately.

The other principal cause of failure, too liberal extension of credit, will be considered under Functions of Retailing.

The Importance of Stock Turn.—Stock turn or turnover is the number of times a quantity of goods is bought and sold during a given period, generally one year. The more times during a year this buying and selling cycle is completed, the more use the merchant gets out of his capital, or the less capital he needs to produce a given volume of business. Since lack of capital is a weakness of many small businesses, the importance of turnover cannot be overemphasized. As Fig. 12 (page 60) shows, when merchandise is slow to leave the shelves, there is danger that the merchant may lose money on every sale he makes after a certain time, even though he gets his original sales price. This is because every item must bear its share of the overhead expenses of the business for every day it remains in the store. Furthermore, the in-

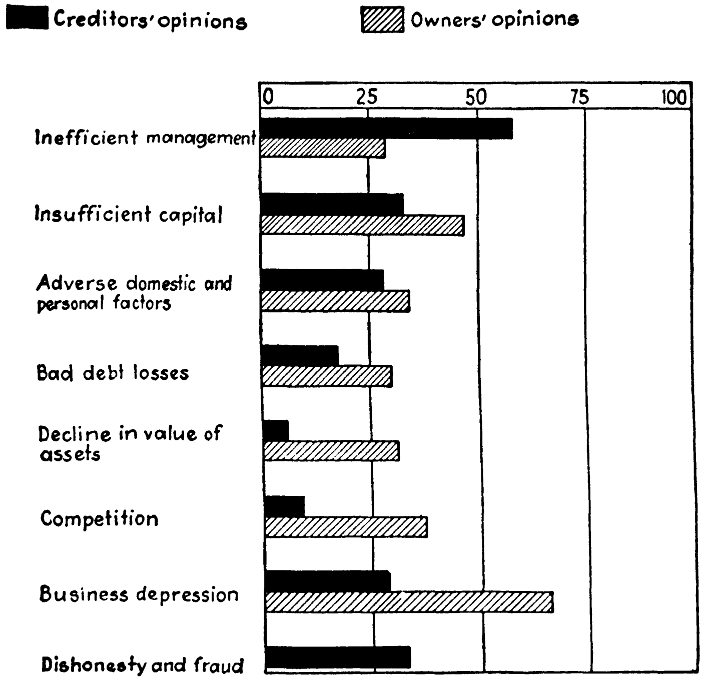


FIG. 17.—MAJOR CAUSES OF BANKRUPTCIES

The opinions of creditors and owners in 570 cases in Boston, 1930 to 1931, are shown in this chart. The creditors gave as the principal reason "Inefficient management": the owners, "Business depression." Perhaps many of the failures could have been avoided had the companies involved (including those who were creditors) more carefully analyzed their marketing policies, particularly those pertaining to "profit" and "price." (*"Causes of Commercial Bankruptcies," U.S. Department of Commerce.*)

herent value of the product lessens with age and a drastic markdown in price may be necessary before it can be sold.

The expression "margin of profit" has been misused so often that many small merchants seem to have forgotten its real meaning. Margin is the difference between what the goods cost and what they finally sell for. That is the whole margin and it has to include all the store expenses and provide a profit. It would be very much more to the point to call it a "margin for profit."

The writer once interviewed a grocer who said that his margin was 25 per cent; that is, an article that cost him 80 cents was sold for $1. Then he went on to give some of his selling cost, as rent being about

3½ per cent of sales, clerk hire 5 per cent, delivery 2½ per cent, etc. His store was not very profitable, the trouble being that he was figuring expenses on the selling price and his margin on the cost price. As a consequence, there was very little margin. The markup in percentage on cost must of necessity be more than the margin in the percentage of sales. Table 5 (page 67) gives a few average markups for prosperous stores and contrasts those margins with the markups of stores which are not successful and which have failed or been in financial straits.

Functions of Retailing.—In all the classifications of stores given above, whether according to organization and ownership or according to the items handled, the merchant performs, at most, eight functions. Not all of these are strictly of the nature of merchandising; rather, they are sometimes incidental to merchandising. Some stores perform only part of these functions. Some add others, like maintaining rest rooms, writing rooms, travel-information bureaus, and numerous other conveniences which are not definitely related to the buying and selling of goods and which could as well be offered by libraries, hotels, or clubs. Still other stores manufacture part of the goods they sell, or have them made to the store's specifications and sold under the store's trade-mark (which is called a distributor's brand, store label, or private brand).

The eight functions of the retailer follow:

1. To provide a conveniently situated storehouse for the various products that he supplies to his customers. This is a warehousing service.

2. To provide capital to equip a store with the necessary furniture for the daily requirements to conduct the business, and to provide the merchandise that is carried in stock. This is financing.

3. To exercise expert judgment in the selection of goods. In many senses, the retailer is the buying agent for his customers. This is assembling or buying. With large stores, the buyer sometimes gives the manufacturer ideas about improving his products the better to please the store's customers.

4. To assume the risk that is incidental to this type of business. Goods may change in price or decline in value, and they may go out of style or become damaged. If the store sells goods on credit, there is a risk, amounting to a certainty, that part of the accounts will not be collectible. Risk taking is one of the functions that must be assumed in most business transactions involving merchandising.

5. To transport the goods from the ~~sources of~~ supply to the consumer. The retailer provides at least part of this transportation

service. When it is remembered that the items making up a simple breakfast commonly come from two or three different continents, the matter of transportation becomes important. Eggs and bacon may have been produced in this country. Coffee comes from Central America and Brazil; pepper from the Straits Settlements; sugar from Cuba, Louisiana, or possibly Utah; salt from the salt fields near San Francisco; bananas from Central America or oranges from Florida or California. The cost of transportation frequently is far greater than the original cost of production.

Delivering goods is a kind of transportation, not an integral part of merchandising but an added service that has been taken on. It is a draying job offered free by the stores, but the truckman must be paid.

6. To exhibit the goods so they can be inspected and compared and sometimes sampled. The retailer explains their qualities and uses. That is selling, but it does not complete the transaction. By the simple act of passing the goods over the counter, the merchant accepts responsibility for their satisfactory performance. Every merchant is now expected to "stand behind," or guarantee, the goods he sells. This is another form of risk taking. Selling may vary from the mere legal transaction of accepting money or credit for a specific item to exciting interest in and finally creating desire for goods by explanations and demonstrations. This amounts to creating a demand; it is the specific part of marketing most often criticized by social reformers. They sometimes hold it to be wasteful, and occasionally say that too much selling induces people to buy what they ought not to buy and so is antisocial. A principle of marketing is that buyers must pay for their own education, and education is included in the selling process. Is it not both economically and socially just to add that cost to the merchandise sold? Selling may also include adopting standards, grading, and giving information. As a marketing function, selling creates possession utility.

7. To extend credit. Most merchants, with the exception of the chains, extend credit.[1] This also may logically be regarded as financing, but is not necessarily a part of a retailer's business. Yet buying goods with promise of future payment has become so common that a third or more of the retail business is done on credit. The difficulty with the credit business is that it is a banking function. There are many differences; an organized bank does not lend its own money, but other people's, and it gets paid for the use of the money. It also exacts security. The store, on the other hand, lends its own capital when it

[1] Too liberal extension of credit, according to the commercial agencies, is the cause of more than 30 per cent of the failures of retail stores.

extends credit. It is not remunerated in the payment of interest and seldom is it able to get security. A large number of retail failures are due to credit risks. In other words, the retailer is not a good banker.

8. To buy in wholesale quantities and divide into family portions. This is a small service with packaged goods, but with bulk goods or fabrics sold by the yard it may be important. This is a part of assembling.

Store Policies.—Stores are no different from railroads, manufacturing plants, or other large business institutions in that it is necessary for them to have governing policies if they are to succeed. One of the most fundamental policies is that pertaining to goods. A store must single out the classes or lines of merchandise that it will carry and should not diverge from them except for some compelling reason. A grocery store that has always had a full line of spices should not discontinue such an item as paprika because it is unprofitable (as it is to practically every store). If customers must go elsewhere for such an item, they will probably buy related items where they find paprika. The same thing naturally holds for many other items.

Some clothing stores make a point of stocking all sizes that their customers require. For example, in shirts the 14's, 17's, and 18's may be of slow sale, but inasmuch as the store might have a customer for such "end" sizes, it carries them. Other stores carry only the popular sizes, which move rapidly. One shoe dealer in Detroit has practiced this to such an extreme that he stocks only one size of shoe. Men who wear that size will go a long way to patronize him because of the exceptional values he offers. There are few places, however, where such extreme specialization has proved profitable, and most stores try to offer a full selection even though it reduces turnover and often curtails profit.

Sometimes a merchant will carefully stock something new even though it is not closely related to the items he has been carrying. If there is a demand for the new product and no one else in the trading area is supplying it, it may prove profitable, but usually to undertake a new item just as a flier results in losses. Another policy in regard to goods is that they should be of approximately the same class of merit. Some stores sell high-class goods and frankly admit that they are expensive. Other stores sell a very cheap class of goods because they think there is a great demand for them. In each case the motive is the same—to make a profit.

Similarly there will need to be policies for extending credit, holding sales, handling complaints and adjustments, and for the multitude of other activities of the store. One of these activities is advertising. A very large store may use many advertising media successfully but smaller stores will seldom find it profitable to use more than two media. One of these will be the newspaper and the other, direct-mail advertising. If the appropriation is limited because of the small size of the store, all of the newspaper advertising should be in one publication. If

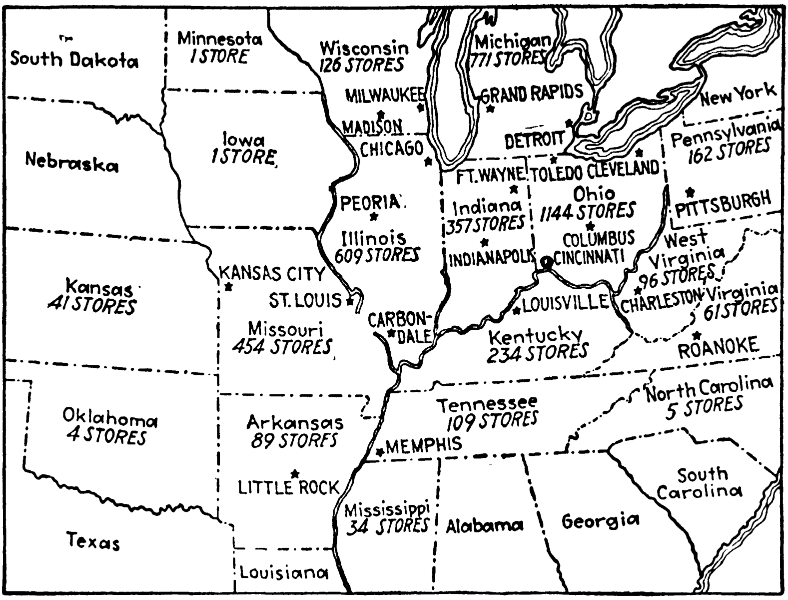


FIG. 18.—MAP OF KROGER OPERATIONS

The stores of the Kroger Grocery and Baking Company are highly concentrated in the industrial Middle Western territory lying north of the Ohio River and east of the Mississippi. The above map gives the distribution of all the stores. There are 21 main warehouses with complete transportation units for getting goods from the warehouses to the stores. These warehouses are indicated by a star for each city location.

there are two other papers in the city, the solicitors will come around begging for some of the business and probably asserting that the newspapers should be given equal shares. The advertising manager is not there *to give* any of his employer's money to anyone; he is there to make each dollar spent in advertising return to the store bringing other dollars with it; this can seldom be done if a small appropriation is divided. Even if a shop is too small to use newspaper space profitably, it still may do some direct-mail advertising. Indeed, the direct mail may be so inexpensive that it belongs in practically every advertising budget.

To cover store policies fully with reasons for each would require a treatise on retailing—obviously too extensive a project to undertake here. However, the foregoing may serve as examples of numerous other policies that are desirable.

The Number of Stores Compared with Population.—Where to locate a store is quite as much a real-estate problem as one of merchandising. Many real-estate men specialize in store locations. There is always a balancing of rent against the amount of street traffic, which is supposed to mean sales opportunities. But not all street traffic can be regarded as an asset for stores; for example, traffic might be very heavy near a factory in the morning, noon, and evening, yet contribute little to the volume of sales. To be in the shopping district, that is, in the area where people are accustomed to go for certain types of merchandise, is one of the requirements for the successful location of a store.

It is commonly said that a women's wearing apparel store cannot succeed until the city or the shopping district is sufficiently large to support three such stores. The idea is that in buying wearing apparel, women want an opportunity to shop, and they do not consider it a sufficient opportunity until they have had at least three stores in which to compare offerings. The *Census of Distribution* statistics of retailing would seem to bear out this contention. There were 17,750 of these stores. That meant one for each 1,700 families. The average sales were $32,000 annually. For all shopping goods, where comparisons are sought and prices carefully considered, similar conditions are usually found.

Among other stores, such as grocery stores and drugstores, which handle more goods in the convenience line and at which purchases are made much more frequently, conditions are very different. For example there were 303,910 grocery stores in the United States—almost exactly one for each 100 families. Their total sales were slightly over $5,000,000,000, which is an average for each store of $16,500. This, of course, would vary for stores in different locations. In a small town where people have gardens and keep poultry, a grocery store would probably sell a smaller amount to each family and perhaps have a smaller volume. In larger cities, the average purchase by each family would be greater and the stores more numerous; also, a greater variation in the size of the stores might be expected.

The grocery stores may be compared with the drugstores. There were 58,407 drugstores, or one for each 510 families. Average sales were $18,000. Anyone considering the location of a new store would do well to consult the census figures for each city or county. From these, he might accurately estimate the number of stores in the district, the population, and the gross sales of the stores, compared with similar figures for larger areas over other cities and counties. This would give a fair indication of the possibility of another store's succeeding in that shopping area.

Choosing a Store Location.—In the last few years extensive studies have been made to determine how to choose the best location for a store. The requirements are different for the various kinds of business. A large department store may depend on its drawing power to bring the required customers. That is true particularly if the store is the largest of its kind in the district and has the greatest assortment of goods. A farmers' store that supplies seeds, feeds, fertilizer, and farm tools may choose a location outside the shopping center. Smart shops specializing in style merchandise like to locate near a department store, and so on with each type of merchant.

There are some things that are deleterious for almost any store. A bank has very short hours, and when opened, it attracts people who are not necessarily in a buying mood, so a location next to or near a bank is not regarded as advantageous for stores specializing in convenience goods. A church is a very bad neighbor commercially for any type of retail business. The list might be prolonged.

While a grocery or a drugstore might find a profitable location in an outlying district, away from the main shopping center, clothing and shoe stores for both men and women prefer to have the best location—"best" meaning where customers are most numerous. Some very large grocery stores also locate on expensive corners and that is even more true of drugstores, but such a location usually requires a great deal of capital. The store must be not only capacious but filled with fast-moving merchandize. If a potential merchant has but $5,000 to invest in a drugstore, he will not be wise to establish his business in a high-rent district. The same is true of a grocery store. If carefully handled, $2,500 will be ample capital for a food store in the suburban districts, but if a grocer expects to develop a super market, he may find that $40,000 or $50,000 will be required to stock and finance it.

The amount of rent that one can pay will naturally depend on the size of business that one can develop. Each store has a different relationship of rent to the type of merchandise that it handles. There are stores in the Times Square district of New York that pay $6 a square foot, requiring not only profitable merchandise but fast-moving merchandise and a large volume. The usual measurement of rent is the number of people who pass the store during shopping hours—from about 9:30 A.M. until 5:00 P.M.—but if the passers-by double, it is not conclusive evidence that the rent a store can profitably pay is also doubled.

In locating a new store the merchant will do well to consult such information as is given in Tables 8 and 10, which will show about how many people are required to support a store of each type. If the city does not have such a shop, it holds out little promise—unless, of course, it is growing rapidly. Before locating any kind of retail business a merchant should consult the real-estate men of the town, particularly those who specialize in business property.

Manufacturers' Interest in Good Retailing.—The manufacturer is interested in stores primarily as agents that aid in distribution. The value of the stores will depend on many things but primarily on the types of goods to be distributed and on the locality it is hoped to serve. It is just as much the concern of the manufacturer to have his products passed along to the consumers in the most efficient way as it is of the consumer to buy goods from the most efficient distributors. The obvious reason is that the less expense there is attached to handling merchandise, the less it will cost consumers and the more they will buy.

This interest of the manufacturer in no way conflicts with the interest of good merchants. They do not want an excessive margin. Their attitude is that liberal profits invite competition. One merchant objected to a special "deal" that was offered him because the margin was "too wide." He said that anyone could run a store on such profits. Pointing to an empty store nearby, he asked: "How long do you think it would remain empty if I were to mark my goods up like that? When would-be competitors see what my margin for profit is, they look for easier competition and leave this market to me." In general, the protection sought in legislation, such as the so-called "fair trade" laws, is at the instigation of the more numerous but less able merchants.

Manufacturers find that certain types of products, such as power washing machines, electrical ironers and other laundry equipment, mechanical refrigerators, oil burners, and other goods that need to be demonstrated before they are purchased, have to be sold by house-to-house canvassing. There is always a considerable amount of house-to-house selling, but only a few items that are usually supplied through the local stores are sold from house to house by the manufacturer. The difficulty of getting an audience and the problem of delivery, together with numerous other complications, have restricted this type of selling to those who seek some merchandise that they can peddle. The method has not been adopted by manufacturers as an important outlet.

Appraising General Stores, Peddlers, and Other Outlets.—About the most that the general store, particularly the type that is found in hamlets, villages, and small towns, has to offer the consumer is the advantage of location. It would be difficult for a proprietor of a general store, or any of his assistants, to be intimately acquainted with all the different goods they carry in stock. Yet it is an advantage to the people in a neighborhood to have a store at which they can buy the large variety of staples used in the home. If the number of these items is sufficiently great, a small population may be able to support a store. It is true that the proprietor knows his customers, many of them intimately. He knows their needs, and he can make certain recommendations, which are accepted because of confidence in the man rather than because of what he actually knows about goods.

The general store in terms of dollar sales is never a very important institution. Few such stores do a business of $100,000 a year, and half of that sum would be considered unusual by the great majority. In addition to a close relationship of the proprietor with his customers, the low operating expenses and lack of much competition in the district are the chief advantages. Looking at it from the customer's side, the most that a store of this kind has to offer is convenience of location. Needs for the household or farm may be extremely pressing and have importance far beyond the value of the purchases made. It is evident that the general store operates with limited capital, that it buys in small quantities, and that it cannot take advantage of quantity discounts or carlot shipments. Transportation charges usually are high, as each shipment is small and the sources of supply are numerous. With the limited personnel, there is no opportunity for specialization. The bookkeeping often does not extend further than to accounts receivable and payable. The management is inclined to be haphazard, and little is known concerning the costs of carrying different items. However, the general store is usually a fair credit risk. The failures of such stores do not seem to be unreasonably high.

The mail-order houses are those institutions that sell wholly by catalogue. Some of the largest have in recent years established retail stores, but that business is considered under chain stores rather than mail-order houses. The mail-order business has declined in the last few years for several reasons. The introduction of the automobile and the improvement in the highways have made it possible for people living in the country and in small towns to go much farther to markets. Chain stores, like J. C. Penney Company, have made it possible to buy a better class of merchandise than was formerly carried in some of the small cities, and at the same time to give a much better selection. Many of the department stores of the large cities have mail-order departments, which have taken away customers from the regular mail-order houses. Although the mail-order houses are much decreased in importance, they still handle a very large amount of goods. This is particularly true of staple merchandise and of supply products for the farm and the home that are not always readily found in retail stores.

There are a large number of roadside stands, some of which sell vegetables or other farm products, while others sell trinkets and toys. Through the Southwestern country, the Indians offer a very fine variety of baskets, pottery, and interesting Navajo rugs. In the aggregate, the amount of sales from these stands is considerable, but very few, if any, manufacturers or importers look to them as regular channels or outlets, as most sell their own products only.

Cooperative stores have been in existence for many years and in many different parts of the country. The idea for this type of store came from Rochdale in England, where the Cooperative store is popular and prosperous. But in this country the general store, operated as a cooperative, has not been a marked success. In the last few years, however, there has been a rapid development of farmer-supply stores of a cooperative nature. In buying farmer supplies, and, in the West, in buying supplies for the fruit grower, these stores are on the way toward monopolizing the business. There are also many gasoline stations through the rural districts that are now operated by cooperatives. In many districts practically all insurance on farm buildings is placed by mutual companies, which is another form of the cooperative enterprise. Indeed, several of the large life-insurance companies are of the cooperative type. The striking difference between the cooperatives and the other stores is that the former are owned by the customers, and the savings, which would be termed profits in private business, are divided according to the amount of goods each one purchases. The general management of such a store is under a board of directors, chosen by a ballot of the owners; one vote for each stockholder, regardless of the number of shares he holds.

Peddlers consist primarily of the itinerant merchants. They may be of the type that have specialty goods to sell and that appear only once and are never seen again, or they may have headquarters in some larger city and make regular trips through the country to the small towns or even to the less accessible suburbs of large cities. The peddler may have a type of goods that is seldom seen in country districts. The peddlers with established routes usually carry staple goods of the kind that are found in one of the general stores or they may, perhaps, sell only groceries and notions. They have little advantage to offer except the accessibility of their stock. As the roads and highways are improved and the automobile becomes regular farm equipment, the possibilities of selling by moving goods from place to place are much limited. At best, it is a declining business.

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Questions and Problems

1. Why is the retail store regarded as the weakest link in our distribution system?

2. What is the average annual business done by the retail stores in the country? How many wholesalers are there in the country?

3. About what percentage of our total population is engaged in some form of retailing?

4. Name three reasons which have prompted the large city department stores to establish branches in suburban towns.

5. Define: (*a*) utility-operated stores; (*b*) commissaries or company stores; (*c*) farmer and consumer cooperative stores.

6. Does the practice of installment selling increase the likelihood of failure among the stores that use it?

7. Write your analysis of the statistical data given in Fig. 17, "Major Causes of Bankruptcies."

8. Refer to Fig. 12, "The Expense-Profit Ratio and the Time Element."

(*a*) Why does the line "expense rate" rise as it is projected in point of time?

(*b*) If the line forming the base of the shaded triangle marked "loss" were raised, what would that do to: price, loss, and the time factor?

(c) Why is it so important to turn over stock as rapidly as possible, and how is this proven by this diagram?

9. What is the difference between "margin" and "markup"?

10. List eight functions performed by the retailer and elaborate upon one of these.

11. Why is it desirable for a retail store operator to be consistent in his store policies? Select a "store policy" and show how its sudden abandonment by the retailer may result in loss for him.

12. Discuss several considerations pertinent to the problem of selecting a retail store location.

13. Explain why manufacturers are interested in good retailing.

CHAPTER V

LARGE-SCALE RETAILING

Four Types of Stores.—In the preceding chapter, retailing was treated in general as a separate field of marketing. The place of the retailer was outlined broadly. The purpose of this chapter is to deal more specifically with a development in retailing that is of utmost significance: the great stores, or integrated stores.

The term "integrated stores" is sometimes used synonymously with that of large-scale retailing. Department stores, super markets, chain stores, and retail branches of mail-order houses typify integrated stores. As will be observed in the discussions which follow, there are many elements—relating to size primarily—of similarity running through these four kinds of integrated stores but there are also present certain variables of management and merchandising which will be considered under appropriate headings.

The Department Store.—The early stores carried many different kinds of merchandise and were called "general stores." Those which grew larger divided their stocks into departments with a supervisor over each section and became modern department stores. Many of the others discontinued part of their merchandise as new stores came into the field. Hardware, boots and shoes, men's clothing, drugs—each went to a separate store specializing in those lines. This usually left the original store with only dry goods and notions, or perhaps such items as household supplies.

Some of our large stores began as specialty shops. John Wanamaker's store in Philadelphia was one of these. His first store handled only men's clothing. As the store grew he added other merchandise until at the present time his Philadelphia and New York stores carry close to 15,000 separate items. This does not count varieties of the same type of merchandise but rather enumerates items in different classes.

Our present interest is in the stores that continued to grow and did not divide or discontinue the goods in any particular department. The first *Census of Distribution* classified these stores as department stores if they sold as much as $200,000 worth of goods yearly. But when the Second Census was taken so few stores sold this amount of goods that the amount was reduced to $100,000. Since that time the department stores have not been listed separately because, it was said, it is difficult to determine whether a store is merely a large general store or a small department store.

The department stores do approximately 10 per cent of the retail business in the country. The percentage varies slightly from year to year. In reality, a department store is a cluster of small stores under one roof, under one general management, and under one ownership. Size alone does not offer any particular advantage except the very general one that a large assortment of goods tends to attract customers. This may seem a reversal of the law of supply and demand but, nevertheless, it is a fact that desirable merchandise does help to stimulate a demand and to prompt immediate buying. The large number of people who visit the various departments every day is obviously the chief asset of the department store. This makes it possible to sell goods in quantities that could not be approached by smaller institutions or even by similar stores scattered in different buildings.

Owing to large sales, the department store, like the chain, is able to buy in large quantities. Frequently such a store is able to take the entire output of a small factory. Many such stores do a considerable amount of manufacturing. Others employ factories to supply them with goods made to their specifications and bearing the store's label. It is not unusual for stores well financed to supply capital for a small manufacturer who can make merchandise that is needed. These items are particularly favored as they cannot be directly compared by customers and shoppers from other stores. In other words, it is exclusive merchandise, which seems to be dear to the heart of every merchant.

Problems of Department-store Selling.—Selling and buying relationships are of two general classes. In one the seller seeks the buyer. In the other class that is reversed: the buyer seeks the seller. Department stores, for the most part, have the great advantage of being in the second class. That is true to such an extent that an advertisement of a department store is sought out and read by prospective customers. One of the reasons that these great stores place their names at the head of the advertisement is to help those who look for it to find it easily. Practically no manufacturer is so fortunate that he can depend on customers seeking out his advertising. Consequently, he reserves space for his signature at the bottom rather than at the top. Usually the cost of selling is much lower where the buyer seeks the seller. There are various problems connected with department-store selling, of which three will be discussed here: (1) the training of salesmen;

(2) adjusting to the leased department; and (3) the coordination of sales promotion with sales.

Training Salesmen.—Those who "wait on" customers anxious to buy are too often poorly paid. This is true of the large number of salesgirls in most department stores. It is also true that this constitutes one of the great weaknesses of these stores. In the point of contact with the public, where every store should be the strongest, the department store is oftentimes the weakest. Also, the low scale of pay of salespeople in the department stores has been frequently accompanied by poor training and too often by a low grade of mentality and social standards.

Not only do buyers expect courteous and sympathetic assistance from salespeople in supplying their needs, but they frequently need advice in regard to goods. This is true with even the very small items. An extreme example of this was a question a mother asked a salesclerk concerning chewing gum. She wanted to know if there was a real difference in chewing gums aside from the flavor. The enlightened clerk told her there was, that one kind was much stiffer and dentists were inclined to favor it because it provided more exercise for the teeth. That was such an exceptional answer as to attract attention. As the goods become more complex, as the price per unit increases and the period of time which they are expected to serve lengthens, the buyer becomes more concerned as to quality. As a consequence, in some departments, such as house furnishings, furniture, clothing, and to a less extent shoes, salespeople in the department store are required to know their products with a considerable degree of thoroughness. So the extremes are met in the same store—a high degree of expertness in some departments, the least possible that can be made to serve in others. Expertness does not come merely from long service in a store but rather from the right type of training and from the personal initiative of the clerk. Some young men and women, of their own volition, study the products they handle but they seldom remain long in subordinate positions. Most stores offer very little instruction for their salespeople in departments where staples are sold, but technical knowledge and a better than average ability is essential for departments of high-priced goods.

Many different plans have been proposed and experimented with to induce clerks to be more courteous and obliging to customers. None of these has been universally successful. Perhaps the best answer to this difficult problem is in the selection of the salespeople, and that oftentimes comes to be a matter of payment of wages. If a store is willing to pay a reasonable amount to its salespeople, it can usually get a type that is satisfactory. Offering rewards for selling a certain quota or above does not generally work out satisfactorily. Most of the stores will not permit a manufacturer to offer a bonus for the sale of his products. The hidden demonstrator, that is, a salesperson who is hired by a manufacturer to work in a store ostensibly as a clerk, yet whose real purpose is to sell the particular manufacturer's product, is no longer regarded as legitimate business practice. Demonstrators are still employed by manufacturers, but it is made plain to customers that they are promoting some definite product.

Though much still remains to be done, many of the more progressive department stores have in recent years raised the standards of salesmanship materially, and in the New York area two stores have made notable progress in training their sales personnel. One of these is Bloomingdale Brothers in Manhattan and the other Abraham & Straus in Brooklyn. The former instituted a department of training which works very closely with the personnel department. New employees are divided into groups and each group is given a course of instruction in the performance of the duties for which they have been engaged. These courses are conducted by members of the training department who also have had special instruction. The store also requires each buyer to have frequent meetings of his staff in which he analyzes recent purchases and explains why the selections were made and why he considered them good merchandise for their particular customers. A few other stores have training of a similar nature, but unfortunately the idea of training salespeople by the store staff is not generally practiced.

Most New York department stores have a working arrangement with the School of Retailing of New York University whereby schoolwork is coordinated with part-time work in stores. But that training is primarily for assistant managers. Merchants in some other cities have a substitute for this training. But the great majority of clerks get none of it.

The Leased Department.—The problem of training salesmen is often complicated by the leased department. Almost all department stores turn over some departments to outside organizations. There is nothing that the customer will observe in going through a store to mark these departments that are not directly under the control of the store management. The lessee is given a specified amount of floor space in which he conducts his business very much as he would if he had a separate store. The contract between the store and the lessee provides for a sort of general supervision in regard to closing hours, and keeping stocks fresh and up to date, and it contains the usual clauses in regard to payment, etc. The store accepts charges made to these leased departments and collects them. It also provides for some advertising for the leased department in connection with the store's publicity. This is charged approximately at cost.

Most leased departments are of a service nature, such as the beauty parlor, restaurant, photographic shop, and very often the jewelry department, where repairing clocks and watches is a part of the service. There are other departments, however, that handle merchandise and yet are quite commonly leased out. Among these are cut flowers and women's hosiery and gloves. These are often leased by an organization that operates as a chain and conducts these departments in stores in different cities.

Coordinating Sales and Sales Promotion.—To secure coordination between advertising and sales is a problem of stores as well as of manufacturers. One of the common methods is to have the store's advertisement for a particular department framed and displayed prominently in that department during the time the goods mentioned in the advertisement are being pushed. If the salesclerks can be induced to read this advertising and to compare it with the goods that are advertised, it will be much more effective and disagreements between customers and the sales force will be avoided. A store manager once told the writer that the reason the clerks did not read the advertising was that they could scarcely find time for it. Before the store opened in the morning they were busy arranging stock and as soon as the store did open customers began to appear. Most of the clerks lacked the enterprise to read the store's announcements, even of their own departments, out of working hours.

Merchandise of higher unit value which is more or less exclusive to the store is advertised more nearly as the manufacturer advertises his product. Such merchandise frequently requires active selling; customers have to be found and convinced. Advertising for this class of goods differs strikingly from the mere price announcement that is so commonly offered for the large part of the merchandise that constitutes the backbone of the business of the department store. Better illustrations are used, the copy is more descriptive, and the salespeople not only read and understand the advertising, but they are able to supplement the advertising message by other information which is welcomed by the customer. Such salespeople, of course, demand higher salaries and are eagerly sought after by the best department stores.

Store Advertising.—Although newspaper advertising is the backbone of the department-store campaign, it is by no means the exclusive me-

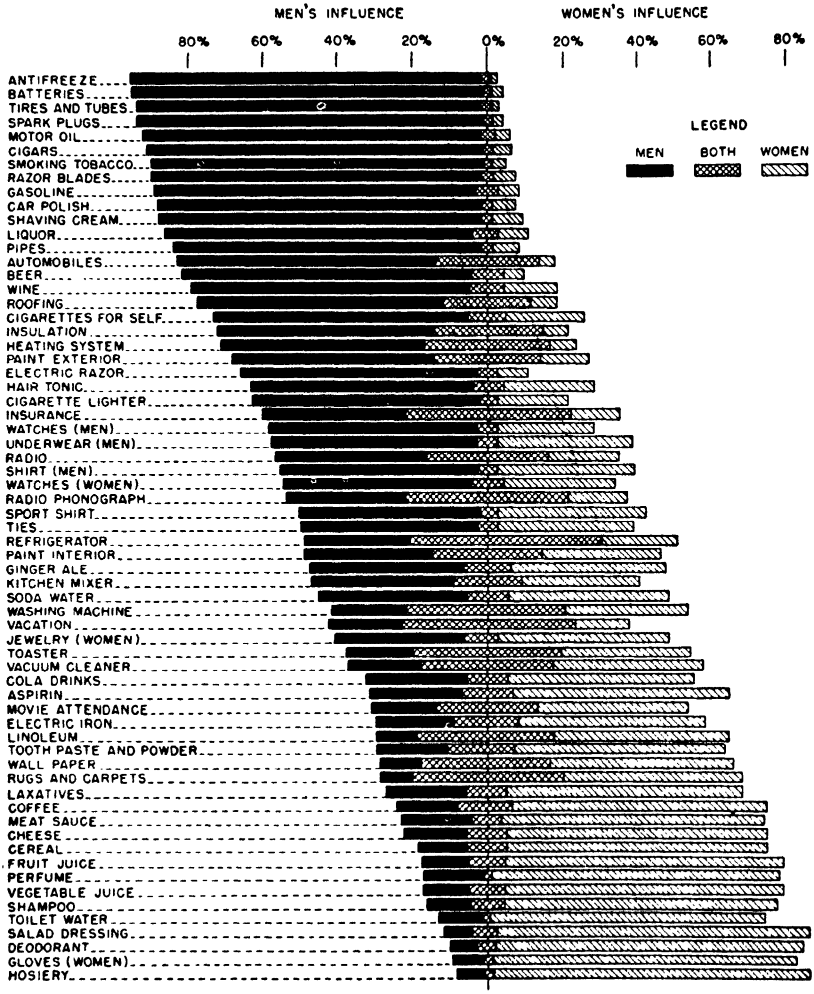

FIG. 19.—TOTAL MEN'S INFLUENCE SHOWN LEFT, TOTAL WOMEN'S INFLUENCE SHOWN RIGHT OF DIVIDING VERTICAL LINE (AT 0%), WHICH SPLITS IN TWO EQUAL PARTS THE PERCENTAGE FOR BOTH

dium used. In the best stores there is always a well-rounded program to promote sales. This is sometimes worked out months in advance. Programs differ in different stores but all the various efforts to sell are called "sales promotion" which, as defined, "is the coordination of all the store's forces, both personal and nonpersonal, to promote profitable sales through a judicious combination of planned and opportune selling and buying activities."[1]

The authors of that definition make the following comments on the activities that combine to present a successful sales-promotion campaign:

> Notice the fact that the *selling* plan comes first; the buying plan second. This is so because the merchant who wishes to be successful today must determine what he can sell (or what his customers will purchase) before he goes into the market to buy.
>
> Sales promotion then is actually a practical system that involves five major activities:
>
> 1. Research and Analysis.—A preliminary study is made of the trading area of the store, of consumers, of competition, and of the store itself in order to determine sales possibilities.
> 2. Sales Planning.—Selling plans are formulated after a careful study of, and adjustment to, consumer demand. Provision is made in these plans for unforeseen, opportune selling events.
> 3. Coordination.—All the agencies inside and outside the store, both personal and nonpersonal, are coordinated in order to do a better selling job.
> 4. Supervision.—All selling agencies (such as advertising, display, sales force, etc.) are carefully supervised in order to carry to a successful conclusion the selling activities of the store.
> 5. Review.—Résumés are made of all selling activities so that the store may repeat successful selling events and may avoid a repetition of unsuccessful events.

In spite of all careful preliminary work, there is a great deal of department-store advertising which does not bring profitable results if figured on the specific item advertised. The authors have never been given any cooperation in studying the results of retail advertising. One plain-spoken merchant said, "The most of us don't dare to get specific results of our advertising. The showing would probably discourage us. Yet we know that in order to keep our volume up to the point where we can make a profit, we must advertise."

The advertising percentage of sales of stores is higher on the average than that of manufacturers of staple merchandise with equivalent sales —3 to 5 per cent not being unusual. However, the latter figure pertains more to specialty shops than to the large department stores. Newspapers are the principal medium for the department store. They take from 50 cents to over 80 cents of the advertising dollars. Direct

[1] C. M. Edwards, Jr., and W. H. Howard, *Retail Advertising and Sales Promotion*, Prentice-Hall, Inc.

mail is used by practically every department store and on the average takes 4 or 5 cents of each promotional dollar. In the past, radio has been given 5 cents, but with television the amount is likely to be greatly increased. Television is the ideal advertising medium for style goods, items which need to be demonstrated, and indeed for everything which has an appeal in color or form. It is estimated that approximately one-third of the advertising budget will be allotted for displays and display materials, for production and miscellaneous costs.

In retail stores, the advertising may serve the primary purpose of bringing people to the store in a buying mood. They may come to see some article specifically advertised, and stay to buy several items unmentioned and even unrelated to the one that offered the attraction.

Some Figures on Department-store Operations.—The authors have been given the privilege of reviewing some figures of one of the largest and most prosperous department stores in the country. These figures are interesting in making possible an analysis of the expenses of a successful store.

The store sold $65,335,724 worth of merchandise in a recent year. Of each sales dollar taken, 74.8 cents went for merchandise, supplies, and services. The largest item in the services was that in the delivery costs. Other costs in this classification included light, heat, telephone, and advertising.

Next, out of the same sales dollar, came 19.1 cents for payrolls. That included salaries, commissions, and benefits for the store's thousands of employees, and amounted to $11,564,712. Discounts given on purchases made by employees, free medical protection and sick benefits for employees amounted to $596,219. State and Federal Unemployment Insurance and Social Security lacked just a little of $300,000.

Of each dollar taken in, 1.4 cent went for store upkeep, including elevators, escalators, electrical equipment, and display cases. Taxes took almost 2 cents out of each dollar that came in, the United States government receiving the lion's share of this, $1,100,000, while $187,868 went for other taxes. This left 2.7 cents profit, but as it was not considered good policy to turn all the profit over to stockholders, 1.5 cents of each sales dollar, or $971,000, was turned back into the business, and $801,970, or 1.2 cents was distributed to stockholders.

As these figures are for one of the prosperous stores, they can scarcely be taken as typical, although the proportions would probably remain the same for most of the large stores.

Attitude of Department Stores on National and Store Brands.—For many years the department stores were allergic to nationally advertised merchandise unless they could have an exclusive agency. It was claimed that once goods were nationally advertised there would be too small a margin left for them to be handled profitably. Partly for this reason and partly because of pride in their own merchandise, many department stores did not display manufacturers' brands. Indeed, the writer has known some of the most popular trade-marks to be covered by the store label, which stated that this merchandise was manufactured and sold directly to the store. In other words, they changed the well-known manufacturers' label to the little-known store label.

In recent years the trend has been decidedly away from this practice. It was found very difficult to obtain goods of quality in sufficient quantity and variety to take the place of the leading advertised brands. Furthermore, the manufacturers who branded their merchandise often refused to sell department stores except under a contract to retain and display the original brand label.

In the last few years merchandise has been so scarce that stores have been glad to get supplies of high quality and in sufficient quantities to supply their trade. Consequently, they have frequently gone to manufacturers with a request to buy their products rather than wait for the usual process of being called on by a salesman. By the time merchandise became more plentiful, customers had become so accustomed to nationally advertised goods and so generally satisfied with them that much of the antagonism that stores formerly harbored has disappeared.

New Developments with Department Stores.—As has been pointed out above, the department stores have taken on a great deal of trademarked merchandise which they formerly avoided—buying from manufacturers and placing their store label on practically all they had to offer. This, although a fundamental change of policy, is not as spectacular as the forming of department-store chains.

The increasing number of people who have moved to the suburbs from the city has made it very difficult for the shoppers to travel from their homes to the central store. In other words, there is a lack of parking space which has been a handicap to the business of the main shopping centers of the city. The chief remedy that has been found is the establishment of suburban stores. The first of these district stores came more than 25 years ago, and although they were successful and for the most part profitable, they did not multiply rapidly until about 1940. Since that time there are at least 40 large department stores with from one to six satellites.

Another development has been the acquiring of stores in other cities. The writer recently saw a list of some 30 stores that had either established a subsidiary or had bought outright some store in a distant city. One of the most striking of these was the purchase of the Frederick and Nelson store in Seattle by Marshall Field and Company of Chicago. Another spectacular purchase was that by R. H. Macy of Bamberger's in Newark and their subsequent control of O'Connor & Moffat in San Francisco. Many new branches have been established in small resort districts; and in Los Angeles, some of the largest stores have opened branches on Wilshire Boulevard. This famous shopping district also has representations of May & Company of Cleveland, of I. Magnin and Company of San Francisco, and of numerous others.

The advantage in a chain of department stores is very similar to that enjoyed by a chain of other types of stores. It makes large-scale buying even more profitable; and where the store also does some manufacturing, it provides numerous outlets for items sold under the store label. Still another advantage is that it makes possible advertising in magazines of general circulation. This practice is not new, for at least 25 years ago some New York and Chicago stores advertised in national magazines. The theory was that many well-to-do people from other districts would visit Chicago and New York during the year and while there make purchases of the more expensive items. Now with chains of stores this advertising can be enlarged and it will apply to stores in cities in other states, not merely to the original "main store."

Origin of Super Markets.—The self-help stores, which, like the cafeteria, originated on the Pacific coast, gradually grew into a much larger institution than any single food store. For want of a better name, these were called super markets. The scanty literature on the subject does not reveal who was the first to apply this name or to what store it was first given. Both the name and the kind of store that it designates are of recent development. Cecil Shaver seems to have been one of the first, at Bakersfield, Calif. In 1932 two stores, which have since become very successful, were opened near New York. One of them was the Big Bear at Elizabeth. It was housed in part of what had been an automobile factory. The other was near Long Island City and was opened by "King" Kullen. Both of these stores were immediately successful, operating on a plan so carefully devised that it has changed only in details. In 1936, there were a few hundred scattered through the West. From that modest beginning, the super markets have grown until they now cover the whole of the United States and do approximately 40 per cent of the food business. In 1940 the sales of the super markets reached $2,000,000,000—primarily in the food field. From that date to 1948 the super markets increased their sales fourfold, having a volume of $8,400,000,000 in the latter year.

As prices have meanwhile risen 132.6 per cent, sales compared in dollars are misleading. Stocks of goods have spread from food only to include many other products. (See page 115.)

Perhaps the chief characteristic of these stores, aside from the low prices, is the matter of self-service, with carts or some kind of conveyance which a shopper uses to collect her items as she goes from one display to another. The character of the goods varies according to the part of the country in which the super markets operate.

Growth of Super Markets.—In the early days markets were chiefly located in large industrial cities of 100,000 upwards. In the last few years they have gravitated to smaller and smaller cities until now it is not unusual to find one in a town of 2,500. *Super Market* studies show that in cities of 100,000 and over, 50 per cent have super markets; in cities of 5,000 to 100,000, 42 per cent have super markets; the other markets of this type being in still smaller cities. In 1948 there were over 10,000 in the country.

It seems to be human nature to enjoy shopping where there are many others similarly engaged. The traffic through a super market meets this demand for gregariousness. Some, among the larger ones, are visited by 75,000 or more people in a day. Also, in buying goods of this nature, women shoppers enjoy a close, leisurely inspection of goods, even in handling them, and many prefer helping themselves to having a clerk hand the goods over the counter. There may be other advantages, but probably these are the principal ones that have accounted for the rapid growth of this institution.

The chain groceries, in spite of claiming superior management, were slow to develop the large stores. It was in 1940 that these large chains began to convert to super markets in a considerable number, and now it is said that all the chain food stores receive from 50 to 80 per cent of their volume in super markets. This development of super markets was not simply a matter of the chains' waking up to discover a possibility of large self-help stores; they were losing business so rapidly that any possibility seemed good to them.

In 1936 there had been a Congressional investigation which disclosed that practically all of the profits from the chain food stores had come from advertising allowances, free goods, special grants, and other provisions which amounted to donations from manufacturers. The chains had been shrewd enough to convince their sources of supply that it would be worth while to offer them some sort of premium to stock their goods. This was little short of fraud because the chains took free goods, advertising allowances, and special discounts as a matter of course and gave nothing in return. They would approach competitors from whom they bought with the same kind of story, often getting a donation from each of the gullible manufacturers who supplied them.

Public indignation was so strong that the Robinson-Patman Act was passed by Congress. This outlawed the practice of giving any one

TABLE 12.—ESTIMATED 1948 RETAIL FOOD SALES PER CAPITA BY WEIGHT[1]

Item	1948, pounds	Change since 1940, per cent
Meat	150	+6
Dairy	775	−5
Fresh produce	550	+2
Cereals and baked goods	300	+2
Eggs and poultry	75	+18
Miscellaneous food	150	−1
Packaged produce	110	+31
Total	2,110	+1

[1] Analysis made by *Super Market.*

TABLE 13.—ESTIMATED 1948 DOLLAR RETAIL FOOD SALES PER CAPITA[1]

Item	1948	Change since 1940, per cent
Meat	$ 65	+155
Dairy	42	+82
Fresh produce	39	+114
Cereals and baked goods	33	+94
Eggs and poultry	21	+158
Miscellaneous food	16	+104
Packaged produce	15	+152
Total	$231	+118

[1] Analysis made by *Super Market.*

purchaser in interstate trade a lesser price than was given other purchasers of the same class. (For a full discussion of this law see Chapter XVII.) The states too took action against the chains and began to pass laws taxing them. Most of these laws provided a progressive tax, which grew larger with the number of units involved in the chain. In a few states the tax amounted to $1,500 per store. One chain discontinued 600 stores within a year in Cleveland. The Kroger Company reduced its stores from 4,212 to 2,460; Safeway from 3,347 to 2,311; National Tea from 1,221 to 682. Others have decreased their numbers quite as drastically.

Goods Carried by Super Markets.—At the outset the super markets were strictly food stores but gradually they added other products until now they have more than 100 different types of merchandise. These vary all the way from slipcovers to safety pins and from television sets to floor mops. A typical setup shows

	Per Cent
Groceries	48
Meats	20
Produce	13
Bakery	4
Drugs	5
Delicatessen	3
Dairy	5
Frozen foods	2

Following is the representative markup for the various goods.

	Per Cent
Groceries	14.4
Produce	24.1
Meat	24.8
Delicatessen	24.0
Baked goods	25.3
Candy	32.5
Dairy	14.0
Tobacco	19.3
Drug	31.75

This merchandise is uniformly of high quality. It must speak for itself and be sufficiently satisfactory to bring repeat sales. It must be good. As a consequence the nationally known and advertised brands prevail. It was a matter of branding that caused the chains to hesitate in transforming to self-help stores. They had built up a large business on their own brands, and as long as they had persuasive salesmen, they were able to sell their own packaged goods; but when the customer was left to make his own choice the better known brands were far more popular. Since the bulk of sales is now in the self-help stores, the sale of private-branded merchandise has seen a heavy decline.

Economies of the Self-help Stores.—Of course the chief saving in a store of this kind is that of clerk hire. Where customers wait on themselves in 90 to 98 per cent of the sales, it is evident that the amount paid clerks can be greatly reduced. In the old-line groceries, out of each dollar taken in, 6 to 7 cents went to clerks. In the self-help store, that has been decreased to 1 cent or less. Even though the super markets usually provide generous parking facilities, the rent that they pay, whether figured by the square foot of floor space or $100 of sales, is much less than that paid by the regulation grocery. In more populous cities there are many markets that do not provide any parking space, their customers coming prepared to carry their purchases.

Another item of saving is customers' buying in large quantities. In 1948, average sales of several hundred self-help stores were from $2.74 to $3.04, an increase from 86 cents during an eight-year period. In one very large super market that is closed on Mondays, 6 per cent of the week's sales were made on Tuesday; 4.4 per cent on Wednesday; 6.8 per cent on Thursday; 32.4 per cent on Friday; and 50.4 per cent on Saturday. In other words, more than half of the week's sales came on Saturday. Where goods are sold over the counter, the sales force of the store must be large enough to handle their busiest day, so that during the first three days, clerks would have very little to do but wait around for the two heavy days at the end of the week, a situation which is far from economical. It was this condition which led Filene's to leave a small New England city and move to Boston, where they hoped to keep business so evenly divided that clerks would always be busy. This saving in clerks in the super markets is sufficient so that for the country as a whole, they can be operated at an expense of 9 to 20 cents for each dollar's sales. The latter figure is high and many independent grocery stores do business for even less. The surprising fact is that the median cost for super markets is 13.7 cents store expense for each dollar's sales. That compares with 17 to 22 cents for well-managed independents.

Chain-store Development.—The first chain store in this country to be permanent in nature was the Great Atlantic and Pacific Tea Company, which was established in 1858. The Jones Brothers Tea Company followed in 1872 and, after two failures, Woolworth started on his road to success in 1879. S. S. Kresge and Company also entered the field that year. In Canada the Hudson's Bay Company[2] has maintained a chain of trading posts for more than two and a half centuries. It was an aggressive trading organization as early as 1774, but its fur-buying stations little resembled modern stores until many years later. In 1921 the Federal Trade Commission report showed 26 different kinds of business with 700 chains, many of them of extremely doubtful authenticity including, as they did, chains of only two and three stores. It is assumed that the total number of chain stores at that time was about 4,500. From that time on, however, the growth of the chains was very rapid. By 1929 the chains had become so important that they accounted for 19.5 per cent of the total retail sales. They had

[2] This company also has a few stores in the United States.

increased their number to 148,037. Their dollar volume for all types was $9,834,846,000.

The chains made the greatest headway in the fields of foods, notions, drugs, shoes, and automobile accessories, although there are chains in nearly all types of merchandise. In the variety stores, chains

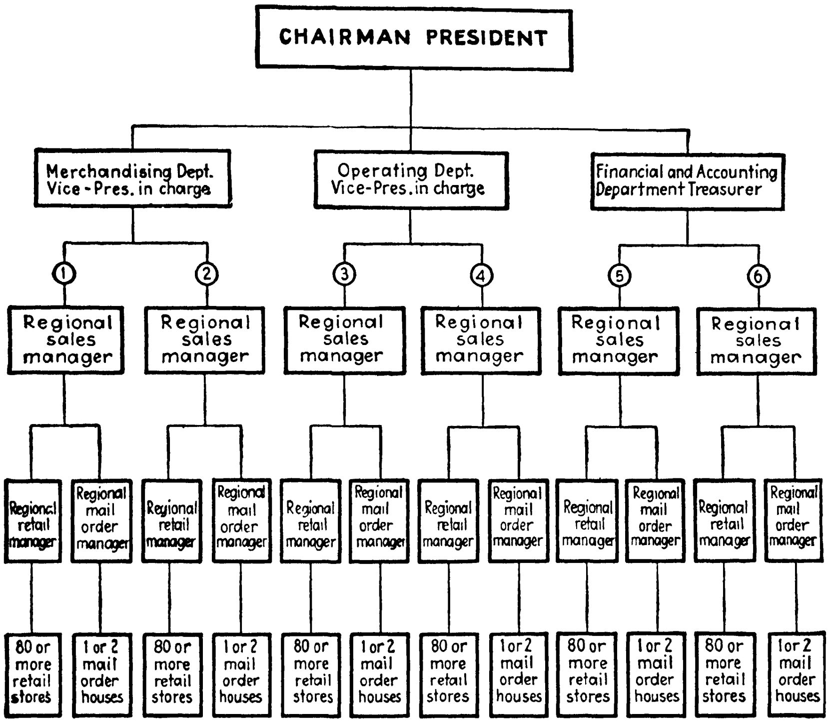

FIG. 20.—SALES ORGANIZATION PLAN OF A LARGE MAIL-ORDER COMPANY

The function of this chart is to show the coordination of the mail-order and the retail outlet divisions.

built their greatest relative position of importance, gaining about 90 per cent of the business in this field. In the jewelry field, they made their weakest showing, doing about 6 per cent of the business. Aside from the variety field, there was no other line in which chains did as much as 50 per cent of the volume, their average being, as stated, 19.5 per cent for the year 1929. They reached their peak about 1933, with slightly more than 25 per cent of retail sales. By 1939 they had been reduced to 21.7 per cent of the retail business.

By 1933, the chain-store picture became clearer with a new national census showing the changes since 1929. In that year, chain stores provided 25.2 per cent of the total retail trade, but the number of their stores fell from 148,037 to 141,603. The chain lost a higher percentage of stores than did independents (4.4 per cent for chains and 1.9 per cent for independents) but they retained a higher percentage of their business. Chains lost 35.8 per cent and independents lost 53.2 per cent during the early years of the depression.

Chain-store Advantages.—As indicated above, the chain stores have succeeded more generally in the variety field than elsewhere. Their second largest conquest has been in the food field. For a time, the chains, by selling for cash, delivering no purchases or practically none, were able to undersell the independents. This refers particularly to the food stores. They bought in very large quantities, were well-financed, and took advantage of every discount. They were capably managed and their sales personnel were strictly disciplined. For example, one of the large chains would dismiss a store manager if he was found to be late three times.

The goods handled by the chains were restricted to staples and that meant concentrating on the fast-moving items. In spices, for example, most of the chain stores carried only pepper, cinnamon, cloves, nutmeg, and mustard; the independents stocked about twice that many. This was true of many other items. Also, they carried fewer sizes; for example, baking powder would be available in only two sizes, whereas, the independents often had at least four different-sized packages. This helped to reduce inventories and to speed up stock turnover.

Reference has been made to the free goods, advertising allowances, and other subsidies that the chains were able to wring from their suppliers. They were accused of paying smaller wages and working their forces for longer hours than the independents. Investigations, however, by the Federal Trade Commission showed this to be in most cases untrue.

Recent Chain Competition.—While the variety chains and those in some other lines have continued to grow, the food stores have either gone over to super markets or have relinquished much of their business to the independents. This was explained by H. C. Bohack, owner of a large grocery chain in Brooklyn and Queens, who made a statement before a group of advertising men that when he found one of his stores in competition with an alert, intelligent independent, who knew his goods as well as the Bohack manager, he admitted defeat and moved his store to another location. The cooperative wholesaling which independents have adopted so largely has gone a long way to overcome the handicap in buying that has been the fundamental advantage enjoyed by the chains. Frequently, buying large quantities has forced the chain into extensive warehousing and delivery service, which are really wholesaling functions, and on which they were unable to compete on some occasions with wholesalers. Also, manufacturers supplying chains have found that, even though their products were on the approved list and could be requisitioned by the chain-store managers, it was still necessary to call on these managers and keep them reminded of these various products. So they have complained that there was really no saving in selling the chains over the independents.

The chains, like the department stores, have been able to employ highly skilled men in the solution of store problems common to all stores within their system. Their accounting was far better than that of the best of the independents at the time the chain stores began to multiply so rapidly. Their store arrangement, developed by extensive study by architects and merchandise men, not only saves steps for sales people but places the goods of highest profit in strategic display. The older retailers would allow unsalable merchandise to accumulate, thus tying up capital and valuable space. Until the chains taught them they did not learn that goods that do not sell within a reasonable time after being placed in stock never sell at a profit. The best locations for stores, and the right balance between sales and such expenses as rent, clerk hire, and delivery costs were learned from the same source. But after these lessons were finally learned, the best of the independents probably surpassed the hired store managers in applying them. The one great advantage that the chains had for a long time was the ability to secure "special deals" and "advertising allowances" from manufacturers.

The chain stores are expanding their coverage to new lines continuously. This is reflected by the *Chain Store Age,* which covers the field very accurately and adequately. A monthly edition is printed for each of the following lines: general merchandise, drugstores, food stores, variety stores, fountains and restaurants, and hardware. In addition to these, it issues annual editions particularly designed to give the sources of supply for each of these outlets. The editions are very bulky and contain the names of thousands of manufacturers and large distributors.

Retail Outlets of Mail-order Houses.—In recent years, large mail-order institutions, particularly Montgomery Ward & Co., Inc., and Sears, Roebuck and Co., have opened retail outlets paralleling in type the regular chain-store systems. Chain gas stations and tire stores have become very numerous in the last few years. These are owned primarily by the tire manufacturers and the large petroleum companies. These outlets, however, differ from most chains in that each store is made up of a varying number of departments, resembling the usual department store. The larger stores are classified by the census as "department-store chains."

The development of the automobile and good roads, along with the rapid progress made by such dry-goods chains as the J. C. Penney system, had been making it more and more difficult for these mail-order houses to maintain their volume of business. With enormous good will already established through their mail-order lines, these companies decided to meet the new competition created by changing conditions through establishing their own retail outlets.

Sears, Roebuck, seeking a market entirely different from the rural field, opened their first store in Chicago in 1926. Montgomery Ward debated the advisability of opening in a large city or a small town, whether to place the merchandise on sale or to sell through samples that would be displayed at the store. They finally decided upon a small town, and located their first store in Marysville, Kan., which has a population of about 4,000. Also they decided to sell by the sample method. It soon became apparent that customers wanted to buy the products and take them without the delay necessitated by lack of stock in the store.

There is no indication that the mail-order business will be absorbed by the retail stores. Rather, as has been mentioned, the one supplements the other. The stores are creating new business rather than taking it away from the mail-order department. At the end of 1939 Sears, Roebuck and Co. was credited with 526, and Montgomery Ward & Co. with 625 stores, which can be compared with the 1936 totals of 401 and 489, respectively.

The A. & P. Litigation.—At the time this is written the Great Atlantic & Pacific Tea Company is being sued by the government as a trust. Part of the charge against this chain is that it undersells competitors and the remedy asked is to have the A. & P. Tea Company broken up into several parts, as was done with the Standard Oil Company several years ago. This would include divorcing the manufacturing and wholesaling operations from strictly retailing.

In 1933 this firm controlled over 11 per cent of the retail food business of the country, but at the time the suit was started by the government that proportion had dropped to about 6½ per cent, although there had been an increase in sales. Just why the government should not want people to buy food as cheaply as possible has not been explained. The presumption is that lobbyists for small retailers are making a good deal of noise in Washington and the government is bringing suit in response to this pressure. The purpose of this suit seems to be just the opposite of that of most litigation over monopolies. The usual charge is that the monopoly increases prices; here the contention is that the monopoly reduces prices to consumers. It would be a peculiar law to make it illegal to sell goods at a low price. The outcome will probably not be known for several years, as the lawsuit may slowly drag itself through the courts until it finally reaches the Supreme Court.

The company is owned primarily by two brothers, John and George Hartford. The older of the two at the time this suit was begun was eighty-six and the younger was seventy-eight years old, so there is a strong probability that they may not live to see the final outcome of the suit.

Summary. Advantages and Disadvantages of Integrated Stores.—The term "integrated stores" means the stores that are tied together by ownership or management, or both. The department store is virtually a group of stores housed in the same building and under common ownership and management. Chain stores are similar stores having common ownership and operated under one general executive but with different managers for the individual units. The previous discussions concerning the efficiency of the different types of stores may perhaps be summarized as follows:

1. Advantages of integrated stores.
   a. Establishment of an elaborate division of labor is made possible because of employment of large numbers of people.
   b. Size permits these stores to employ experts for executive positions and to command skilled buyers, advertising managers, accountants, statisticians, and personnel directors.
   c. By carefully classifying merchandise, the management enjoys not only the advantages of specialization on the part of the buyers and salespeople but also facilitates the discovery of profitable and unprofitable classes of goods and a more accurate measurement of the efficiency of department managers.
   d. Financial strength attracts investors and facilitates the acquisition of capital required for expansion at a low rate of interest. Size is also an advantage in making banking connections and in securing loans on favorable terms.
   e. Large financial resources make it possible to take advantage of cash discounts, "distressed" merchandise, and large-scale advertising—which means lower unit costs.
   f. Large purchases may result in substantial price concessions.
   g. Constant market contacts give advantages particularly in the purchase of style goods.
   h. It is possible to effect economies by integration with wholesaling and even with manufacturing.
   i. Prestige that results from great size of leading department, chain, and mail-order institutions is a distinct advantage in attracting patronage.
   j. Experimentation and research are possible.

TABLE 14.—CHAIN-STORE SALES

Company	Six months 1949	Six months 1948	Per cent change	Number of stores in operation in June	
				1949	1948
A. & P.	$950,000,000 [2]			6,000[2]	
Sears, Roebuck [1]	878,708,717	$935,292,547	−6.0		
Safeway Stores	561,256,804	591,289,312	−5.1	2,204	2,297
Montgomery Ward & Co.[1]	449,617,817	508,033,386	−11.5		
J. C. Penney Company	376,444,754	362,770,805	+3.8	1,603	1,601
Kroger Company	380,941,430	374,770,125	+2.0	2,267	2,460
F. W. Woolworth	266,596,915	270,592,301	−1.5		
S. S. Kresge	125,225,262	123,393,728	+1.5	700	698
National Tea	125,213,715	123,896,523	+1.0	658	682
W. T. Grant	99,646,359	98,699,494	+0.9	482	481
Colonial Stores	83,115,247	83,089,623	+0.03		
Grand Union	45,152,961	37,608,298	+20.0		
Walgreen	77,915,704	77,704,300	+0.3		
S. H. Kress	71,975,134	69,751,839	+3.2	253	246
G. C. Murphy	62,494,467	57,563,127	+8.5	211	209
Lerner Stores	51,140,648	49,366,173	+3.6		
Western Auto	52,769,000	55,299,000	−4.6		
J. J. Newberry	56,934,942	54,447,685	+4.6		
Spiegel, Inc.	55,464,701	59,714,202	−7.1		
Mercantile Stores	44,439,800	46,124,700	−3.7		
Butler Brothers	57,017,500	72,330,353	−21.2		
H. L. Green	36,681,638	36,280,579	+1.1		
McCrory Stores	42,302,727	41,908,303	+0.9	201	199
Melville Shoe	34,671,513	33,788,827	−3.1	556	530
Bond Stores	41,774,204	38,416,641	+8.7		
Edison Brothers	37,992,129	36,899,928	+2.9		
Grayson-Robinson	37,593,541	33,399,588	+12.5		
Interstate Dept.	24,041,169	25,811,687	−6.9		
A. S. Beck	20,586,093	21,506,208	−4.3		
Neisner Brothers	24,797,900	23,625,883	+4.9	119	114
Lane Bryant	26,580,237	27,205,078	−2.3		
McLellan Stores	19,552,155	19,885,581	−1.7		
Peoples Drug	22,612,124	21,977,130	+2.5	141	137
G. R. Kinney	15,335,000	14,670,000	+4.5		
Miller-Wohl	31,375,821	25,578,214	+22.7		
Consolidated Retail	15,919,869	16,207,657	−1.7		
Howard Stores	13,840,866	16,189,554	−14.5		
National Shirt Shops	6,740,711	6,246,913	+7.9		
Adam Hat Stores	8,012,407	7,787,668	+2.9		
Diana Stores	16,200,714	14,138,047	+14.6		
Rose's Stores	6,671,038	6,579,529	+1.4		
Sterchi Brothers	4,114,850	5,249,871	−21.6		
M. H. Fishman	3,957,646	3,606,144	+9.7		
Angerman Company	3,623,984	3,541,377	+2.3		

[1] Includes both chain- and mail-order sales.

[2] Approximately.

2. Disadvantages of integrated stores.
   a. There is absence of close personal contact between owners and general managers and the consuming public.
   b. Heavy overhead expenses are unavoidable—because of
      (1) Large working force of nonselling employees necessary. In some department stores more than 50 per cent of the working force does no selling.
      (2) Wide range of services offered to consumers. This applies to department stores.
   c. Flexibility and adaptability of smaller competitors are lacking.
   d. Services must be standardized and definite rules and policies adopted. This prevents flexibility and the ability to take advantage of special occasions and unusual offers.
   e. Data available seem to indicate that within certain limits department- and unit-store expenses rise with increases in sales volume.
   f. In the purchase of meats, fruits, vegetables, and such perishables where personal inspection is necessary, it is difficult for the chain-store buyer to be certain that the actual goods he inspects and selects are delivered to his stores.

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Questions and Problems

1. What are the four types of large-scale retail outlets?
2. About what per cent of the total retail business done in the country is handled by department stores?
3. Point out two things that must be done to improve the salesmanship of clerks in the average large department store.

4. What is meant by the leased department? What are some of the considerations in the arrangement between the lessee and the department-store ownership? What types of merchandise are usually found among leased departments? Why?

5. To what extent might manufacturer and department store coordinate their sales efforts?

6. Give the Dean Edwards and W. H. Howard definition of "sales promotion."

7. Why have department stores recently changed their policy with respect to their refusal to handle nationally advertised brands?

8. Discuss two reasons that the so-called "chain of department stores" development has prospered.

9. Discuss two outstanding characteristics of the super market.

10. Write a short article concerning the 1936 Congressional investigation of chain stores.

11. Approximately how much (*a*) meat, (*b*) eggs and poultry, (*c*) cereals, and (*d*) baked goods are consumed by each person in the United States per year?

12. Why do most independent super-market operators sell nationally advertised merchandise in preference to any other kind?

13. Write a short article on the topic, "The Economics of Self-help Stores."

14. What is the significance of H. C. Bohack's remark concerning intelligent independent grocery-store retailers as disclosed in the text?

15. Why have mail-order houses opened retail outlets?

16. List five advantages of integrated stores.

17. List five disadvantages of integrated stores.

CHAPTER VI

WHOLESALERS

Some Functions of the Middlemen.—The retailer must replenish his stocks regularly and maintain the position in which he can satisfy his customers, the consumers. As we have already seen, the retailer must stock a vast variety of items. These are manufactured by many different factories in scattered locations. If the retailer were obliged to go to the original sources, he would be swamped with the magnitude of his job in purchasing for his customers.

To facilitate the distribution of goods, it long ago became common practice for a middleman to buy from manufacturers and to sell to retailers. This wholesaler, or "wholesale merchant" as he is called, usually carries a full stock of most of the items in which he specializes. The wholesale grocers will carry a wide selection of canned goods, baking supplies, dried fruits, cereals, and many other assorted foods. Besides these the wholesaler will have a variety of food accessories such as extracts, spices, tea, coffee, and pickles. Hardware wholesalers catalogue as many as 20,000 separate items. Other wholesalers have comparable stocks.

Some of the more successful wholesalers employ specialists who do their buying. For example, one very prominent operator sends out specialists to make contracts with different canners. They not only make definite financial arrangements but also give specific directions for canning the various products wanted by their firm. Other buyers are also specialists in their fields and are in a good position to advise suppliers in regard to methods, future purchasing, etc.

The wholesale salesmen are not often specialists, as are the buyers, but are familiar with the products of various factories and know which are most dependable and, in general, the "best buys." Also, in traveling from one town to another and from one store to another they observe the most advantageous methods of displaying merchandise and conducting stores and are thus able to advise customers concerning merchandising.

It is perfectly natural that the retailer will patronize the wholesaler who offers the greatest assistance. That includes the stocking of the largest selections, prompt shipments, liberal credit, willingness to adjust complaints, and assistance in merchandising. But many wholesalers, especially in large cities, instead of performing all these functions limit themselves to taking and filling orders. These are called "drop shippers" or "desk jobbers."

How Retailers Select Wholesalers.—It is evident from the above that retailers require a variety of services. Consider the extending of

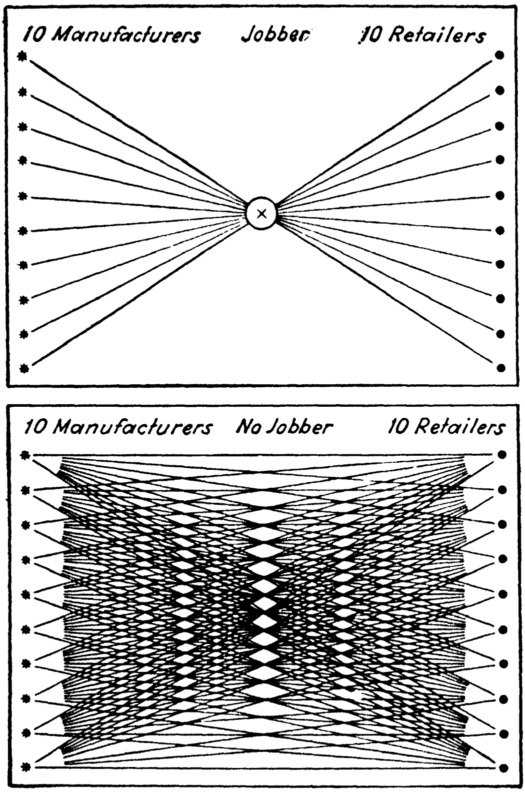

FIG. 21.—THE PLACE OF THE JOBBER

How a jobber (or wholesaler) may serve both manufacturers and retailers is graphically shown by these contrasting charts. It is on the bases of concentration and dispersion that the jobber functions.

credit, for example. Often the stocks on retailers' shelves are financed almost as much by the wholesalers as by the merchant. That is, a store buying $500 worth of goods a month from a wholesaler will settle only once in 30 days; therefore, by the time he is required to pay for the goods, a large part of them has been sold. Indeed, if a small store buys $500 worth a month from each of four wholesalers at any one time, it may actually have less money invested in its stock than the jobbers.

Well-financed stores may prefer to pay "cash in 10 days" and receive the cash discount.

Usually the manufacturers package their products in larger containers than a retailer can handle advantageously. For many years that was true of tea. It was packed in the Orient in chests lined with sheet lead, each holding about 60 pounds. With many grocers that would last from six to eight months, and by the time the tea was sold it would be so deteriorated that it would be scarcely palatable. It is quite possible that this practice of selling tea from stock that had been opened for several months accounts for the decrease in tea drinking by the American people in the last quarter century. It has dropped during that period from over a pound per capita per year to less than 12 ounces. With the new packaged teas, the tea is sold before it becomes stale. That is now true of practically all food products. A wholesaler buys supplies from manufacturers in large containers and repackages them into portions which the retailer can sell. This not only protects the quality but involves a smaller investment on the part of the retailer and less storage space. It also reduces handling while the goods are in the store. Buying in small lots results in quick stock turnovers, one of the cardinal principles of good merchandising. Most wholesalers are in a position either to deliver goods directly to the retailers or to make shipments that will reach the destination in 24 to 48 hours.

The Many Types of Wholesalers.—Wholesalers differ widely not only in ways in which they conduct their business but also in the classes of goods which they carry. The following paragraphs will briefly discuss the various types as they are given by the Business Census. This list and divisions are given as they appear in the *Census Reports* so that developments and trends over long periods may be studied and compared. The first of these censuses was taken in 1929; three more followed during the next decade; and as this is written, another is being conducted. Even if one does not consider the classification of wholesalers as given in the Census the best possible, it is expedient to maintain the same classification as this makes comparisons easier.

For exampie, chain-store warehouses are establishments maintained by retail chains as distributing stations to supply their stores with merchandise. In some respects in operation they are similar to establishments of wholesale merchants and are, in reality, more than mere warehouses. They maintain stocks, break bulk, and deliver and bill the merchandise to the retail outlets. Furthermore, the activities of these warehouses may include accounting and general supervision. Chain systems often maintain at these warehouses branch executive

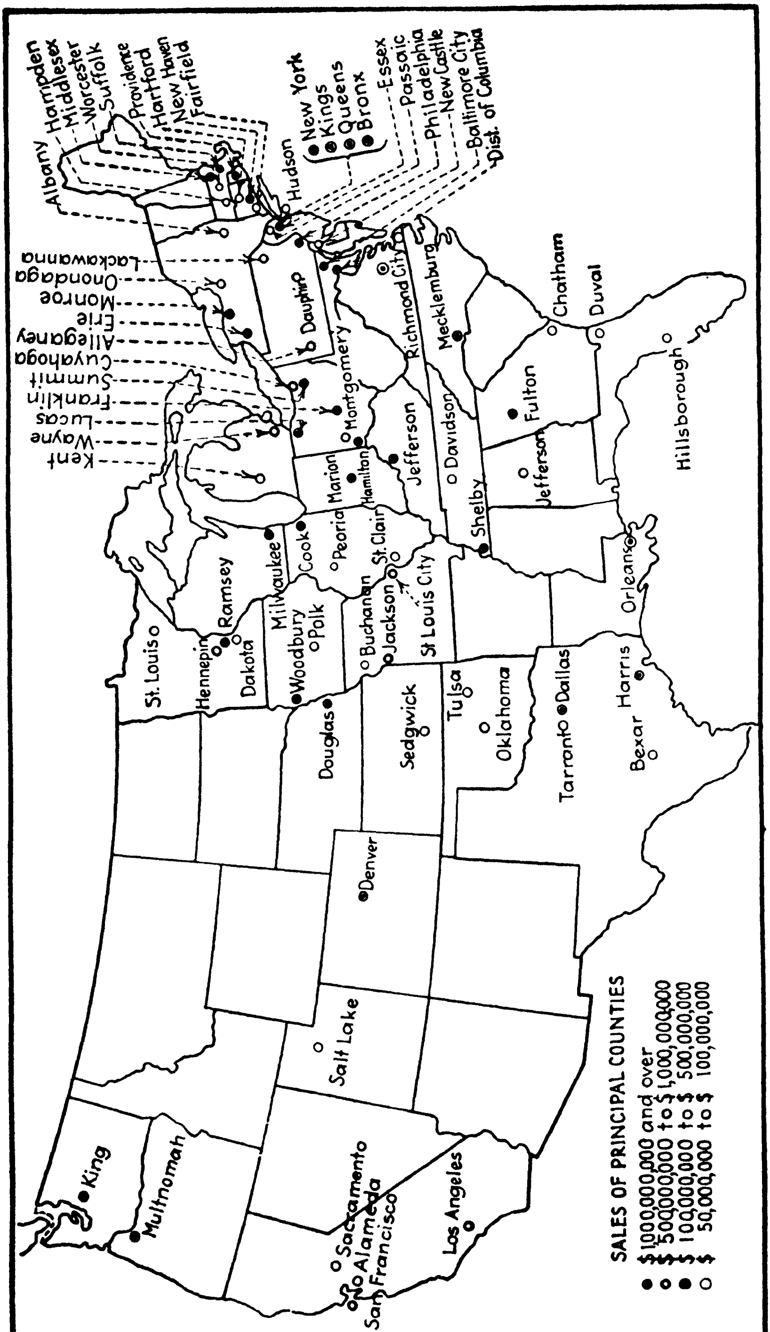

FIG. 22.—WHOLESALE TRADE, BY COUNTIES WITH SALES OF \$50,000,000 AND OVER. (*Descriptive legend on opposite page.*)

offices charged with the superintendence of the retail outlets within their respective districts. Wholesale commissaries are included under this heading because they are essentially centralized warehousing establishments supplying company stores of manufacturing, mining, or other producing concerns that cater to employees. They are also operated in connection with bakeries and prepared-food depots that maintain their own restaurants.

Bulk-tank stations perform wholesale functions in the distribution of gasoline, oil, and other petroleum products. From these stations, tank wagons operated by salesmen-drivers supply the gasoline filling stations, both company-owned and independent. In the first instance, bulk-tank stations resemble chain-store warehouses, while in the second case they act as ordinary wholesale merchants. Frequently, bulk stations do business on both bases. In fact, some of the largest oil companies sell most of their products through their bulk-tank stations to independent retailers. In this manner they also supply independent wholesalers and large consumers. Most bulk stations are owned and operated by producing companies, although some of them are owned and operated by wholesale marketers of petroleum products who are not engaged in refining.

District sales offices are manufacturers' establishments engaged in the supervision of wholesale branches or of independent distributors operating in certain districts. While their chief function is that of a supervising sales office, they may also handle the sales in the immediate vicinity or sell to a selected group of customers throughout the entire district. These offices may in some cases provide warehouses for the storage of goods, to expedite delivery. In such cases all the wholesale functions are performed and the district sales office resembles to that extent a manufacturer's sales branch.

General sales offices are separate wholesale sales departments of manufacturers, whose function it is to supervise the sales of district offices and of manufacturers' sales branches. In addition, general sales offices frequently handle institutional business consisting of sales to very large purchasers, such as dining cars, laundries, and hotels, to institutions, or to departments of government, and to public buildings and offices. Export sales are also normally handled through these

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Descriptive Legend for Figure 22

The tremendous concentration of wholesale trade by counties is shown on this map. Of the total volume of trade over one-third (34.9 per cent) was accounted for by the four counties of Manhattan, New York; Cook, Illinois; Philadelphia, Pennsylvania; and Suffolk, Massachusetts. Over one-half (51.2 per cent) of the wholesale business was transacted by establishments located within 12 counties. Figures change from year to year, but the relative importance of the areas remains practically constant.

offices. Most of the oil refineries, for example, make sales to foreign countries, tanker or cargo sales, pipe-line sales, and tank-car sales

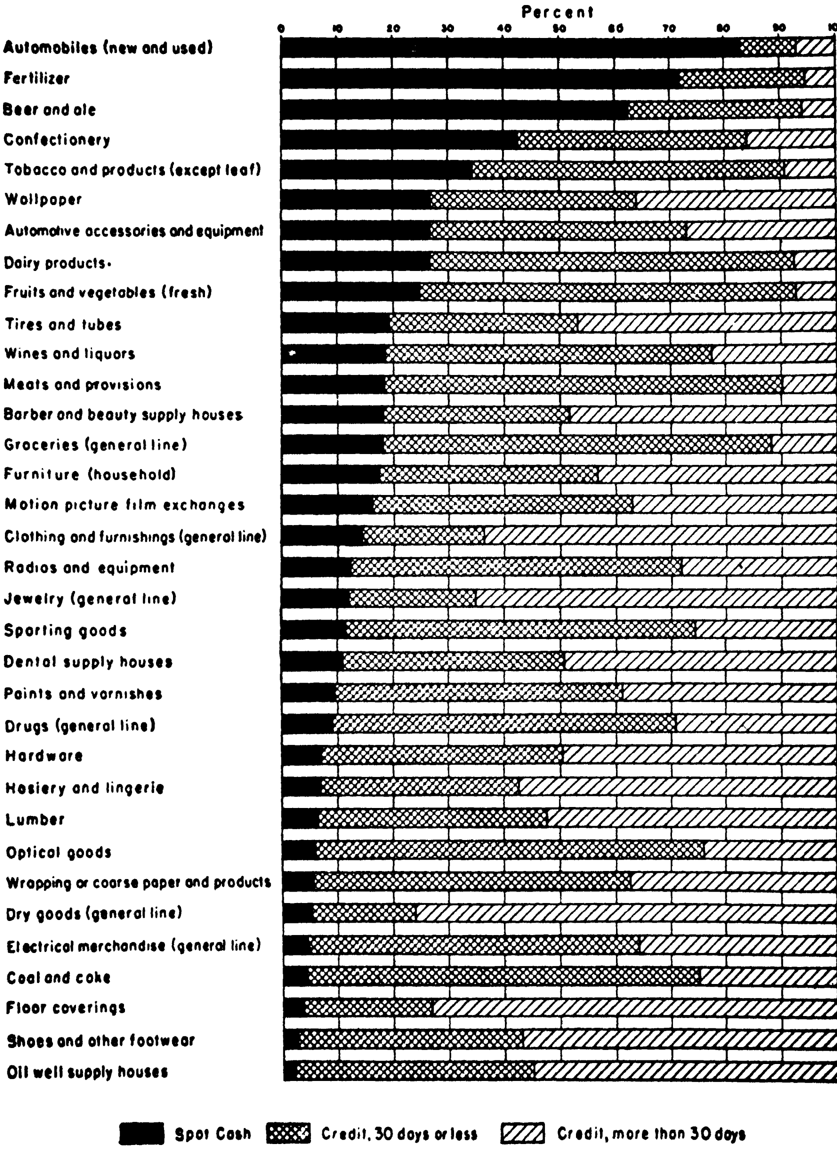

FIG. 23.—CASH-CREDIT SALES RATIOS FOR SELECTED KINDS OF BUSINESS

from refinery and from producing fields through these offices. All these sales are normally made by the general office through bids or contracts. Ordinarily, no warehousing of merchandise is done at these points. While other wholesale functions may be performed by general sales offices, the emphasis is always upon the selling activity.

Manufacturers' sales branches are wholesale outlets owned and operated by manufacturers, largely or entirely for the distribution of their own products. The purchasing aspect is stressed little, since most or all of the merchandise is manufactured by the parent concerns. The emphasis is largely upon the selling function. In fact, some manufacturers' sales branches carry no stocks and confine their activities to the promotion of sales and the securing of actual orders, while others operate in every detail like bona fide service wholesalers but with little or no emphasis on buying. The demarcation is rather sharp as between certain trades, the steel business illustrating the former type and the meat-packing business the latter.

Cooperative sales agencies include both the sales agencies and the central marketing associations which have been set up by a number of agricultural cooperatives to facilitate the sale of the products of the members. Such sales agencies are located both in the producing areas and in the larger marketing centers, and act as selling units of federated or centralized cooperatives.

Mail-order or catalogue wholesalers sell all or the greater part of their goods by mail. Otherwise, such establishments operate in every way as service wholesalers, extending credit, making deliveries, etc. Many of them employ "good-will" traveling men who tend to become active in the solicitation of orders.

Wagon distributors, or wagon jobbers, perform the wholesale functions of buying, selling, warehousing or storage, and delivery or transportation. Occasionally they extend credit to their customers. Their chief distinction from ordinary wholesalers lies in the following points:

1. They combine the functions of salesmen with those of deliverymen. In other words, no separate sales force is employed, the work of selling and delivery being carried out by salesmen-drivers.
2. They normally carry a limited assortment of merchandise, consisting of nationally advertised specialties and fast-moving items of a perishable nature.
3. Normally they sell for cash and in original packages.

Warehouses (distributing), other than chain-store warehouses, specialize in the performance of the storage function. In certain instances warehouse companies buy and sell on their own account.

Supply and machinery distributors operate practically as wholesale merchants, performing most of the wholesale functions. They are discussed in a later paragraph as industrial distributors.

Wholesaling manufacturers consist of establishments engaged primarily in manufacturing and secondarily in wholesaling of goods purchased from other producers for resale, without alteration in form. All establishments classified under this heading produced during the year 1929 between 50 and 90 percent of the goods sold through them. A good illustration of a wholesaling manufacturer is that of a meat packer who, in addition to selling from his own plant goods produced in that plant, also sells certain quantities of butter and eggs, which were purchased for resale.

Manufacturers' Agents.—Manufacturers' agents sell part of the output of certain manufacturers with whom continuous relations are maintained. These agents are limited with respect to (1) territory of operations, and (2) prices and terms of sale. Their principal function is selling, although they may also warehouse some of the goods. The compensation of manufacturers' agents is usually in the form of commissions, but sometimes they may work on a salary basis. Manufacturers' agents usually are in business for themselves and represent two or more manufacturers, the accounts consisting ordinarily of noncompeting but supplementing lines of merchandise.

Manufacturers' agents operate in many different ways. Sometimes they sell primarily the output of one factory. In that case, the selling agent is a subsidiary of the manufacturer. This is true of such concerns as the Borden Sales Company, the American Type Founders Sales Corporation, and numerous others. Where this is the case, the selling agency frequently buys items that supplement those that come from the factory, and in that way they become supply houses. The American Type Founders, Incorporated, for example, primarily manufactures printing type, but the subsidiary company handles printing presses, ink, and a multitude of tools used in the printing plant, which are manufactured by firms other than the parent company.

Purchasing agents, commonly referred to as syndicate buyers in the hardware trade, are independent middlemen who buy merchandise for their clients and also supply their clients with market information. They are to be distinguished from so-called "purchasing agents" employed in manufacturing plants, who are not in business for themselves but merely work for a single employer, maintaining no separate purchasing establishments.

Resident buyers are purchasing agents, operating primarily in the dry-goods trade. The relationships of both purchasing agents and resident buyers with their respective clienteles are continuous and not intermittent as in the case of dealings with buying brokers. Resident buyers are located in the central markets and are in close contact with

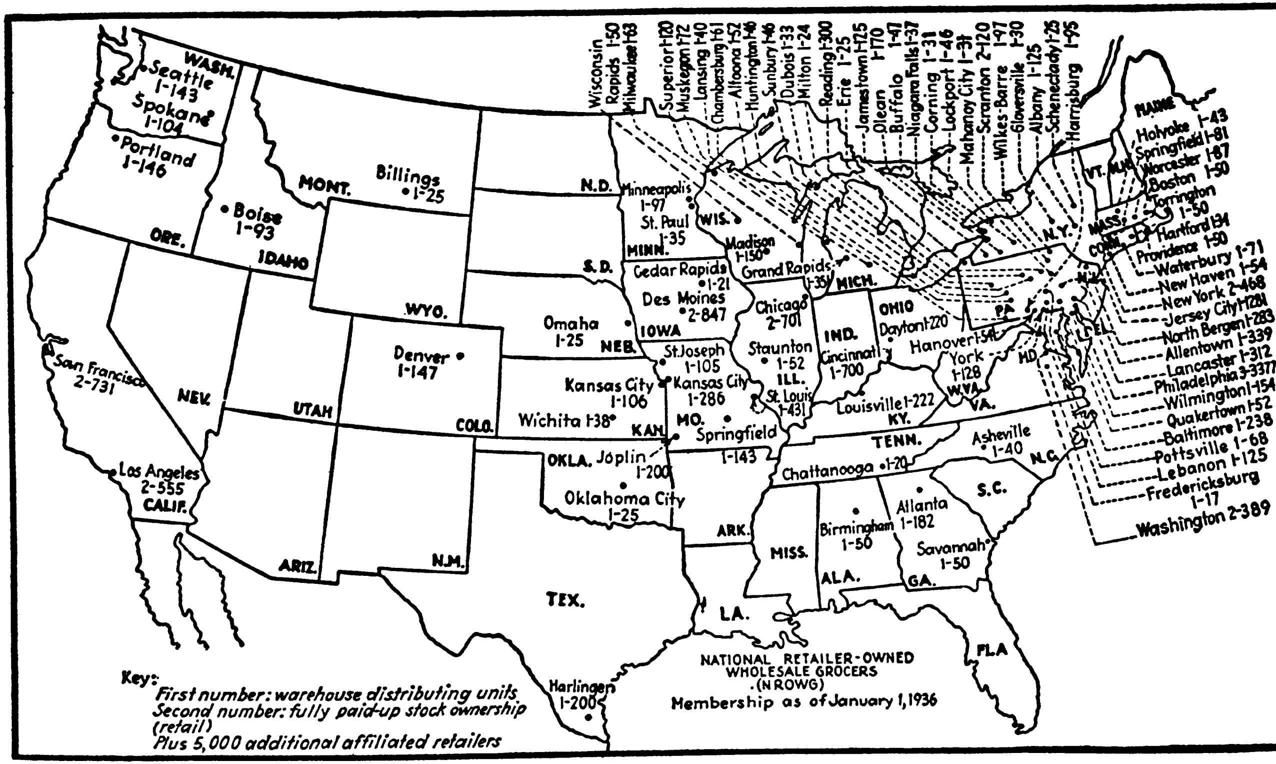

Fig. 24.—Membership of (NROWG) National Retailer-owned Wholesale Grocers, Inc.

manufacturers in those markets and with wholesalers or retailers at outlying points. They normally represent the interests of buyers, although they may also occasionally represent sellers.

Selling agents are independent operators working on a commission basis and performing chiefly the selling function. They usually sell the entire output of a given line of goods for one or more manufacturers with whom they maintain continuous relations. In a great many cases, they give their clients financial assistance. Selling agents differ from manufacturers' agents in the following respects: (1) They normally handle the entire output of their clients; (2) they may sell everywhere, while manufacturers' agents are limited in their territory of operation; (3) they have full authority with regard to prices, terms, etc., while the authority of manufacturers' agents is limited in this regard; and (4) they frequently finance their clients and offer assistance in connection with their advertising and other sales-promotion activities.

Auction Houses and Commission Men.—Auction companies are conducted under definite rules, and sales are made usually to the highest bidder. Such concerns do not take title to the goods, but handle them for clients on a commission or fee basis. They provide a place for the public inspection and sale of merchandise consigned to them and may even, on their own responsibility, extend credit to purchasers. F.O.B. auctions differ mainly from the "delivered" auctions in that such establishments do not handle the goods that they sell for their clients. In this latter instance goods are sold primarily by description, rarely by sample.

Agents and brokers specialize in the performance of buying and selling either in domestic or foreign trade. Their chief additional function lies in furnishing market information. They may represent a single client or a group of clients, either buyers or sellers, and they may specialize in the lines of merchandise handled. Their compensation is in the form of fees or commissions.

Agents and brokers are wholesale middlemen whose function it is to negotiate transactions between buyers and sellers. They act as agents for their principals, who are usually wholesalers or producers, although they sometimes represent retailers as well. In a given transaction, brokers may represent either buyers or sellers or both; but in the latter case they may receive compensation from only one. They do not take title to the goods to which their negotiations apply, except incidentally, nor do they ordinarily have possession of the goods or finance their clients.

Brokers are not bound to any set of clients but operate freely in the wholesale field. Their relations with any one client are not continuous as they are in the case of selling agents or manufacturers' agents. The remuneration of brokers is in the form of a commission or fee, based upon the value of the goods, or upon the quantity of merchandise involved in the transaction. The quantity unit may be a carload, a ton, a bag, a box, or some other package. In addition to performing the functions of buying and selling, their chief activity consists in advising their clients as to market conditions, sources of supply, and outlets. Normally, brokers do not handle the invoices and have nothing whatever to do with the amounts invoiced.[1] (In the grocery trade, it is difficult to distinguish among brokers, selling agents, and manufacturers' agents, the three terms frequently being used synonymously.)

Assemblers or commission merchants handle commodities consigned to them on a commission basis. As commission merchants they do not take title to the goods they sell for their clients. It is their practice, when the goods require it, to maintain places of business suitable for the handling, conditioning, warehousing, and selling of merchandise. In some few lines of trade, commission merchants or commission houses act purely as shippers' agents, but in most lines of business they combine some merchant business with commission dealing. When they are acting in the capacity of agents for their principals, it is the practice of commission merchants, in case the goods require it, to prepare them for the market, to sell them at the best possible prices, and to remit the proceeds after deducting commissions and other charges. In this capacity, commission merchants always represent sellers.

Exporters and Importers.—Export agents include commission houses and agents and brokers who specialize in selling to foreign countries.

Export commission houses generally represent foreign clients and perform the purchasing function for them. Such houses normally confine their trading to foreign countries and receive their income in the form of commissions. In addition to performing the buying function, they secure a certain amount of market information for their foreign clients. They also perform the incidental functions connected with the technique of shipping. Not infrequently they also sell for American firms goods consigned to them.

Export commission houses frequently specialize in markets rather than in commodities, handling almost every conceivable class of merchandise for which there is a demand in the foreign markets in which they operate. The same observation applies to a number of export merchants and other export agencies.

Export agents and brokers include export brokers, customs brokers,

[1] This does not apply to compensation of course.

export manufacturers' agents, and export selling agents. Export brokers, in so far as they differ from ordinary brokers or export agents, are considered as performing for the export trade the ordinary functions of brokers in domestic trade. Customs brokers are also included in this classification. Their business is to negotiate transactions for buyers in foreign countries or for importers, on a brokerage or fee basis. They act as intermediaries between buyer and seller, and what they spend is reimbursed to them by the purchasers of the merchandise, usually when the goods are delivered. Customs brokers are considered experts in all matters connected with imports and exports, such as duties, consular fees, necessary legal documents, invoices, the tariff laws, and in the proper packaging and routing of goods. Such brokers are commonly found in or near the importing or exporting centers. For example, in the cities near the Mexican border, there is a group of them who represent largely Mexican buyers of American-made goods.

Import agents include commission merchants, manufacturers' agents, and selling agents who represent foreign sellers in the American market.

Import commission merchants or import brokers specialize in making foreign purchases for a number of clients whose individual operations are too small to justify separate organizations for importing. They also attend to the customs formalities for their clients and operate on a commission basis.

Import manufacturers' agents perform the functions connected with foreign trade comparable to those usually performed by the manufacturers' agents in domestic trade. The distinction lies in that the former represent foreign manufacturers.

Import selling agents occupy a place in the import trade analogous to that held by selling agents in domestic trade. They represent the foreign manufacturers.

Brokers and Factors.—Nearly a century and a half ago Judge Story defined a broker as "an agent employed to make bargains and contracts between other persons, in matters of trade, commerce, or navigation, for a compensation, commonly called 'brokerage'." There have been many definitions written since then, a good one of which is in the Glossary, but Judge Story grasped the idea of the brokerage business and expressed it very concisely.

To illustrate how the broker operates we might take the food industry. There are in the United States 5,000 wholesale grocers and some 900 corporate chains operating 42,000 retail outlets. There are approximately 50,000 manufacturers, processors, canners, packers, etc. who depend upon the broker to dispose of their products. There are about 2,000 of these food brokers in the country. It would be utterly impossible for the small canners, for example, to operate without food brokers. Many of the canners pack only one or two items. are widely separated, and in some parts of the country produce their regional fruits or vegetables in great abundance. A canner of peas in

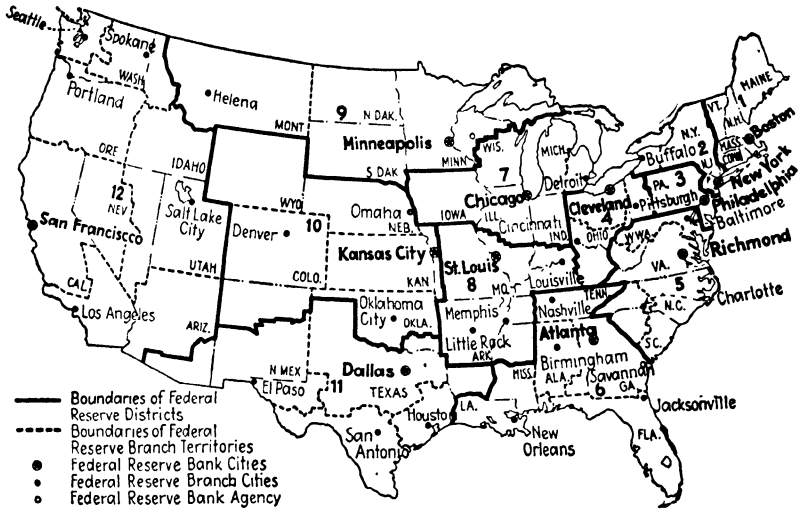

FIG. 25.—FEDERAL RESERVE DISTRICTS

Financing is intricately interwoven with marketing. A comparison of this map with those showing population, wholesale trade, industrial production, and other trading areas will reveal, from a geographical viewpoint, how much there is in common among all these factors.

Oregon who packs 100,000 cases a season will be in operation only a few weeks. For that length of time he cannot employ and operate a corps of salesmen; consequently, he turns to the brokers. These are located in every wholesale district in the country.

The broker acts independently and is free to represent as many producers as he chooses, except that it is not ethical for him to assume competing accounts. If he is obligated to sell peas for the Oregon canner, he is not expected to sell the same product for anyone else. The sugar refineries also rely almost wholly upon the food brokers to sell their refined sugar.

The remuneration or brokerage is illustrated by the following items, which are given as percentage of sales:

Breakfast cereals	2.1
Canned foods	2.4
Flour	1.9
Frosted fruits and vegetables	3.1
Other food and grocery specialties	1.6

TABLE 15.—TYPE GROUPS TOGETHER WITH THEIR SUBDIVISIONS

Type of operation groups	Number of establishments	Sales (000 omitted)
Totals, 1939	200,573	$55,265,640
1935	176,756	42,802,913
1929	168,820	66,983,024
Types of operation		
1. Service and limited-function wholesalers	101,627	$23,641,924
Wholesale merchants	91,323	$18,688,897
Voluntary group wholesalers	703	753,586
Converters (textile)	631	425,167
Export merchants	586	778,001
Importers	2,158	1,379,575
Industrial distributors	1,471	729,650
Cash-and-carry wholesalers	1,198	108,902
Drop shippers or desk jobbers	937	474,891
Wagon distributors	2,398	80,259
Retailer-cooperative warehouses	222	222,996
2. Manufacturers' sales branches (with stocks)	12,977	$ 8,846,940
3. Manufacturers' sales offices (without stocks)	5,119	$ 4,679,262
4. Petroleum bulk stations and terminals	30,825	$ 3,807,908
Independent bulk stations	6,357	$ 627,674
Commission stations	17,530	1,080,479
Salary stations	6,053	1,739,676
Cooperative bulk stations	665	37,962
Distributing terminals	220	322,117
5. Agents and brokers	20,903	$11,201,035
Auction companies	649	$ 434,283
Brokers (merchandise)	4,710	3,390,695
Commission merchants	2,758	2,748,072
Export agents	654	571,449
Import agents	394	343,105
Manufacturers' agents (with stocks)	1,907	252,056
Manufacturers' agents (without stocks)	7,871	1,144,961
Selling agents	1,487	1,741,777
Other agents	473	574,637
6. Assemblers (mainly farm products)	29,122	$ 3,088,571
Assemblers of farm products	9,866	$ 792,159
Commission buyers	1,523	121,704
Cooperative marketing associations	2,583	611,029
Cooperative sales agencies	191	578,939
Cream stations	3,870	48,564
Country grain elevators:		
Independent	3,180	271,154
Line	4,061	226,917
Cooperative	1,843	196,430
Packers and shippers	2,005	241,675

The food broker operates under many different names: manufacturer's agent, sales agent, manufacturer's sales representative, food broker, merchandise broker, packer's representative, wholesale marketing agent, and resident sales representative.

Occasionally the broker offers a merchandise service. This usually takes one of three forms: (1) The broker endeavors to get the wholesaler to tie in with the manufacturer's advertising and other promotional plans; (2) he endeavors to arrange for cooperative advertising between principal and buyer; or (3) if requested, some brokers provide, on a straight cost basis, specialty salesmen to work with retailers in arranging displays and promoting the line.

The factor is virtually a banker and sometimes commercial banks act as factors for their large customers. Frequently goods, especially textiles, are consigned to the factor, who then advances money to the shipper to help finance him for subsequent shipments. The factor then disposes of the goods as he can. There are in the United States 300 financing companies that receive consignments of merchandise, advance money to the shipper, and take charge of selling it. Although the number is small, the extent of the business is very large. It is estimated that in a recent year it reached $2,500,000,000.

Discount rates given by the factor are very low, sometimes being only ¾ of 1 per cent of rapid turnover accounts. The factors are much more common in the textile field than in any other and the average debit for the factor clients ranges from $15,000 to $25,000.

Locations of Wholesale Centers.—As would be expected, the wholesale houses are centered primarily in metropolitan districts. There are several obvious reasons for this: (1) The retail business in the metropolitan districts is large and the wholesalers have a very considerable outlet near by. (2) The industrial distributors who sell operating supplies to factories naturally find their chief customers in districts where the factories are numerous and many workmen are employed. (3) Cities are located where transportation facilities are good. Transportation is so essential to the assembly and distribution of goods that it is a prime factor in the location of warehouses and especially warehouses connected with wholesalers.

The concentration of wholesale houses into a few counties of the United States is illustrated by the map in Fig. 22 which shows that 34 wholesale areas had over $100,000,000 sales each in 1929. (That fact should, of course, be considered in relation to population and to the value of the dollar.) As business improved, it improved in these centers. No new wholesale centers of importance have developed in the last few years, yet a considerable part has spread to smaller cities.

The types of wholesaling are controlled to a very considerable extent by the principal industries of the surrounding districts. This is particularly true of the assemblers which follow the various classifications of agricultural products. The tobacco houses are in the South Central and East Central states. The cotton shipping points are largely at Galveston, New Orleans, and some other southern cities. Such wholesalers as those for drugs, hardware goods, and foods locate roughly in proportion to the population, although they tend to be more numerous in the more prosperous districts.

The extension of paved roads and the multiplication of automobile trucks and vans have tended to increase the number of wholesalers and to enable them to operate in smaller cities and on smaller volumes, and to do it successfully. The growth in the number of wholesalers since 1929 has been very striking. According to census figures, the increase was from 168,820 in 1929 to 200,575 in 1939—a very notable increase in 10 years. The growth in the number of electrical goods has tended to increase the number of wholesalers in that field the country over, and this increase would perhaps have come independently of transportation facilities, but in the case of food stores, drug supplies, and many other lines of wholesaling, the increase is probably accounted for more accurately by transportation than otherwise.

Wholesalers Classified According to Products.—The census report classified wholesalers into 25 general divisions according to the products they handle. In order to give as complete a picture as possible of the wholesaling business as related to different products, Table 16 is given presenting the complete breakdown as shown by the census figures. This table gives the number of wholesalers in each field, and the per cent of sales represented in the expense of operation. It covers only the full-service and limited-function wholesalers. Another table, Table 15 gives the different number of wholesalers, classified into groups, with the number and sales of each group for the years 1929, 1935, and 1939. The complete census report has been abbreviated in this table, showing only the groups and not all the classes within the groups.

There is a vast amount of information given in these tables. For example, under "amusements" there are eight different classes of wholesalers enumerated; under "chemicals and paints," there are seven; under "dry goods (specialty lines)," nine; and under "groceries and foods (specialty lines)," ten. This indicates that there is a sharp specializing in the wholesaling field, including the less common types of wholesalers. It is apparent that wholesale business is more highly specialized in the classes of goods handled than are the retail stores.

TABLE 16.—WHOLESALERS CLASSIFIED ACCORDING TO TYPE OF OPERATION AND KIND OF BUSINESS

Type of operation and kind of business	Number of establishments	Per cent of sales
1. Service and limited—function wholesalers	101,627	12.8
Amusement and sporting goods	1,342	21.1
Bicycles and supplies	45	18.2
Cameras and photographic supplies	113	22.9
Motion picture equipment and supplies (except films)	66	15.7
Motion picture film exchanges	214	25.2
Sporting goods	231	18.5
Toys, novelties, and fireworks	534	21.3
All other	139	22.6
Automotive	7,964	11.0
Automobiles (new and used)	572	5.0
Trucks and tractors	579	16.9
Automotive accessories and equipment	2,860	23.2
Automotive parts	3,318	26.2
Tires and tubes	635	14.9
Beer, wines, and liquors	6,232	12.9
Beer and ale	4,812	15.4
Wines and liquors	1,420	11.3
Chemicals and paints	1,680	17.7
Dyestuffs	69	17.4
Explosives	49	14.2
Industrial chemicals	287	13.6
Naval stores	29	11.9
Paints and varnishes	623	22.7
Paints with glass and/or wall-paper	311	27.6
All other	312	19.3
Clothing and furnishings	4,178	14.4
Clothing and furnishings (general line)	446	14.9
Men's and boys'	1,180	14.2
Women's and children's	1,110	15.6
Furs, dressed, and fur clothing	501	12.0
Millinery and millinery supplies	478	15.7
Shoes and other footwear	463	12.8
Coal and coke	919	8.1
Drugs (general line)	297	13.0
Service wholesalers (without liquor)	226	13.3
Service wholesalers (with liquor)	45	13.8
Cooperatives and mutuals	26	9.6
Drugs and drug sundries (specialty lines)	1,321	26.5
Proprietary medicines	422	21.1
Toiletries	387	37.7
Drug specialties and sundries	512	21.6
Dry goods (general line)	222	15.1
Dry goods (specialty lines)	3,875	11.8
Hosiery and lingerie	422	11.0
Notions	973	19.2
Piece goods:		
General line	54	14.3
Cotton	519	10.2
Silk, linen, rayon, and velvet	801	9.4
Woolen and worsted	366	11.2
Other	407	13.5
Other dry goods specialties	333	16.1
Electrical goods	3,072	16.6
Electrical merchandise (general line)	455	13.4
Apparatus and equipment	207	22.7
Wiring supplies and construction materials	955	17.5
Radios and equipment	668	19.0
Refrigerators and equipment (household)	159	17.0
All other	628	20.1
Farm products—raw materials	2,086	6.9
Cotton	229	8.3
Grains	397	4.9
Hides, skins, and raw furs	686	7.6
Horses and mules	28	4.7
Livestock	107	12.7
Silk (raw)	15	2.6
Tobacco (leaf)	191	15.1
Wool and mohair	166	6.4
All other	267	7.0
Farm products—consumer goods	10,945	13.0
Dairy products	2,164	23.0
Dairy and poultry products	760	8.7
Poultry and poultry products	1,635	9.2
Fruits and vegetables (fresh)	5,449	11.0
Fresh fruits only	905	7.3
All other	32	10.8

TABLE 16.—WHOLESALERS CLASSIFIED ACCORDING TO TYPE OF OPERATION AND KIND OF BUSINESS.—(*Continued*)

Type of operation and kind of business	Number of establishments	Per cent of sales
Farm supplies	1,477	13.6
Feed	782	10.8
Fertilizer	99	14.8
Seeds	415	19.0
All other	181	9.7
Furniture and house furnishings	2,214	17.2
China, glassware, and crockery	339	25.2
Floor coverings	487	13.8
Furniture (general line)	49	21.0
Furniture (household)	333	21.0
Furniture (office)	51	17.2
House furnishings (except as specified)	827	15.8
Musical instruments and sheet music	128	25.6
Groceries (general line)	3,942	9.5
Not sponsoring cooperative or voluntary groups	2,786	9.6
Voluntary group wholesalers	638	10.6
Retailer-cooperative warehouses	136	5.2
Cash-and-carry depots	382	5.2
Groceries and foods (specialty lines)	12,045	14.1
Breakfast cereals	34	43.8
Canned foods	430	10.7
Coffee, tea, and spices	703	17.3
Coffee roasting and spice grinding	306	20.9
Confectionery	2,089	13.2
Fish and sea foods	1,182	19.9
Flour	323	11.4
Fruits and vegetables (frosted)	32	9.8
Meats and provisions	2,552	11.1
Other food and grocery specialties	4,394	13.0
Hardware	1,343	18.4
General line (with industrial department)	409	18.2
General line (without industrial department)	363	17.7
Specialty lines	571	22.1
Jewelry	1,805	17.6
Jewelry (general line)	195	17.1
Clocks and watches	178	18.9
Diamonds and other precious stones	427	10.3
All other	1,005	21.5
Lumber and construction materials	3,303	15.2
Builders' supplies (general line)	189	15.8
Lumber	1,236	11.1
Lumber and millwork	154	14.7
Millwork	280	21.9
Brick, tile, and terra cotta	145	15.8
Cement, lime, and plaster	102	15.6
Glass	282	29.3
All other	915	19.2
Machinery—equipment—supplies	9,743	20.1
Commercial equipment and supplies:		
Office machines and equipment	216	23.4
Restaurant and hotel supply houses	438	23.6
Garage and filling station equipment	169	25.7
Soda fountain equipment and supplies	29	23.3
Store machines	49	16.3
Store fixtures and equipment	401	26.6
All other	341	21.2
Farm and dairy:		
Dairy equipment	109	18.3
Farm implements	21	21.9
Farm machinery and equipment	189	15.0
Industrial machinery, equipment, and supplies:		
Industrial (general line)	116	18.8
Belting, hose, and packing	211	24.3
Construction (except road building)	153	22.6
Road building	251	19.3
Machine tools	128	16.0
Mine and mill supplies	415	19.1
Oil-well supply houses	896	10.5
Power plant and power transmission	89	18.1
Printing and lithographing (except paper)	157	29.2
Rope, cordage, and twine	57	14.3
Textile	84	22.3
Used machinery and equipment	290	26.9
All other	1,575	20.2
Professional equipment and supplies:		
Dental supply houses	330	28.6

TABLE 16.—WHOLESALERS CLASSIFIED ACCORDING TO TYPE OF OPERATION AND KIND OF BUSINESS.—(*Continued*)

Type of operation and kind of business	Number of establishments	Per cent of sales
Religious supply houses	94	27.4
School equipment and supplies	138	24.8
Surgical, medical, and hospital	383	26.4
All other	117	23.9
Service equipment and supplies:		
Barber and beauty supply houses	859	32.5
Laundry and dry cleaning	206	20.7
Tailors' supplies	64	20.1
Undertakers' supplies	107	28.1
Upholsterers' supplies	210	23.5
All other	607	24.1
Transportation equipment and supplies:		
Aircraft and aeronautical	13	6.2
Railroad	68	24.0
Marine	149	20.4
Other	14	23.0
Metals and metalwork (except scrap)	1,017	12.0
Building metalwork	135	20.4
Iron and steel products (general line)	96	12.6
Iron and steel products (semifinished)	63	17.8
Iron and steel products (flat)	204	19.9
Wire and wire products	65	21.6
Iron and steel finished products (N.E.C.)	290	20.8
Copper	38	4.1
All other	126	5.5
Paper and its products	2,898	17.3
Wrapping or coarse paper and products	1,675	17.2
Printing and writing papers	427	14.2
Stationery and stationery supplies	515	24.0
Wallpaper	281	33.5
Petroleum and its products	1,275	12.8
Plumbing and heating equipment and supplies	2,225	18.4
Plumbing and heating (general line)	675	17.4
Heating (including stoves and ranges)	368	23.8
Plumbing fixtures, equipment, and supplies	927	17.4
All other	255	23.8
Tobacco and products (except leaf)	2,717	4.9
Waste materials	6,059	14.7
Iron and steel scrap	1,869	12.7
Junk and scrap (general line)	1,893	18.5
Wastepaper, rags, and rubber	1,128	18.6
Nonferrous metals	395	10.4
All other	774	14.9
All other products	5,431	10.5
Books, periodicals, and newspapers	866	18.2
Flowers and nursery stock	734	20.1
Forest products (except lumber)	594	18.0
General merchandise	156	5.7
Leather and shoe findings	955	12.8
Leather goods	145	20 3
Oils and greases (animal and vegetable)	87	7.8
Optical goods	572	35.9
Textiles and materials (other than dry goods)	301	11.5
Yarns	181	8.9
Miscellaneous kinds of business	840	7.1
2. Manufacturers' sales branches (with stocks)	12,977	13.5
Amusement and sporting goods	398	12.8
Automotive	937	11.9
Beer, wines, and liquors	409	19.1
Chemicals and paints	663	14.8
Clothing and furnishings	297	13.0
Coal and coke	6	19.8
Drugs and drug sundries	237	27.6
Dry goods (specialty lines)	213	11.2
Electrical goods	393	7.6
Farm products—consumer goods	610	17.2
Farm supplies	122	13.7
Furniture and house furnishings	285	14.0
Groceries and foods (specialty lines)	2,592	11.1
Hardware	98	19.9
Jewelry	31	7.6
Lumber and construction materials	353	14.1
Machinery—equipment—supplies	3,333	19.7
Metals and metalwork (except scrap)	481	8.2
Paper and its products	317	16.5
Petroleum and its products	56	21.6

TABLE 16.—WHOLESALERS CLASSIFIED ACCORDING TO TYPE OF OPERATION AND KIND OF BUSINESS.—(*Continued*)

Type of operation and kind of business	Number of establishments	Per cent of sales	Type of operation and kind of business	Number of establishments	Per cent of sales
Plumbing and heating equipment and supplies	519	15.5	Automotive	331	3.0
Tobacco and products (except leaf)	44	13.9	Beer, wines, and liquors	102	3.9
All other products	583	13.8	Chemicals and paints	331	4.3
3. Manufacturers' sales offices (without stocks)	4,119	6.9	Clothing and furnishings	1,409	3.2
Amusement and sporting goods	66	11.5	Coal and coke	305	4.4
Automotive	59	10.5	Drugs and drug sundries	147	8.7
Beer, wines, and liquors	89	13.4	Dry goods (general line)	27	1.0
Chemicals and paints	181	15.9	Dry goods (specialty lines)	1,470	2.6
Clothing and furnishings	241	10.1	Electrical goods	837	5.4
Coal and coke	5	2.8	Farm products—raw materials	3,091	1.7
Drugs and drug sundries	54	22.3	Farm products—consumer goods	1,287	3.7
Dry goods (specialty lines)	131	5.4	Farm supplies	198	2.4
Electrical goods	252	4.7	Furniture and house furnishings	789	6.5
Farm products—consumer goods	75	10.2	Groceries and foods (specialty lines)	2,729	1.8
Farm supplies	20	7.1	Hardware	392	4.7
Furniture and house furnishings	131	10.1	Jewelry	210	4.9
Groceries and foods (specialty lines)	810	17.5	Lumber and construction materials	944	5.1
Hardware	55	8.4	Machinery—equipment—supplies	2,890	8.9
Jewelry	29	6.6	Metals and metalwork (except scrap)	608	2.1
Lumber and construction materials	334	10.6	Paper and its products	470	5.1
Machinery—equipment—supplies	1,094	8.2	Petroleum and its products	146	2.8
Metals and metalwork (except scrap)	530	2.1	Plumbing and heating equipment and supplies	512	7.3
Paper and its products	309	5.5	Tobacco and products (except leaf)	25	3.6
Petroleum and its products	21	19.4	Waste materials	121	4.1
Plumbing and heating equipment and supplies	210	13.5	All other products	1,340	2.3
All other products	287	6.7	6. Assemblers (mainly farm products)	29,122	8.1
4. Petroleum bulk stations and terminals			Farm products—raw materials	15,639	4.8
Petroleum and its products	30,825	11.0	Farm products—consumer goods	12,132	12.5
5. Agents and brokers	20,903	2.7	Farm supplies	482	9.9
Amusement and sporting goods	192	7.5	Groceries and foods (specialty lines)	819	18.7
			All other products	50	13.3

The cost of doing business for wholesalers varies widely. For automobiles there is a limited amount of wholesale business, and it is operated at a cost of 5 per cent of sales. However, for automobile accessories, and automobile equipment, the costs are 23.2 per cent of sales to do business. Wholesale druggists vary from 21.1 to 37.7 per cent, with an average of 26.5 per cent. The table reveals other striking differences in operating expenses, even in goods that seem to be closely related. It is to be expected that supplying equipment for barber shops would be high. It is—32.5 per cent—but one might expect that heavy units of machinery, such as are necessary for printing and lithography, might be put on the market at less cost than 29.2 per cent, which is the average. Other rates and scales of operation are equally divergent.

It must be remembered, in going over these figures and comparisons, that many goods, such as those just enumerated, are sold to individual users. Demonstration and research are necessary to show the economies of operation before a sale can be consummated. This all adds to the expense of selling. Grocery and food supplies, for the most part, operate on a pretty narrow margin, running as low as 5.2 per cent. However, a considerable number of them run as high as 19 and 20 per cent. Usually, however, the reason for these higher rates will be apparent; for example, the necessity for refrigeration en route, expense of making packages, loss in processing and packaging, as in roasting coffee and packing tea. A comparison can easily be made for the different classes of goods to determine the frequency with which sales agents are employed compared with general wholesalers. For the businessman actually intent upon reducing expenses, a comparison of cost is available in the complete census reports for the various types of goods and the various kinds of operators. For example, if one were in doubt as to whether making use of sales offices might be better than employing warehouses, the information might be obtained by consulting the census report for the type of goods involved; at least an approximate answer would be found.

Industrial Distributors.—There is a term in general use that covers those in the business of supplying raw materials and manufacturers' supplies. We prefer to designate buyers and sellers who handle goods in the industrial market as "industrial distributors" rather than to call them wholesalers. This may imply a slight overlapping of functions and of fields of activity, but it has the advantage of being a classification distinct from wholesalers who find their customers among retailers. The industrial distributor serves his customers in much the same way as does the wholesaler; the essential difference is that the wholesaler supplies the retailer who resells; the industrial distributor supplies factories and other businesses that consume. In some cases one firm may act as both. Classified according to the goods handled, the industrial distributor falls under one of the following classes:

1. *Chemicals.*—This may include drugs and allied products, but more generally it will include dyestuffs, explosives, industrial chemicals, paints, varnishes, lacquers, and enamels.

2. *Coal.*—The wholesale coaldealer is one who operates in both industrial and consumer fields. He supplies coal to coalyards for resale and also to large industrial plants. However, the anthracite wholesalers belong primarily with the consumer goods. The others may operate in both divisions.

3. *Machinery Equipment and Supplies.*—These, of course, constitute a very large number of items, ranging all the way from office furniture to power machinery, a single installation of which may cost a million dollars or more. However, the industrial distributor handles lighter machinery for the most part. The heavy machines and the ones built according to specification are sold direct from manufacturer to consumer. The industrial distributor is a source of supply for office machines, equipment used in stores, shoe-repair shops, printing offices, garages and machine shops.

4. *Metals.*—These products comprise so large a classification and are so generally used in industry that it is difficult to make any inclusive statement that is accurate concerning their distribution. For the precious metals, there are numerous industrial distributors. To a less extent, that is true of the semiprecious metals, such as copper, zinc, and nickel. Also, there are many who partly process the metals, such as the sheet-metal rolling mills that sell their whole output for further fabrication. The marketing of these products lies so generally in the field of industrial marketing that further study will not be given them here.

5. *Paper and Its Products.*—The industrial distributor distributes a very large number of various paper products. Sales to metropolitan newspapers and to publishing houses are often direct from the mill, although the hundreds of smaller publishers and printers buy through distributors. A comparatively small amount of the paper finds its way into consumer channels and is sold through stationery stores.

6. *Wastes and Materials.*—Scrap iron and steel, junk, wastepaper, rubber, and discarded semiprecious metals are taken by industrial distributors who first collect them and then distribute them to various processing institutions.

7. *All Other Products.*—Again a general classification has to be provided for items that do not fall into any of the foregoing divisions. Crude rubber, many kinds of leather and leather goods, together with such products as tents, awnings, and textile materials are handled by industrial distributors or by wholesalers who divert comparatively small quantities to the retail trade. The channels which these goods follow and the buyers and sellers who help pass them along from producer to consumer are to be further studied in industrial marketing.

Cooperative Wholesaling.—When the chain stores came into the field, little by little they took business away from stores already in existence or opened new stores where previously independents would have located. At first, the independents paid little attention to the chains; but when they found their new competitors were offering some of the staples at the same prices that they themselves were paying to wholesalers or at even lower prices, they took stock of the situation and adopted whatever methods promised relief. One of the commonest of these was to pool their buying. Several stores combined together and divided up their purchases of stock and supplies. One store would buy one item, another another, each buying for the whole group and frequently going direct to the manufacturer rather than the wholesaler. This form of buying had been practiced by some groups of retailers even before the chains became serious competitors. As a general thing, manufacturers frowned upon this kind of combination, but there was not much that they could do about it. Most of them, afraid of losing business otherwise, accepted the orders without question. Many times they quoted prices that were close to those given the wholesaler.

Another form of cooperative action among the retailers resulted in a more complete organization. A warehouse was bought or rented and a managing secretary put in charge who did the buying and kept the books. The Retail Grocers' Association of San Francisco was one of the first of these cooperative wholesale establishments that owned and operated a retailers' warehouse. This association bought direct from manufacturers and was given prices comparable to those offered to wholesalers. They bought flour by the carload and most canned goods in a similar way. Indeed, they constituted a wholesaling institution but employed no salesmen, had no delivery services, and sold only to members. This type of cooperative wholesale business has grown extensively. The Red Front Stores, the Independent Grocers' Alliance, with hundreds of stores, and others of less importance own their own brands, do more or less cooperative advertising, and otherwise operate so extensively that they are a real competitor of the chain store.

As the wholesalers felt the pinch of the new competition, they at first turned to their associations. Up to this time, the wholesalers' associations had been of a professional rather than a business nature. Most wholesalers belonged, as the association supplied enough information about goods and credits, changing prices, and markets so that it was worth while to maintain the small organization. As the chain competitors became stronger, the associations began to devise ways and means of assisting the customers of the various members to meet the competition of the chains. In other words, the wholesalers awoke to the realization that if they could not do something to enable the independent grocers who were their customers to meet the competition of the chains they, as wholesalers, would be wiped out as well as the independents. Also, the wholesalers felt the competition of the co-operative or pooled buying that the retailers were doing, and still more the competition of the wholesale business owned by the retailers. Wholesalers, therefore, entered into closer business relations with their retail customers, took them into partnership, and devised ways and means of reducing operating expenses. One of the principal reductions came in salary expense. Instead of sending a salesman around once or twice a month, the retailer was taught that he could save the cost of a salesman's call by making out his own order for goods. But this was only one of the economies that resulted from closer cooperation. Credit was placed on a better basis. Retailers assisted in relieving the wholesaler of warehousing services. The number of lines carried was reduced to a minimum. In addition to this, some advertising and business promotion were undertaken cooperatively.

After several years of trial, cooperative wholesaling seems to have passed its formative period and to have become established. At least, so the census-takers seem to think, for they now give it a separate classification. Either the wholesaler has narrowed his functions so that he can operate at less margin, or he has organized some associated stores and is conducting them as part of his system.

Present Status of Wholesaling.—A final word needs to be said about some of the problems confronting wholesalers today. The great variety of wholesale agencies has been indicated in our classification. Some of these wholesalers take title to the goods in the process of passing them on to retailer and consumer, and risk their own capital in the process, while others do not take title and perform only part of the marketing functions. They specialize in some particular part of the complete wholesaling job.

Improvements, especially in communication and transportation, are eliminating the need for many of these special wholesalers. For example, there is no longer an impelling need in many lines for the broker, who in the past performed a real service in finding a buyer for a seller or a seller for a buyer. Today buyers and sellers make more direct contacts with each other. Good roads and the automobile bring more people into the larger trading areas, where the more extensive retail units tend to deal directly with the manufacturer or producer. The dealers in the smaller trading centers through which these people pass on their way to the larger center lose this trade, and, consequently, the wholesalers who supply these small retail units also lose in many cases.

The tendency toward direct purchasing by large-scale retailers has grown to such an extent that many wholesalers now claim that manufacturers are granting these retailers terms that are as favorable as any that the wholesaler receives from the same manufacturers, and in some cases more favorable.

The most striking changes in wholesaling, however, have been brought about by the very great growth of super markets. The chain stores, particularly, have felt the new competition, and have changed over a very large number of their individual units, either closing them out entirely or combining them to produce super markets. This has had a profound influence on the wholesaling part of the chains. Already they were extensive purchasers of merchandise from other wholesalers, and, with the decrease in the number of their stores and their increase in size, the extent and importance of their wholesaling have changed. Probably it would be incorrect to say that they are less important now than formerly, but it can be said that they operate in a different way. Maintaining stocks or warehousing is now more than ever an important function. The part that wholesalers play in facilitating distribution for the manufacturers will be discussed when the manufacturers' distributing policies are considered. As most of the super markets do not maintain delivery service, the sources of supply are required to make deliveries to the markets from warehouses or from the manufacturers.

The Robinson-Patman Act prohibits discrimination in price to buyers in like categories. This Act, together with the Lea-Wheeler Act, puts the control over quantity discounts under the supervision of the Federal Trade Commission. This makes price discriminations and donations from manufacturers to the chains practically impossible. At least it makes them unlawful, and that very large source of revenue has disappeared. Other legislation, such as the various state laws for fair competition and to prevent unfair competition, as the wholesalers anticipated, tended to increase their business. More is said of these laws in another chapter, and mention of them here is merely to indicate their effect upon wholesale trade.

Whatever form the wholesalers may finally adopt, their functions very definitely cannot be eliminated under our present system of distributing goods. The part that each operator will take in moving goods from the source of supply to the place of consumption still remains to be worked out through competition. There will probably always be changes as better methods and improved facilities become available.

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Questions and Problems

1. What is the principal function of the wholesaler in our economy? List five subsidiary services frequently offered the retailer by the wholesaler.

2. Discuss two advantages to the retailer of buying from the wholesaler in relatively small lots.

3. Define the wholesaling term "bulk-tank station."

4. What are manufacturers' sales branches?

5. List the three characteristics that differentiate wagon distributors from other wholesalers.

6. Point out the essential differences between the manufacturers' agent and the selling agent.

7. List four characteristics of the so-called "auction company wholesalers."

8. Briefly outline the principal characteristics of agents and brokers.

9. Name four types of import wholesaler operatives.

10. What are the three forms of merchandise service occasionally offered by brokers?

11. Why have "factors" been characterized as bankers?

12. Give three reasons that wholesale houses are located primarily in metropolitan districts.

13. Define "industrial distributor." What is the essential difference between an industrial distributor and the traditional wholesaler?

14. Write a short article on "Cooperative Wholesaling."

15. List four changes in wholesaling methods brought about in recent years.

CHAPTER VII

TRANSPORTATION FOR MARKETING

The Immensity of Our Transportation System.—At the beginning of 1949 the Transportation Association of America estimated that the cost of all of our transportation systems for the previous year had been $30,000,000,000. This included the amounts paid both by passengers and for the transfer of goods. The vast sum can more easily be appreciated if broken down into family size, which means that the cost of transportation for the country amounted to $850 for each family of four, or $214 per capita.

The Association gave some definite figures for the various types of transportation. Our inland waterways extended 30,533 miles; we had 3,313,000 miles of highways; the railroads used 390,000 miles of trackage; there were 40,000 miles of lighted airways with 6,000 airports; and finally, there were 140,000 miles of petroleum pipe lines. These figures are so enormous that they are somewhat difficult to comprehend. Perhaps a restatement in other terms would help. For example, our inland waterways would make 10 canals across the country from ocean to ocean. Our highways if laid out in a continuous route would go 130 times around the world. We have railways sufficient to reach to the moon and half way back. The lighted airways are sufficient to reach from Duluth to the Gulf of Mexico with 16 different lines having 6,000 airports distributed throughout the country, or 125 airports for each state. There are enough petroleum pipe lines to stretch around the earth more than five times.

Together these various transportation systems represent an investment of $90,000,000,000. The taxpayers through local, state, and Federal taxes have contributed more than half of this vast amount, or $46,000,000,000. The balance has been provided by private investors. The industry is so vast and so far exceeds that of any other country that one is tempted to present other statistics. For example, there are 35,000,000 automobiles and nearly 7,000,000 trucks, and our inland waterways float 10,000 ships of various capacities. Our railroads employ 42,000 locomotives; and within the last year the two largest locomotive-producing factories have changed from steam to the diesel type (an internal-combustion engine similar in principle to the automobile engines). There are 1,700,000 freight cars, about 6 per cent of which are discarded each year. The air-transport industry employs 3,000 commercial planes and about 80,000 private planes. These transportation facilities combined are greater than those operated throughout the rest of the world.

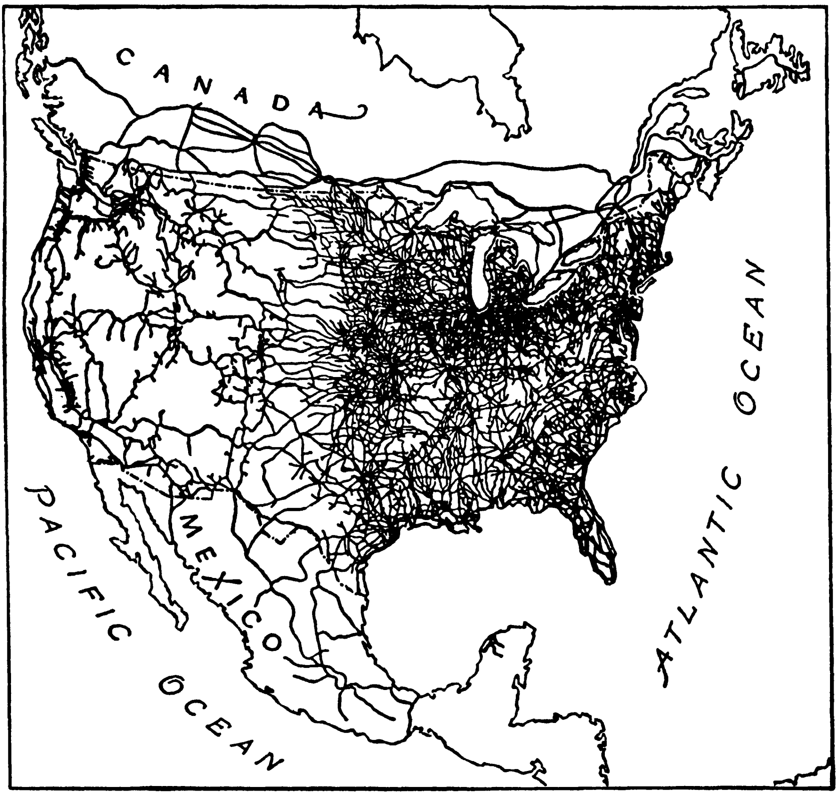

FIG. 26.—RAILWAYS OF THE UNITED STATES AND CANADA

We transport about 1,800 pounds of food for every inhabitant and from 200 to 300 pounds of fuel each year.

Growth of Transportation System.—Without transportation there would be very little commerce or trade. For example, there would be no incentive for a farmer to raise more grain than required by his family and livestock. There could be no large factories for there would then be no means of distributing the finished products. This fact is more easily seen than the rate of development, practically all of which has come in just a little over 100 years.

At first, man carried on his back or dragged on the ground behind him every article it was in his interest to move from one place to another. Shifting the pack from his own back to the back of a beast of burden was an important innovation. This made possible the magnificent caravan trade out of the East. The change from dragging things on the ground, either by his own strength, or by that of animals impressed into service, to placing the load upon rollers was another long sweep forward, particularly where the objects were of great weight. The substitution of wheels with axles for rollers was probably the greatest single mechanical benefit that has been developed by mankind.

The advance from floating objects in the water to placing them on rafts and subsequently in boats indicated progress of the first magnitude. In the natural course of events came the use of a sail, but the man who first converted a crude paddle into a rudder was one of the chief benefactors of the human race.

After these fundamental devices for transportation had been refined, it was not until the energy of wood and coal was transformed into mechanical motion, and controlled motion was applied to transportation, that the modern area of trade—which we call marketing—could develop. Moving commodities from one place to another is the simplest fundamental of marketing. Moving them with ease and economy makes possible world markets. When it cost more to carry a bushel of corn from Pittsburgh to Philadelphia than to transport it by vessel from Texas and Louisiana, people of the Pittsburgh district converted their corn into whisky and shipped it. Transportation charges were bearable on the concentrated corn, even though it was hauled by Conestoga wagons. When that form of marketing was brought to an end by new liquor laws, which heavily taxed distilling, the famous Whisky Rebellion broke out, and George Washington was given his last military assignment. He and Hamilton crushed the rebellion. This was the beginning of a conflict that has not yet been settled between producers, carriers, and consumers.

Transportation and Land Development.—It was exactly 200 years from the time Jamestown was settled until Robert Fulton completed his successful run by steamboat from New York to Albany. During that time there had been some advance in the design and utility of sailing vessels, but little else. Settlers for the most part did not locate farther away from canals and navigable rivers than they could move their produce by ox team. In the thirties the railroads began to lay tracks between cities; then in the forties came their rapid expansion. George Stephenson of England had perfected his steam locomotive in 1829. Up to that time between 3,000 and 4,000 miles of canals had been dug. In 1825 the Erie Canal was completed connecting Lake Erie with the Hudson River. That canal is still operated and has been greatly expanded. By 1880, 4,468 miles of canals had been constructed, but of this total nearly 2,000 miles had been abandoned. Many others were not paying expenses. Of the early canals, including the Erie, only 700 miles have remained in use. Many people were of the firm belief that the railroads could not replace the canals as carriers, but by 1850 the railroads had established numerous lines between the cities east of the Ohio, and the following year they were extended into Chicago. For the next 30 years the railroads really outgrew the population. That accounted for the very rapid settlement of the Midwestern and Western states.

The Objects of Transportation.—From the marketing viewpoint, there are five fundamental types of things for which transportation facilities, outlined above, exist: (1) commodities; (2) people; (3) values—money; (4) information; and (5) power. This is the order of their importance as seen by the man in transportation. As the last four can be adequately disposed of in a few sentences, they will be given attention first.

Exclusive of commuters, the railroads carry over 700,000,000 paying passengers a year; motorbusses carry approximately half that number, not including bus passengers within a city. Just how many of these people are traveling for pleasure and how many for business purposes cannot be told, but there are probably more than half who are bent on some business transactions. There are at least 600,000 traveling salesmen, representing manufacturers and wholesalers, who patronize some transportation service almost daily. Without this army of business representatives we could not maintain our trade as we now know it.

For many centuries trade between widely separated districts was impeded by the difficulty of transporting the payment for goods, as much as, or more than, the transfer of the goods. Robbery and brigandage were the rule, not the exception. It was to overcome this danger that the Rothschild brothers worked out the first system of international banking. A payment made to one Rothschild bank could be withdrawn from another Rothschild bank in a different city. A modified form of this system is used in the United States today. Every small banker in the most remote village has banking connections that permit him to furnish his clients "exchange" with which to pay their bills in distant cities. Without this country-wide banking system, we could not have national markets.

The third item for discussion is the sending of information. This developed first with the improvement of transportation facilities to carry newspapers, magazines, and, more important, individual mail. From the cross-country horseback-courier service to stagecoaches to mail trains to air mail has been a brief period of development compared with the centuries during which men depended upon foot runners

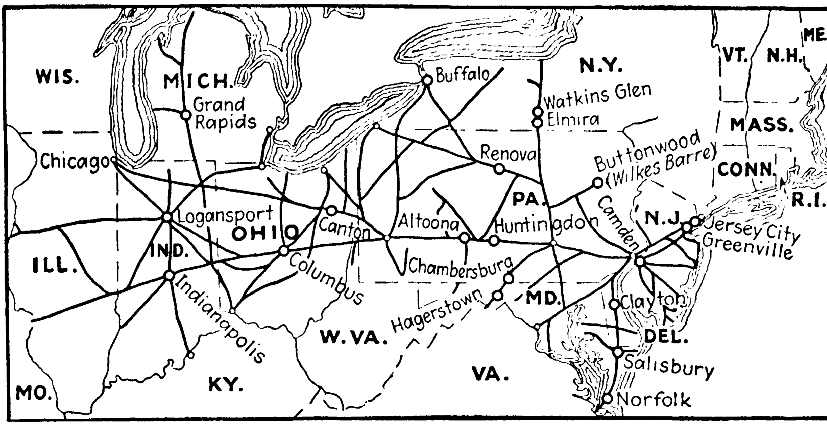

FIG. 27.—REGULAR ICING STATIONS—PENNSYLVANIA RAILROAD

The location of regular icing stations on the Pennsylvania Railroad is shown in the above map by circles. Following is an alphabetical list of these points:

Altoona, Pa.
Buffalo, N.Y.
Buttonwood, Pa. (Wilkes-Barre)
Camden (Pavonia), N.J.
Canton, Ohio.
Chambersburg, Pa.
Clayton, Del.
Columbus, Ohio.
Elmira, N.Y. (Nov. 16 to June 30.)
Grand Rapids, Mich.
Greenville, N. J.
Hagerstown, Md.
Huntingdon, Pa.
Indianapolis, Ind. (East- and westbound traffic only, except traffic moving on train VLS.)
Jersey City (Harsimus), N.J.
Logansport, Ind. (For re-icing of shipments moving northbound received from connections through the St. Louis Gateway.)
Norfolk, Va.
Renovo, Pa.
Salisbury, Md.
Watkins Glen, N.Y. (Apr. 14 to Nov. 15.)

A *regular icing station* is a station which is equipped and located so as to ensure proper icing service of refrigerator cars, also where the icing of through shipments is regularly performed. (*Perishable Passing Reports, Pennsylvania Railroad.*)

to carry their messages. Telegraph, telephone, and radio have speeded the transfer of information so that the condition of every market can be known within a few minutes, or at most a few hours, after the information becomes available in that market. Every night more than a hundred telegrams from as many different cities go to the California Fruit Growers Exchange at Los Angeles. These give the arrivals, sales, and "to arrive" data for all citrus fruits. The traffic manager and merchandise manager confer over these reports. If a glut seems likely in one city, carloads of lemons or oranges on their way to that city are diverted en route to the nearest city that promises to have a dearth of supply (see Fig. 28). This is only one example of the importance of speedy news service to marketing, but a significant one. Many more might be recorded.

Power transmission was formerly a question of pulleys, shafts, and belting. The problem was to distribute the power from the engine room to machines in distant parts of the factory. The distance at most was a few hundred feet. While that method is still in vogue, "transmission of power" now pertains to electric current. It is distributed over power lines for miles, whereas belting and pulleys were concerned with feet. As a matter of importance to the student of transportation, it has slight significance, except as it provides power for equipment and machinery used in transportation. To thousands of manufacturers, however, this new method of distributing power is of great importance as it means a considerable saving in buying original equipment, in obviating the necessity for hiring engineers, in permitting the use of lofts and other buildings in populous districts for manufacturing purposes, and in making possible the location of factories much closer to residential districts, where employees are more readily accessible. These are some of the more obvious advantages of electrical power.

The Pre-eminence of Railways.—The railways are and probably always will be the backbone of our transportation system, especially for freight and long-distance hauling. As may be seen from Fig. 26, the railroads are so numerous as to be indistinguishable when placed on a small map. However, there is a sharp line of distinction which parallels the Mississippi River and extends from 300 to 400 miles west of it. This marks the division between grain farming and grazing. As carriers of freight and passengers for short distances, the railroads are losing out to the truck and bus companies.

The Interstate Commerce Commission classifies the roads in three divisions: I, those having a gross business of more than $1,000,000 a year; II, those having a gross business of from $100,000 to $1,000,000; and III, those having a gross business of less than $100,000. Those in Class I total 99 per cent of the whole.

In addition to double tracking in most of the trunk lines, some of the roads have multiple tracks. The New York Central has four tracks between New York City and Buffalo.

There have been such improvements as belt lines, like the one in Chicago, which greatly facilitate the transfer of freight from one road to another. Another improvement has been the addition of more adequate terminal facilities. These have been supplied partly by the railroads and partly by the municipalities they serve.

Because of more careful handling and improved facilities for loading and unloading, the railroads have reduced their loss from about $2.60

to 50 cents—the loss on each carload of paid freight caused by damage in transit. Such institutions as the Inland Freight Terminal Building and the Lehigh Starrett Terminal, in New York City; the St. Louis Mart; the Merchandise Mart in Chicago, and the terminal now under construction at Houston all attest to the ingenuity of the American businessman in his effort to offset some of the transportation handicaps with which he has had to contend.

The Inland Freight Terminal Building was constructed by the Port of New York Authority, after that Commission had for 10 years studied the costly and troublesome methods used on Manhattan by railroads, shippers, and consignees in forwarding and receiving freight. Every railroad serving New York is given facilities for handling freight. Located at 15th and 16th Streets between Eighth and Ninth Avenues, the Terminal occupies a central position on the island of Manhattan. The building is more than a freight terminal; facilities are provided for office personnel and for manufacturing. To quote from the Port of New York Authority's circular describing this terminal:

> The basement and ground floor of this structure will be established as a regular L.C.L.[1] freight station. The air rights over the freight station, namely, the second to the 15th floors of the building will be leased. Tenants may receive and deliver freight from and to all railroads. . . . Tenants will load their out-going L.C.L. freight properly billed and routed onto their own platform trucks, and wheel the trucks onto one of fourteen freight elevators. The freight will be lowered to the basement floor, where the particular railroad, or railroads, designated to carry the shipments will receive them.

That such buildings aid in the solving of the terminal problem is obvious; that they do not completely solve it is just as clear. What is needed is space, and much of it; money, and great sums of it, in order to construct central railway, truck, air, and bus centers, all coordinated to ensure maximum speed and service. In all probability, a future government project will be the great task of making over the terminals of our great centers of population.

One of the most striking changes which has come in the last five years is that 57 of the Class I railroads joined together in March, 1947, and bought out the Pullman Company. Now that company is operated separately from the railroad incorporations, and each road participates in its earnings just as each stockholder did previously. An advantage of this arrangement is that it takes one of the largest builders of railroad cars out of transportation.

[1] Less than carload lots.

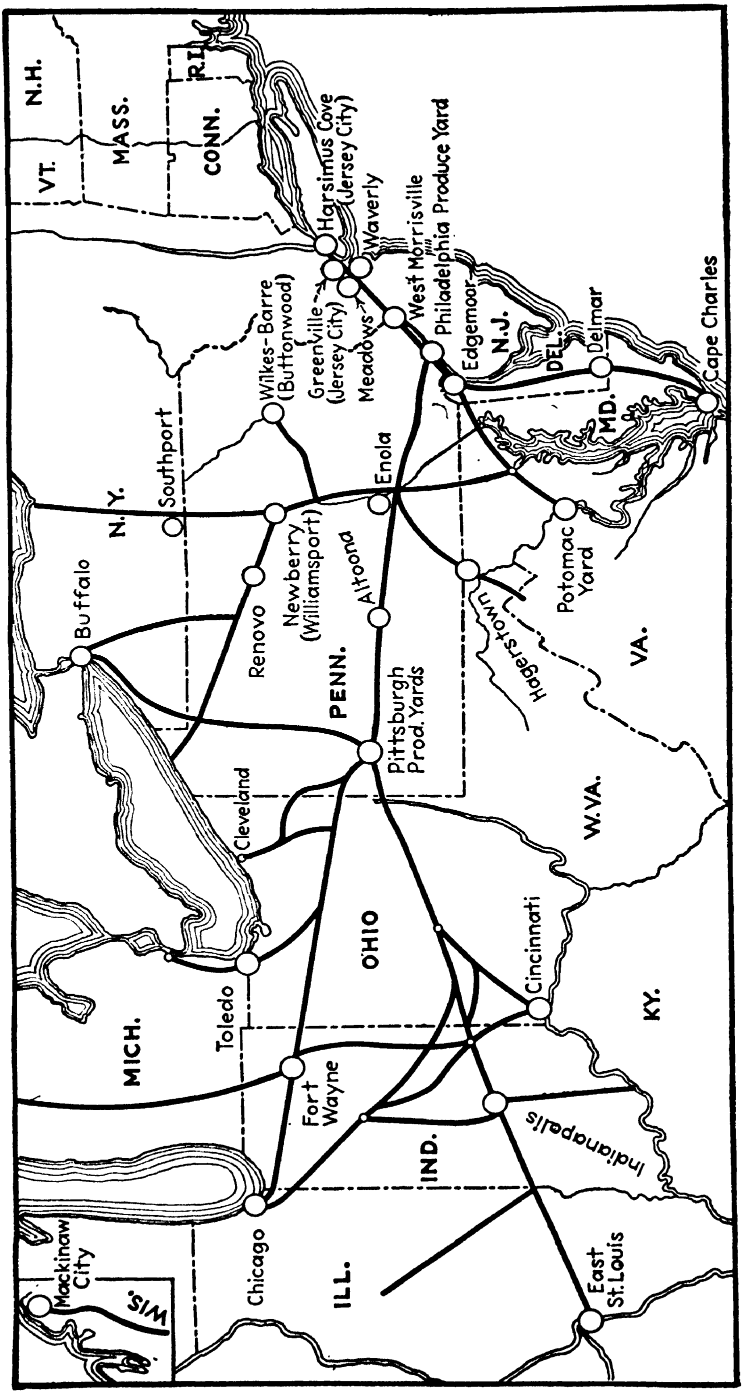

FIG. 28.—PERISHABLE FREIGHT PASSING REPORT POINTS—PENNSYLVANIA RAILROAD (*Descriptive legend on opposite page.*)

Changes in the Nature of the Railroad Business.—The railroads have almost discontinued passenger business between neighboring cities. An example of this is the Pere Marquette: early in the century it had six passenger trains a day; now it has but one a day each way and that is merely a passenger coach included in a local freight train. The short-haul freight has also gone over quite largely to trucks, as passenger travel has gone to busses.

The railroads do not appear to be gaining either in gross revenues or in the amount of business handled, although it is very difficult to make accurate comparisons. The average freight car now has a capacity of a little more than 51,000 pounds. Thirty-five years ago the capacity was just over 40,000 pounds; so while there are fewer freight cars in operation today than 15 or 20 years ago, their capacity is such that they can carry as much freight as then with a considerably smaller number of cars. For example, in 1947 the roads carried 700,000,000 tons more freight than in 1916. The engines of today, too, may be compared with those of a few years ago: not only have they become heavier but they can draw a larger load and at increased rates of speed.

The financial returns today are not on the same basis as formerly because freight rates are different, the dollar buys far less than it did a few years ago, wages are much higher in terms of dollars, and there are other similar discrepancies. At the beginning of 1948, 54 railroad companies, operating nearly 25,000 miles of road, were in the hands of receivers and trustees. That was an improvement over the previous year of about 11 per cent.

There are still about 270,000 freight cars owned by private companies. These belong to such large shippers as the great meat packers and to a firm somewhat similar to the Pullman Company, except

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Descriptive Legend for Figure 28

This map shows the points (indicated by circles) on the Pennsylvania Railroad at which passing reports of perishable freight are compiled daily. An alphabetical list of these points follows:

Altoona, Pa.	Fort Wayne, Ind.	Pittsburgh Produce Yards, Pa.
Buffalo, N.Y.	Greenville (Jersey City), N.J.	Potomac Yard, Va.
Cape Charles, Va.	Hagerstown, Md.	Renovo, Pa.
Chicago, Ill.	Harsimus Cove (Jersey City), N.J.	Southport, N.Y.
Cincinnati, Ohio	Indianapolis, Ind.	Toledo, Ohio
Delmar, Del.	Meadows, N.J.	Waverly, N.J.
East St Louis, Mo.	Newberry (Williamsport), Pa.	West Morrisville, Pa.
Edgemoor, Del.	Philadelphia Produce Yard, Pa.	Wilkes-Barre (Buttonwood), Pa.
Enola, Pa.		

These reports make for control and flexibility in the transportation of perishables. Through them, original destinations may be readily changed; or products may be shipped with the destination to be specified later. (*Perishable Passing Reports, Pennsylvania Railroad.*)

that it operates freight cars—the Pacific Fruit Express, which handles the bulk of fresh fruit shipped from California.

The importance of speed in handling automobiles is illustrated by the experience of the Ford Company a few years ago. Ford bought the Detroit, Toledo, and Ironton Railroad for $5,000,000. This road cut across nearly all of the east-west through lines north of the Ohio. By owning this road Ford was in a position to make contracts with other railroads which were extremely advantageous. He could get freight shipments, both in and out, much more promptly. Also it enabled him to reduce inventories from a 90-day supply to less than a 60-day supply. That was equivalent to releasing about $35,000,000 for other uses. More than that, Ford could drive a sharp bargain with the roads for combined rates. This meant that while the rate from Detroit to Chicago was fixed by the Interstate Commerce Commission, the division between two or more roads was open to bargaining. Ford's immense amount of shipping, together with other freight that his new road carried, made it a very profitable investment.

TABLE 17.—DISTRIBUTION OF COMMERCIAL TRAFFIC IN THE UNITED STATES[1]

Agency	1940	1947[2]	1940	1947[2]
	Millions of freight ton-miles		*Per cent of total*	
Steam railroads, incl. mail and express	378,343	664,000	62.3	68.5
Great Lakes[3]	87,593	127,000	14.4	13.1
Rivers and canals	22,412		3.7	
Motor trucks	51,003	77,000	8.4	7.9
Oil pipe lines	67,270	101,000	11.1	10.4
Electric railroads	818	1,000	0.1	0.1
Air carriers	14		....	
Total	607,453	970,000	100.0	100.0
	Millions of passenger-miles		*Per cent of total*	
Steam railroads	23,816	46,000	61.5	57.5
Electric interurban	950	3,300	2.4	4.1
Inland waterways including Great Lakes	1,317		3.4	
Busses	11,613	24,500	30.0	30.6
Air carriers	1,041	6,200	2.7	7.8
Total	38,737	80,000	100.0	100.0

[1] This table includes intercity freight traffic by private as well as contract and common carriers, except coastwise and intercoastal traffic.

[2] Preliminary. Interstate Commerce Commission; Public Roads Administration; Office of Chief of Engineers, U.S. Army; Civil Aeronautics Board and others.

[3] United States domestic traffic only.

Another example of the desirability of speed is shown in the shipment of silk. Much of this material from the Orient is landed at Seattle. It is then shipped by fast express, which has the right of way over all trains except the through passenger trains. The idea is that there is such a large investment that the interest on the money involved while the goods are in transit amounts to more than the difference in shipping charges.

Truck Haulage.—After a glance at Fig. 26 one might think that the railroads are so dense that there would be at least two for each farm. That, however, is far from being the true condition. There are many counties, even in the heavy agricultural districts, that have but one railroad or none at all. This presents a serious problem for farmers. Stock cannot be driven to markets more than 3 or 4 miles without heavy shrinkage. To haul grain to market by horse-drawn vehicles is a slow and expensive proposition, as little as 10 miles requiring about a day's time. Fortunately the new highways and power trucks have filled in the gaps. They have done such a thorough job that they furnish transportation not only for the farmer but for a large number of other shippers. An advantage of the truck over railroads is that the truck can go from door to door with little delay in time and without extending the distance. To meet this competition the railroads have supplemented their freight service by many fleets of automobiles, about 75,000 units, which in many districts duplicate the service provided by the freight-trucking companies.

It is not merely the short-haul freight which is being delegated to the trucks but, in some classifications, goods which are carried over long distances. Household furniture is one such class. When household effects must be taken to the railroad, packed in a car, taken out when reaching their rail destination, and carted by trucks to the home, there is bound to be a considerable amount of loss through breakage and additional charges, due to the repeated handling. Trucks, on the other hand, can transport household furniture from one dwelling house to another without the necessity of additional loading or unloading.

In moving livestock also, trucks have the advantage over freight cars, except in long distances. This is true to such an extent that the meat packers are relocating many of their plants, and though Chicago is still the livestock capital of the country, it is rapidly losing its supremacy to some 3,500 packing plants, large and small, situated nearer the centers where livestock is raised. Year by year Chicago has been receiving a smaller share of the nation's meat supply. According to the American Meat Institute, the Windy City formerly received one-fifth of the cattle sent to the more important packing houses; now it receives only one-tenth. One-fifth of the hogs were shipped there, but that figure has now been reduced to one-eighth, and the number is still decreasing. In 1932, 32.8 per cent of all cattle, 44.9 per cent of calves, 49.5 per cent of hogs, and 20.4 per cent of sheep and lambs were shipped to 60 different packing houses by truck. Fifteen years later, 57.2 per cent of cattle, 62.3 per cent of calves, 60.7 per cent of hogs, and 35.9 per cent of sheep and lambs arrived by truck. This shows how rapidly the trucks have gained in carrying livestock in the last few years, and apparently they are still gaining.

Another class of freight in which the trucks predominate is frozen foods. Refrigerated trucks have earned the name of "traveling ice-boxes." They haul shrimp, fish, and pineapples from San Diego, and fruit and vegetables from the Imperial Valley of California to the great cities of Texas. From Biloxi, Miss., and Jacksonville, Fla., they carry shrimp, mackerel, pompano, crab meat, kingfish, and sea trout as far north as New York and Rochester. One fleet of trucks hauls nothing but frozen strawberries from Florida to Philadelphia, where they are converted into strawberry ice cream. There are many more products that depend on truck transportation.

A PUBLIC STATEMENT ABOUT TRUCKS[2]

Propagandists Are Attacking the Trucking Industry—
But Their Real Target Is YOU!

In this country today are enormous transportation industries.

One, you know a good deal about—the railroads, which employ some 1,327,000 people.

Another is the trucking industry—next to agriculture the largest direct employer in America . . . giving jobs to 5,014,000 persons located in every city, town, village, and hamlet in the United States.

Does that surprise you? No wonder—for the trucking industry is literally, even today, the "business nobody knows."

Trucking service has grown so great, so swiftly in the past 25 years, that it staggers the imagination. Even today—with everything you eat, wear, use, or buy coming all or part of its way to you by truck—the average man or woman finds this enormous growth impossible to comprehend. But far more incomprehensible to the public, even today, is what the trucking industry means to you and your family, to America, and to the American way of life.

* * * * *

[2] This advertisement, prepared by an association and run in several newspapers, is an example of the kind of work that associations do in an effort to influence public opinion favorably. The comments made in the advertisement are not necessarily the opinion of the authors.

In America today, raw and finished goods come pouring through the throbbing arteries of commerce in a never-ending flood.

Trains, ships, planes—and in certain cases pipelines—transport these goods, in large masses, between the great loading and unloading centers of the country. *Trucks do that too.*

But it's the trucks *and only the trucks* which deliver these masses of goods in large and small spot-loads; fan them out every day, every hour, to hundreds of thousands of grocery, drug, department, and every type of stores in every American community, and thousands of factories big and small.

—So that these goods, in turn, can be picked up and delivered, *also by trucks,* to America's 148 million men, women, and children in America's 45 million homes.

If it were not for America's 7 million trucks and their 5 million direct employees—who draw every 12th pay-check issued in the United States—you would have to carry home, on foot or in your car, everything you buy, eat, use, or wear.

There are no railroad sidings, landing fields, or docks that service your back door.

* * * * *

But above and beyond even this, the *direct economic* significance of the trucks is simply colossal.

—More than 25,000 U.S. communities with many millions of men, women, and children, plus *All* of America's farms, *not serviced by any other form of overland transportation*, get *everything* they eat, wear, use, or buy by trucks *alone*.

—In a single year the trucks use an estimated 7,800,000,000 gallons of gasoline; 533,000,000 quarts of motor oil; 7,900,000 gallons of antifreeze; and this year will buy and put to use 1,100,000 new trucks, and 50,000 new trailers.

—These trucks and trailers will be fabricated from an estimated 87,580,000 pounds of copper; 1,732,000 tons of steel; 93,000 tons of iron; 118,200,000 board feet of lumber; 6,150,000 pounds of glycerine; 95,000 bales of cotton; 64,800,000 pounds of paint and thinner; 15,180,000 pounds of aluminum; 54,000 tons of lead; 24,000,000 square feet of glass; 6,000,000 pounds of plastics; 109,000 long tons of rubber, and 6,800,000 pounds of tin.

—Nearly one-third of all trucks are owned by farmers, who depend on trucking to get their produce to market, and thus to you.

—Trucks employ over 3½ times more people than all the railroads in America combined.

So if it were not for the trucking industry's 7 million trucks and its 5,014,000 people directly employed, everything you eat, wear, use, or buy would either cost you more—would be obtainable only at great inconvenience to you and your family—*or would not be available at any price.*

Yes, propagandists are attacking the trucking industry.

They are doing so because of special interests of their own.

But make no mistake about it—their *real* target is *You.*

* * * * *

Now in "attacking the trucking industry," these propagandists are making some very extravagant claims.

But "claims" is all they are. The *straight facts disprove them.* For example:

The propagandists are claiming that the trucks "crack up the highways." The actual evidence regarding highway damage reveals that weather—not the trucks, busses nor passenger cars nor even years and years of use—is the most damaging highway wrecker of our time. Cold—heat—frost—soaking rains—quick changes in temperature—these are the enemies of highways. Highway engineers, testifying at public hearings, have staked their professional reputations saying so.

The propagandists are claiming that the trucking industry does not pay enough taxes; that it "uses the highways free"; that it's "subsidized." *Subsidized? Subsidized by whom?* Today and for years past, hundreds of thousands of trucks and tractor-trailer combinations you see are assessed all the way from $1,000 to $3,000 and more each, per year, in special highway use taxes for the right to run over the roads. Does that sound like subsidy? Trucks pay better than 32% of all highway use taxes. How much in dollars? Last year $718,563,000 in direct use taxes alone. And also over $370,000,000 of Federal excise taxes assessed against trucks for gasoline, oil, tires, tubes, parts, and the like, not counted in the 32%, for a total of $1,089,000,000. Plus real estate, income and every other form of general taxation. That's what our "free" use of the highways costs.

IF THE TRUCKS ARE "SUBSIDIZED" SO IS YOUR CAR! Here's how: An official and complete Government study—the only one of its kind—showed that *both* passenger cars and trucks *more than paid their way on the highways.* In this study *part* of the cost of streets and highways was held to be the responsibility of *all* taxpayers.

Only by juggling these facts, can the propagandists "discover" that the trucks are "subsidized."

But what these propagandists don't tell you is that by false reasoning, they also claim that you too are not paying your way! And that your car taxes too, should be increased.

How do you like that?

* * * * *

No wonder we say that the *real* target of the propagandists is not actually the trucking industry at all—but *you* . . . any way you figure it.

It seems to us that these are facts which you should weigh, against the claims the propagandists are now making.

THE AMERICAN TRUCKING INDUSTRY
American Trucking Assn.
1424 16th St., N.W., Washington 6, D.C.

NEW YORK STATE MOTOR TRUCK ASSN., INC.
30 Vesey Street, New York 7, N.Y.

MOTOR CARRIERS ASSN. OF NEW YORK
23 East 26th Street, New York 10, N.Y.

Note: The above statement is published on behalf of America's 7,000,000 trucks, their owners, and their drivers. Six million of them are privately owned by America's farmers and businessmen—about a million others are at the service of these same farmers and businessmen, and at your service too. Trucking gives more employment than all other transportation combined—good jobs for fine people—your neighbors and friends.

Truck Rate Regulations.—Since the adoption of the Motor Carrier Act of 1939, the Interstate Commerce Commission has engaged in the task of setting up and completing the machinery of motor-transport regulation. The rules and regulations include detailed specifications and requirements for such factors as (1) qualifications of drivers; (2) directions for driving motor vehicles; (3) listing parts and accessories necessary for safe operation; (4) reporting of accidents; (5) hours of service of drivers; (6) inspection and maintenance.

The Commission has control over interstate trucking rates, and where the control has been made effective, the tendency has been to raise the rates substantially and in many cases to make them generally the same as railroad rates. Permission to engage in interstate transportation over specific routes or in definite areas is limited, under the law, to those who were actually engaged in such transportation when the law was passed, or to those who, starting in business since that time, can show the Commission that public convenience or necessity would be served by their entering business. The effect has been to limit competition and to raise interstate trucking rates.

The motor-trucking industry has been hampered by a good many laws and police regulations which have not applied to other conveyances. During the long depression of the thirties many states were hard pressed to obtain enough money on which to sustain normal activities. They fancied that by excluding as many goods as possible from other states they would bolster the prosperity of the local factories and, in many cases, of the farmers. Of course, no such prosperity was realized, but there did result various new laws and regulations for shipping, particularly for trucking. Many of these restrictions were extremely arbitrary: trucks could not be of more than a maximum weight; they could not be overlong; and, in some instances, they could not park within city limits if they carried trailers. Also they were subjected to use taxes and to multiple license plates.

Many states and municipalities place restrictions on goods that were transported across geographical boundaries. One city prevented the importation of milk that had not been artificially tinted pink. Ports of entry were set up at the state lines on the principal motor roads, and fruits and many other commodities were not permitted to enter. One of the writers was subjected to more rigorous and annoying investigation by the states than in traveling between European countries. Although the United States Constitution forbids all forms of tariff between states, under the guise of health and police regulations the various states were able to enforce their restrictive legislation for a considerable period. Finally, however, the Federal government brought so much pressure to bear on the state governments that most of these obnoxious laws and regulations have now been canceled.

Expansion of Aviation.—In some respects the field of aviation has been slow in developing. It is nearly 50 years now since the Wright brothers first flew a machine that was heavier than air and carried an operator. But it is only within the last two years that aviation has completed the express service and the air parcel post, and has become a major factor in carrying mail. The passenger service since 1940 has expanded very rapidly. At that time, there were 16 operating lines with only 350 planes in service; by the end of 1948, there were 28 lines operating about 950 planes. In 1940, there were 108,000,000 air passenger miles flown; that figure has grown to over 325,000,000 miles at the present writing. In 1940, there were just under 3,000,000 passengers; in 1948, there were considerably more than 13,000,000.

The passenger rate has continued almost without variation at 5 cents a mile. Express rates are higher and vary a great deal. Twenty-two pounds of machine parts are carried 700 miles for $4.73. Ten pounds of printed matter pays $3.31 for 1,000 miles. Other rates show even greater variations. The express company emphasizes that it collects and delivers packages *the same* day. One of the extra services is to insure packages up to $50 without additional cost. Items of greater value are insured at the rate of 10 cents per $100.

In 1948 the first global merchandising flight was made by the Atlas Sky Merchant. It started out in the middle of January and returned the middle of April. It visited all five continents, crossed the equator six times, covered more than 50,000 miles, and made 45 stops in 28 different countries. Seventeen American businessmen and many exhibits of American merchandise were carried. This was the first, and, up to the end of that year, the only, trip of this kind that had been made.

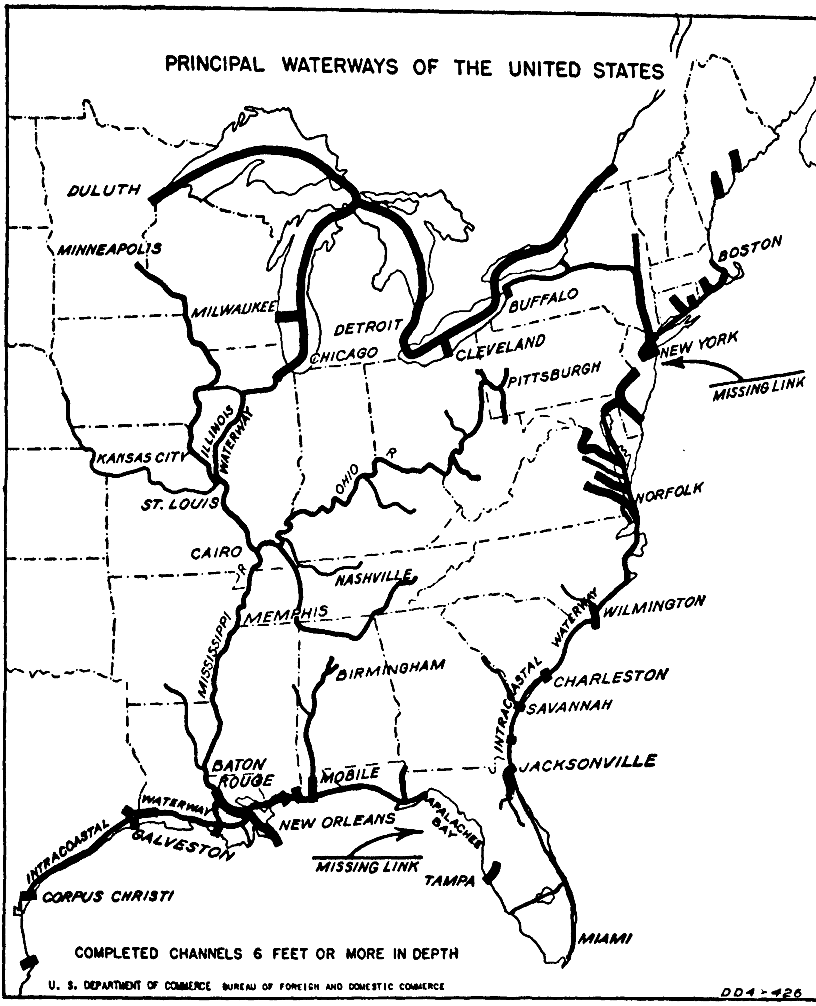

FIG. 29.—SHIP ROUTES AND CANALS

Inland Waterways.—Our inland waterways, as Fig. 29 indicates, cover the Mississippi, Illinois, and Ohio rivers; the San Joaquin-Sacramento system; the Columbia and Willamette rivers; and the New York State Barge Canal, these waterways being the principal ones next to the Great Lakes—perhaps the most used of all navigable waters. Few people appreciate the importance of the transportation on the Great Lakes. The two ports of Duluth and Superior handle half as much tonnage as the New York Harbor, the largest port in the world. Toledo has almost as large a tonnage as Philadelphia or Baltimore. Indeed, there are only seven of our ocean ports which are larger than any one of the ten ports on the Great Lakes. The tonnage would be considerably heavier if the ports were not closed for about four months during the winter, but even as it stands, the Detroit River is said to carry more tonnage than the Suez and Panama canals combined. A small part of the Lakes shipping goes out through the Erie Canal for export. The Canadian shipping travels through the Welland Canal, thus avoiding Niagara Falls.

The shipping consists primarily of grain from the Western states, iron ore from Minnesota and Wisconsin, and other heavy materials from the lower end of Lake Michigan. The ports receiving these shipments are Detroit, Cleveland, Sandusky, Conneaut, and Toledo. The ships that ply the trade on these fresh waters are as large as many ocean liners. Most of them are constructed specifically to handle just one product, such as iron ore or grain. On the return trip the cargoes are not quite so heavy and are much more varied: they consist of sugar, petroleum, steel, paper stocks, etc.

We also have what are known as the intercoastal waterways. One such channel, for barges and other light-draft shipping, operates from Trenton, N.J., down to Jacksonville, Fla. Another operates from Carrabelle, Fla., to Corpus Christi, Tex., a distance of 939 miles. Our laws have long prevented shipment between two American ports in vessels of foreign registry; hence, the coastal shipping is a domestic affair of considerable magnitude.

The Importance of Pipe Lines.—Since 1857, when oil was first developed, the use of petroleum and petroleum products has grown far beyond the wildest dreams of the pioneers. Today 300,000 oil wells drilled in 21 states produce approximately 2,500,000 barrels of crude oil daily. The distribution of this huge quantity calls for every available medium of transportation: pipe lines, tank ships, tank barges, railroad tank cars, and motor trucks.

Pipe lines are important not only because of the part they play in directly reducing transportation costs from the well to the refinery, and from the refinery to the market, but also because they afford a means whereby wells located inland can deliver huge quantities to depots on the coast line, where large tankers, in turn, provide economical transportation all along the Eastern seaboard and across the ocean.

There are in the country, at the time this is written, over 140,000 miles of pipe lines for transmitting gas and oil. Three of the largest of these lines were completed in 1948. One runs from a Texas field to Los Angeles, and the remaining two, the Big Inch line and the Little Inch line, carry natural gas from Texas to the municipal district of

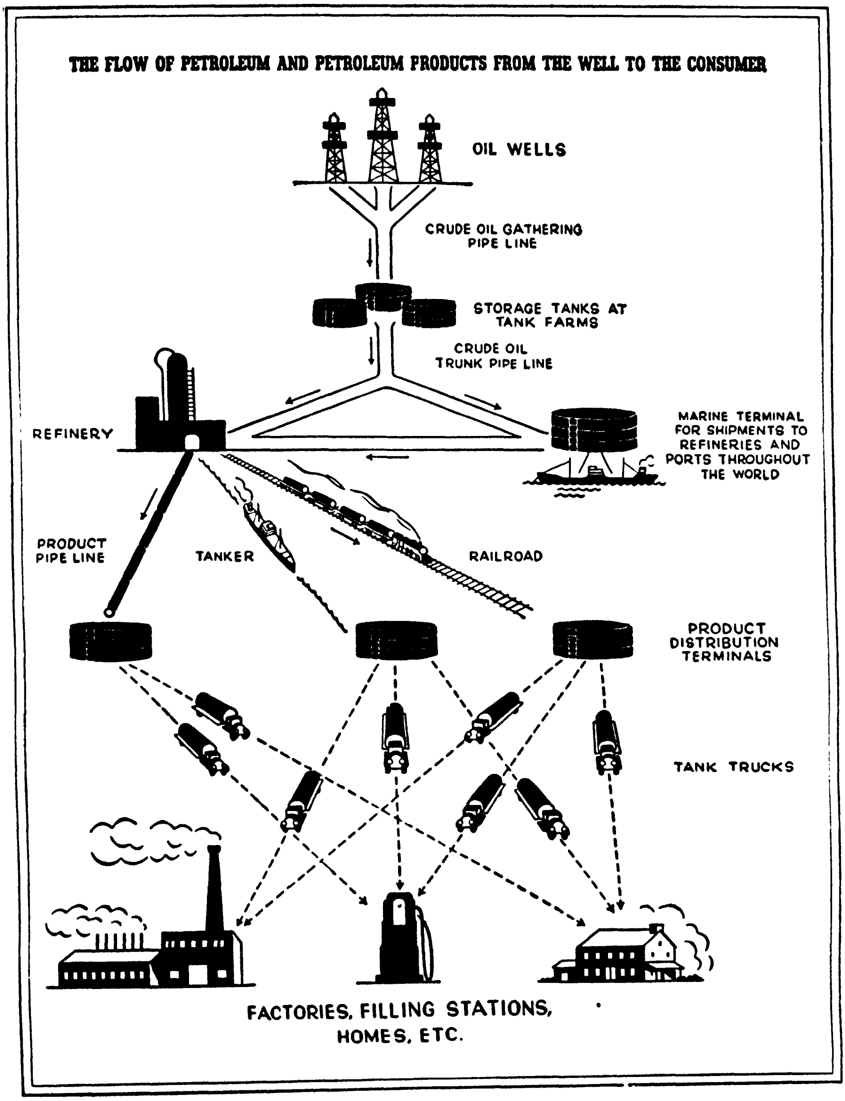

FIG. 30.—PETROLEUM GOES TO MARKET

New York City. A new departure in the transmission of gas was introduced in these lines: the gas is injected at a pressure of 800 pounds a square inch, a greater pressure than ever before used for gas pipes.

The chart in Fig. 30 indicates the types of petroleum and petroleum products transported by pipe lines, as well as the way in which these lines are coordinated with water, rail, and truck transportation.

The Traffic Manager.—The traffic manager is the official in general charge of transportation. He not only selects the carriers or combination carriers by which shipments are made, but he also has general supervision over packaging. Whether boxes, bales, crates, fiberboard cartons, bundles, or some other form of package is selected, his recommendation or dictation is followed. His complete duties include

1. Routing shipments.
2. Preparing shipping papers.
3. Supervising packing, marking, weighing, and shipping of commodities.
4. Tracing.
5. Auditing freight bills.
6. Concentrating of less than carload lots (L.C.L.) and arranging for distribution warehouses.
7. Prompt loading and unloading of cars and trucks.
8. Handling rate adjustments.
9. Handling claims.
10. Handling rate cases before regulatory commissions.

The title "traffic manager," like "advertising manager," is used in two different senses. The advertising manager for a manufacturer supervises and oftentimes prepares the firm's advertising. Although the advertising manager for a publication is in charge of the salesmen who sell advertising space, he is rather a sales manager. The traffic manager of a manufacturer, store, or wholesaler performs the duties listed above. But the traffic manager for a transportation company has somewhat different duties. He may spend much time quoting rates to shippers, advising them as to routing, handling claims and rate adjustments, tracing, and performing many of the services for a shipper that the shipper's traffic manager would perform if he had such an official.

Package Consideration.—The traffic manager's interest in packages is wholly different from the merchandise manager's interest in the same subject. To the latter, the package is primarily an aid to attractive display as well as something to protect the contents and preserve them until consumed. The traffic manager has many other interests:

1. Is the container strong enough? Will it withstand the rough handling incident to shipping and is it strong enough to hold up if boxes and bundles are piled on it?

2. Is it reasonable in price? Can a crate take the place of a more expensive box? If a box is necessary, can it be of fabricated material

rather than wood? If wood is necessary, is there some kind that is less expensive than others? Must the extra expense of binding with metal bands be undertaken?

3. Is the package of a nature to keep transportation costs at a minimum? It is possible that a slightly more expensive container may lower the freight classification and so more than compensate for the added expense in higher container costs.

4. Is the package of the right size and shape to facilitate handling—both loading and storing? Too large a container may increase the

NEW FAMILY OF PACKAGES—Shown here are the seven old and new packages for Pillsbury products, with the related line, featuring a new trademark.

FIG. 31.—REDESIGNING A FAMILY OF PACKAGES

handling expense far in excess of any possible saving in the loss incident to shipping.

"The function of transportation is to increase the value of the product. If damage occurs, the function is impaired. Safe transportation involves two factors: careful handling by carriers and adequate packing by shippers. Package design is a matter of balancing the protection of the contents against the cost of securing that protection. If the cost of the package is reduced to the point where it becomes inadequate, loss from breakage and wastage is increased."[3]

The study of containers, like so many problems of transportation, becomes highly technical in special cases. Insulated containers that preserve low temperatures are available and are used for many products. The railway companies also furnish containers which may be filled with merchandise and carried on flat cars. At the destination, a power crane transfers the container to a receiving truck, and it is taken to the receiving room before being unlocked. It is then returned to the railroad company for repacking.

Selection of Routes.—To the layman the selection of routes and carriers may seem simple. To ship a heavy machine from Newark

[3] H. E. Stocker, Obsolete Packing, *Packaging and Shipping*, September, 1935.

to Chicago is not merely the routine comparison of trucking rates, the affableness of the freight solicitor, and the reputation one railway has over another for prompt service, even with all rates the same. It is much more than that. The traffic manager, who is a master of his business, gets his machine started well ahead of the time scheduled for delivery. He knows rates and routes. First the machine is loaded on a vessel and sent to Norfolk, Va.; from there it goes by rail to Chicago with a net saving on successive shipments nearly large enough to pay the traffic manager's salary.

As to economy, the traffic manager has the following points to consider: cost; time involved; usual condition of goods upon delivery; promptness of carrier in settling claims; special facilities; and transit privileges.

With all these factors considered, and the average transportation facilities, the shipper has a choice of

1. Rail transportation.
   a. Fast or slow freight.
   b. Express.
2. Motor truck.
   a. Fast service.
   b. Slow service.
   c. Package freight service.
3. Express and mail.
   a. Railway.
   b. Air.

If the shipper is on a pipe line, that may also add to his possibilities of selection. It may be a question of pipe line or tank car.

Again, if the shipper has the advantage of water transportation, he may have all the above and in addition ships supplying

1. Fast express service.
2. Combination freight and passenger service.
3. Freight.
4. Chartered ships.
5. Special types of ships and special services, as tankers.

Many combinations are possible, as is illustrated by the account of routing shipments of machines from Newark to Chicago, given above. There is a multiplicity of classifications of freight, which must be familiar to the traffic manager.

Then there are transportation companies that make a business of combining L.C.L. into full carloads. A shipper who has a miscellaneous list of articles taking different freight classifications may call in one of these L.C.L. companies. His products will be collected, sorted, and placed with similar classifications from other shippers. Finally, a carload will be made up of each classification, or of two classifications. This results in a great saving in the final rate, which the company that does the collecting and sorting shares with the shippers.

To illustrate: Smith, Jones, Brown, and six other shippers all have L.C.L. shipments for the same destination. Smith has items classified in first and third class; Jones has a shipment classified as second class; Brown has a shipment with articles classified as first, second, and third. Each of the others has shipments with varying classifications. For each one of the classification ratings one to three inclusive, there is a corresponding carload classification rating on the same commodity. The company that consolidates the less-than-carload shipment collects and sorts the shipments of Smith, Jones, Brown, and the other shippers, according to their carload classification, and then makes up carloads, which are turned over to the railroad companies. When the shipments reach the destination points, they are delivered to the various consignees. This method will result in savings from 10 to 50 per cent, and even more, depending upon the commodity, the points of origin, and the points of destination.

Rate Making.—Rate making is, in general, on the same basis as other price making discussed in Chapter X on Marketing Consumer Goods. In the enactment of legislation governing rates for common carriers, the Federal government has followed the principle of adequate return on investment. This was fixed at 5½ to 6 per cent. But a great difficulty followed in measuring the investment. In other words, what were the railroads worth? A basis for determining their value was difficult. The railway officials and the Interstate Commerce Commission could not agree. Should it be cost, replacement value, ability to earn net income, or some other value? If the ability to earn net income had been taken as a base, the problem would have been reversed. The established income divided by the permitted rate would have given a market value. But that was not satisfactory to many roads that were losing money.

As in warehousing, the factors entering into rate making are cubic volume, weight, time, value, liability to damage, and difficulty of handling. Others are mileage and competition. It is evident that mileage is important, but no method has been devised for evaluating the "long-and-short haul." It is worth more to carry an item 500 miles than 50 miles. But authorities do not agree on how much more. It is not ten times as much, but it is more than twice as much.

It is common practice for the shipper to load cars when sending full ones and for the receiver to unload them. But in the case of

L.C.L. shipments the transportation company does both the loading and the unloading. That is one of the chief reasons for the much lower rates for full cars than for L.C.L.

The rate differences between alternative methods of transportation show the importance of the time element to shippers. One sending a repair part by air express might wholly overlook the high rate as unimportant compared with the loss incident to an idle machine. It

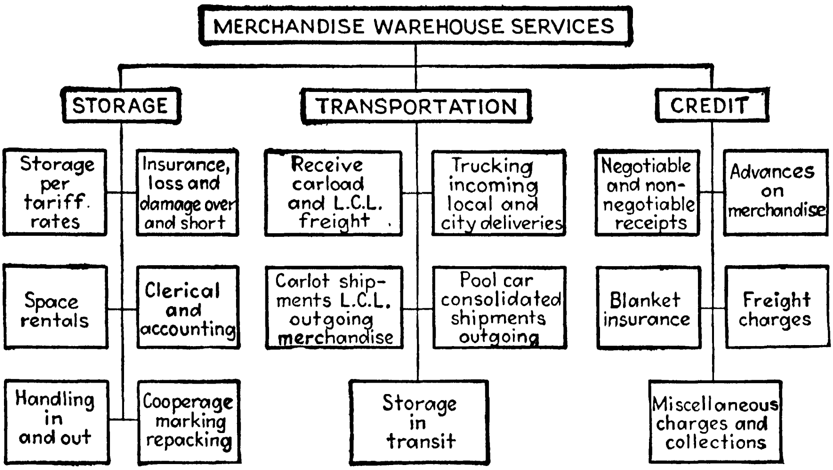

FIG. 32.—SERVICES PERFORMED BY THE MERCHANDISE WAREHOUSE

In this chart the services of the merchandise warehouse are classified under three major divisions: (*a*) storage, (*b*) transportation, (*c*) credit. Many manufacturers, particularly those who through national advertising have achieved consumer acceptance for their products, find it economical to utilize the services of the merchandise warehouse in locating "spot" stocks throughout the country. (*Booklet for American Warehousemen's Association, by John H. Frederick.*)

must be remembered about rate differences that all the other factors would be considered in making rates. Bulk would be very important in an air-express shipment. In a gondola freight car it might be secondary. In handling explosives, another kind of risk would be involved.

It may be said that a study of rates is a business in itself.

A Rapidly Changing Industry.—From year to year the casual observer sees very little change in the appearance of freight cars, locomotives, busses, or ships. It is only when such striking innovations as streamlined trains and new speed records are featured by the newspapers that the average citizen realizes there is anything new in transportation. That is largely because of the vastness of the transportation industry, the very size of which staggers the imagination.

Huge laboratories are constantly at work in improving equipment design, testing alloys, improving production methods, etc. Some of the most important recent improvements have come in loading and unloading methods. In most of the Asiatic ports such commodities as coal and wheat are carried on and off the boats on laborers' backs. It is similar to the loading and unloading of the soft-fruit packages at the Great Lakes ports in this country. But slings, cranes, and automatic shovels, all operated by steam power, do that arduous work at most of our ports. The new "fork" truck now extends its two powerful arms under a skid or pallet, picks it up and deposits it in a freight car, or sets it down on the pier within easy reach of the loading apparatus of a freighter. The same truck in unloading reverses only the direction when it carries the bags, bales, or boxes piled on pallets from the pier to the warehouse. This fork truck even stacks the pallets to a height of 10 to 12 feet. This is but one of many inventions that are facilitating the handling of freight to and from ships, freight cars, and trucks. It has been given emphasis here because it is new.

New developments in the airways, in travel by air and in air express, are to be expected. The whole industry is so new that nothing is fixed. One of the most striking developments is seen in the rapidly expanding landing fields. The increase in the size of the power plants of the planes is another departure of particular interest to engineers.

But as there have been striking innovations in engine design for streamlined trains, so the unpoetic freight car seems likely to undergo some basic changes. Already it has so grown in size that its average capacity is twice that of 25 years ago. The next change, students of transportation predict, will be more basic. "The present type of freight car is needlessly heavy and unwieldy," says a designing engineer. "In order to move a net ton of freight, the railroads (counting the empty haul) move 2½ gross tons, and hence the cost of handling the free load is greater than handling the pay load."

Refrigeration of cars has not progressed so far as some other improvements, but the experimental work is done. New processes of car refrigeration do not use natural ice but employ methods more like those of the mechanical refrigerator of the home. Temperatures as low as 15° can be maintained in a car all the way across the continent at reasonable expense and with very little attention.

The changes in methods of transportation incident to improved highways, the increase in the use of trucks for handling freight and in busses for passengers are all matters of common observation. The great significance of these changes is that a new science is developing. It will be the science of transportation.

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Questions and Problems

1. For the year 1948 what was the estimated per capita cost of our transportation system?

2. What is the approximate (*a*) waterway, (*b*) rail, (*c*) airway, and (*d*) pipe-line mileage in the United States? See Table 17.

3. In which decade of the nineteenth century did the United States experience its first substantial railroad expansion?

4. What percentage of the 4,468 miles of canals in use in 1880 is still in use today?

5. List the five fundamental types of things for which transportation facilities exist.

6. With respect to the general problem of power transmission for use in industrial establishments, elaborate upon *one* advantage of the use of electric current supplied from central-station utility plants.

7. What is the "backbone" of our transportation system? Why?

8. Comment upon two recent general operating changes which have occurred in the railroad business.

9. Write a short article on the subject "Railroads Move to Meet the Competition of Truck Operators."

10. Comment upon the statement "The motor trucking industry has been hampered by a good many laws and police regulations which have not applied to other conveyances."

11. Write a short article on the subject "The Development of Commercial Aviation—1940 to 1948."

12. Name six inland waterway systems.

13. Name six commodities frequently carried by inland shipping.

14. Write an explanation of the chart "Petroleum Goes to Market" (Fig. 30).

15. Write an article on the subject "The Duties of Traffic Managers in Modern Industry."

16. Concerning rate making, what is "the principle of adequate return on investment"?

17. What are six factors that enter into both transportation and warehouse rate making?

18. Write an article on "Transportation: A Rapidly Changing Industry."

CHAPTER VIII

WAREHOUSING

Standard Types.—The word "warehouse" was originally used to indicate a place of storage. Usually the warehouse was some building, frequently unfit for other purposes, which was utilized for storing materials and goods for which there was no immediate use. Frequently, also, the warehouse was a place where outworn tools and machinery and leftover materials were congregated until some disposition could be made of them.

The employment of warehouses for storage of goods by mercantile institutions is also of long standing. An example is the store that sold agricultural implements of a bulky nature. It was usually provided with some sort of storage space—frequently adjoining the display room—which was roughly designated as "warehouse." But the increase in rentals has made it unprofitable to employ this type of warehouse any longer, especially in the cities. For many years large retail stores have employed buildings located on other than business streets for housing surplus supplies. More recently, many goods have been delivered to the consumer direct from these storage centers. In a number of our department stores, the more bulky goods are only displayed at the showrooms and deliveries are made from warehouses, which are oftentimes distant from the main trading center of the city.

Until artificial ice became practical and the manufacture of it inexpensive, and before mechanical refrigeration units became common, there were many icehouses in which ice was stored during the winter and covered with sawdust for preservation, to be shipped in freight cars, or in vessels where there was water transportation, during the hot months of the year. These were known as "ice warehouses." They were not connected with refrigeration warehouses, where meats and other perishable goods were stored, although frequently the ice company owned and conducted these "refrigeration plants," as they were usually called. Large storage houses for grains have long been in use. Often the conventional grain elevators were used. Quite as frequently, granaries or other buildings were employed for grain storage.

Within the last 20 years, the business of warehousing, as we know it, has had a development that places it in a different category from that of the haphazard storage of wares and products that has just been reviewed.

The demand for storage facilities has led to the adoption of six types of warehouses, or warehousing methods. These are generally on a business basis, and conducted as a business, each with a standardized type of service. These six are

1. Private warehouses.
2. Warehouses for household goods and furniture.
3. Bonded warehouses supervised by the Federal government.
4. Custodian or field warehouses.
5. Public merchandise warehouses. (See Fig. 32, page 174.)
6. Cold-storage warehouses.

The Bonded Warehouse.—Bonded warehouses are of three principal kinds:

1. United States customs bonded warehouse.
2. United States internal revenue warehouse.
3. Bonded warehouse licensed by the U.S. Department of Agriculture.

The United States customs warehouse has been employed by the Federal government for somewhat over a hundred years. The need for it arose in assessing and collecting import duties. The goods must be unloaded from ships without unnecessary delay. They remain in the transit shed of the shipping company only temporarily. Frequently, questions arise as to the acceptance of goods that do not conform to specifications. Also, while means of adjusting and collecting disputed duties have to be devised, the goods are held in storage for weeks or even months. Imported goods may be stored in bonded warehouses or in those provided by the government for a period up to three years before the import duties are paid. A storage fee, a handling fee, and other charges are incurred in these warehouses. And these fees are independent of the import duties, which have to be met before the goods are removed.

In 1927, a law was passed providing for customs-bond warehousing under private ownership. This law provided for the bonding of a warehouse company to insure the government against loss from import duty assessed against goods held. In addition to this, a Federal officer, "custodian," is in charge of the warehouse itself. "A single doorway must serve both as inlet and outlet, and no other door of any description is allowed. Large bonded warehouses of this type, which do a considerable volume of business, are therefore obliged to subdivide their property into several 'houses,' each with its government storekeeper, solely for the purpose of facilitating the movement of goods in and out. It is also required that the United States storekeeper shall carry the only key to the building and that he must himself open and close the one door."[1]

There are a number of other types of warehouses that operate under this law. Some of these are for the further manufacture or fabrication of goods; for instance, milling grains and smelting ores. It is also true that a manufacturer may own his own warehouse by giving suitable bond and submitting to the supervision of the Federal custodian or storekeeper. These warehouses, especially when situated at ports of entry, are frequently used for the temporary storing of goods for reshipment to other countries. These may enter tax free. Also such goods as grain for milling and ores for smelting are not subject to import duty when they are not to remain in the United States.

Goods held for more than three years will be sold or destroyed and, by a recent decision of the courts, the import duty on them may still be levied although the goods have become worthless.

The law provides that the Federal storage warehouse or a warehouse operating under bond must charge the same rates as prevail in other warehouses of the district. In order to stimulate shipping, Seattle, New Orleans, and some other large cities have established municipal warehouses which, except for ownership, are operated in the same way as the privately owned customs warehouse.

The United States internal revenue warehouses are used chiefly for tobaccos and liquors. The internal revenue is not collected at the time the products are placed in storage, but at the time they are withdrawn. Consequently, these warehouses serve a double purpose. Both liquor and tobacco may be stored during the time necessary for maturing; in the case of tobacco, it may be stored for further processing. This permits the owners to defer the payment of the internal revenue until the time of marketing, or a close approach to the date the product will be marketed, when the tax can be collected. Many liquors remain in the internal revenue warehouse for years.

The commonly advertised phrase "bottled in bond" refers to whiskies that have been stored in wooden barrels in a warehouse under Federal supervision for four years. To be so labeled, the whisky must be transferred to bottles and the bottles must be sealed before leaving the warehouse.

United States licensed warehouses have come into existence through the enactment of the United States Warehouse Act of 1916. Unfortunately, this act pertains only to agricultural products. Its chief aim was to stabilize and standardize warehouse receipts. In so far as

[1] H. A. Haring, *Warehousing*, The Ronald Press Company, p. 152.

farm products are concerned, this has been accomplished to the most gratifying degree. A negotiable warehouse receipt from a licensed warehouse is everywhere accepted at its face value. The organizing of a warehouse of this nature is similar to that of any merchandise warehouse, but it is restricted, as has just been stated, to agricultural products. It is under government supervision and subject to audit by Federal officials. The Department of Agriculture is given supervision over this act and has provided rules for the issuance of formal

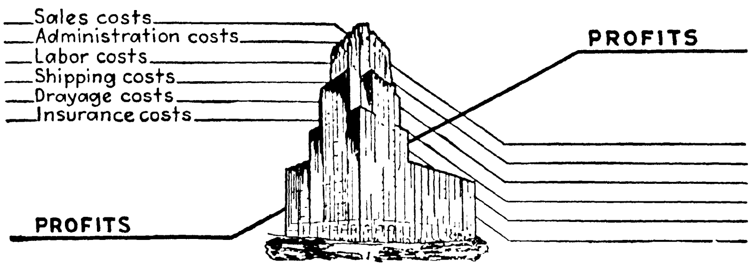


FIG. 33.—THE PLACE OF THE MERCHANDISE MART IN DISTRIBUTION

A merchandise mart is a central market place combining under one roof many modern facilities for the service and convenience of exhibitors and buyers. A manufacturer, wholesaler, or other business firm may obtain display, office, and storage space, along with central facilities for handling stocks and shipments. The display space may range from a small office with a single line to a large establishment occupying a number of floors.

In a large mart, hundreds of lines of goods may be brought together where they can be conveniently inspected by thousands of buyers who visit the building. Special features such as spacious lobbies, restaurants, banking facilities, etc., are provided.

The above chart represents the St. Louis Mart, and summarizes the possible advantages of locating a business in the building, or mart.

licenses to those warehouse concerns that meet the provisions established by the Department.

Custodian or Field Warehouses.—Custodian or field warehousing is an institution that has grown up in the last 30 years. In its simplest form, it means the setting aside part of a building or of an enclosure on the premises of the manufacturer or the grower. If the warehousing is for agricultural products, that means storing the merchandise in this segregated area and turning its care and keeping over to an authorized guardian. Usually this custodianship is undertaken by some organized warehousing company, which names and becomes responsible for the guardian. Furthermore, in this kind of warehousing, in order that the warehouse receipt may be valid it is necessary for the premises upon which the merchandise is stored to be legally in the possession of the firm or company issuing receipts. Due notice should be given at the place of storage that a warehousing company is in charge of the goods.

This type of warehousing has been subject to much abuse, especially in agricultural sections and manufacturing districts where bankers or others making loans have attempted to act as warehousemen. However, with the restriction of the field warehousing to the regularly established warehousing companies, which are organized to take care of that business, the system is now operating with a high degree of success. In the past few years, several large field warehousing organizations have come into existence to take care of this kind of business.

This particular form of warehousing finds its greatest usefulness at times when crops and the factory output are at their peak. The very time when the vegetable- and fruit-canning industry is at the height of operation is the time when transportation facilities of the district are most likely to be taxed to capacity with fruits and vegetables on the way to market. If a local warehouse can be secured so close to the factory that no transportation problem is involved, then the storing will be an economy as well as a convenience to the manufacturers. Also, if a warehouse custodian can issue legal warehouse receipts, there will be a further advantage in financing the institution through its busiest season.

The Merchandise Warehouse.—The public merchandise warehouse, or merchandise warehouse, as it is more commonly called, is the one usually referred to in marketing and merchandising. While the practice of renting warehouse space is very old, the systematic organization and presentation of the warehouse services that are now offered to businessmen are of recent growth.

Briefly summarized the services of a merchandise warehouse are these:

1. It provides storage facilities that are convenient, economical and safe.
2. It provides fire protection and insurance.
3. It provides for carlot shipments, thereby saving transportation charges.
4. It helps to reduce loss and damage in shipment by providing carlot shipments.
5. It helps to speed delivery as it makes possible carlot shipments, as freight moves more rapidly in full cars.
6. It issues receipts, both negotiable and nonnegotiable, which are good collateral.
7. It makes possible the operation of produce exchanges, where warehouse receipts form the basis of trade.
8. It supplies trucking service.
9. It repacks, recoopers, re-marks, and supplies clerical service in billing out goods to customers of those for whom storage is supplied.

10. It provides a means of carrying "spot stocks," which expedites the distribution of merchandise.

11. It provides for a c.o.d. delivery to customers of poor credit rating.

12. It provides storage in transit. This means that a shipper may send a car over line *A*, upon which his factory is located, to the warehouse at the junction of lines *A* and *B*. There it may be stored for any length of time, then forwarded to the buyer over line *B*, and receive a through-car rate from factory to buyer. This privilege is usually a concession granted by the carrier.

First of all, the merchandise warehouse presents storage conditions that are economical, convenient, and safe. This means that the storage rates are sufficiently low so that it frequently becomes an economy to patronize a public warehouse rather than to provide one out of the funds of the firm. Particularly is this true where the period of storage is comparatively short and where special precautions have to be taken to prevent impairment from dampness, dust, or vermin, or where local storage would necessitate extra handling. Furthermore, the insurance rate of a modern warehouse is usually as low as, and sometimes even lower than, that obtainable by the manufacturer if he were to furnish his own storage. The warehouses are equipped with the most modern methods of preventing fire and of extinguishing a fire, if one should occur. An added advantage of the merchandise warehouse to the manufacturer is that it is at the point where he is most likely to need it.

One of the chief economies of the merchandise warehouse results from its ability to sell its services for every season of the year. This is not true of the private warehouse, especially the one that is owned and operated by the manufacturer. As an illustration, consider a manufacturer of heating stoves and another of refrigerators. Heating stoves sell in the fall and winter, refrigerators in spring and summer. If both factories operate continuously, it is evident that each will require a considerable amount of storage space for part of the year. If these two factories happen to be situated in nearby territories, it is conceivable that one warehouse will serve both. By late winter, all the stoves will be out, but the space will then be filled with refrigerators. As spring advances, the refrigerators will be shipped out and stoves moved in, until by late summer the warehouse will be filled with stoves. Next, the operation will be reversed, the stoves being replaced by refrigerators.

The public warehouse facilitates transportation where goods are bought by distant wholesalers and retailers in L.C.L. An example of this is shown in the experience of a New York manufacturer who found that in serving Iowa trade he could send a full car to his warehouse in Des Moines; this could be stored from the first of December to the last of March, then repacked and reshipped by his warehouse at a lower cost than he could have made the individual shipment at the higher freight rate that would have prevailed in less-than-carload shipments. Another striking advantage in the transportation service is that full cars travel on a faster schedule than L.C.L. Also, in a long shipment of the fractional loads, the loss and damage in transit are much greater than in full cars. There are other related savings, such as the return of drums or barrels or other containers when they are to be refilled. This is illustrated by the experience of a glucose manufacturer in Baltimore, Md. He found that instead of shipping in drums to Chicago and then returning them for refilling, he could save money and time by using tank cars and having his drums filled from the Chicago warehouse. Then instead of shipping the drums all the way to Baltimore, they were returned to the warehouse. Again, much time may be saved in transportation by keeping "spot stocks" at various warehouses. Frequently, business is lost by failure to have goods at hand. One manufacturer of grocery products carries stock in 31 different warehouses spread over the United States, with the idea of getting goods even to the most distant wholesale grocer in the United States within 24 hours.

Cold-storage Warehousing.—In the present distribution of food products, the cold-storage warehouse is an indispensable part. For vegetables, fruit, poultry, and dairy and meat products, refrigeration or some form of cold storage is as essential as it is for the retail meat market. Our whole marketing system of the products mentioned would have to be reorganized if the cold-storage warehouse were not available. It was only a few years back that the cold-storage warehouse was operated with natural ice, cut in the winter and stored for summer use. Until a few years ago, almost every farmhouse in the Northern states put in a supply of ice. It was not until 1918 that the use of artificial ice—that is, ice made by mechanical processes—surpassed the tonnage of ice cut in the upper Hudson for use in New York City. The mechanical ice plant was developed in the decade of 1880 to 1890, and became the chief source of ice for most cities. The small-unit mechanical refrigerator used in homes and stores did not come into common use until after the First World War. It has practically eliminated the storage of natural ice for distribution by truck and wagon. Indeed, mechanical refrigeration now seems destined to replace artificial ice.

The reason for the cold-storage warehouse is that many food products are perishable, yet can be preserved with little deterioration in quality at low temperatures. Very few eggs are produced in the cold months of winter and prices tend to be high. In the spring and summer months, the supply is large and the price is low. The cold-storage warehouse takes the surplus of these eggs and preserves them for fall and winter use. The advantages in preservation of meat products are obvious. The packers' greatest sale of meat is in the cities, where slaughtering is expensive and presents difficult problems of sanitation. Many food products, like ripe figs, have to be handled with refrigeration, or they cannot be shipped at all. Figs packed before they are ripe are unpalatable. If they ripen on the tree, four days is the longest they can be preserved without the aid of low temperature. Although some products require slight chilling, such as 35°F. for vegetables and 50°F. for sweet potatoes, eggs keep best at 29 to 36°F. They freeze at 28°F. Poultry and meats require a temperature of 25°F.; as for frozen foods, the initial temperature to which they are subjected is zero or below.

The types of cold-storage warehouses are:

1. Public—any individual, firm, or association, engaged in the business of operation for compensation.

2. Private—used exclusively by the private individual, firm, or association.

3. Combined public and private—used by owners for their own private purposes and let out in part to the public.

So inefficient were many of the cold-storage warehouses and so much criticism was aroused by their conduct during the early part of the present century that many states have enacted legislation regulating their acts and providing for official inspection. These laws require periodic reports of the amount of food supplies held, their nature, the time they have been in the warehouse, and other items of similar information. Some of these laws also fix fees under which the warehouses operate. The more recent legislation has turned over the inspection and general supervision of the food cold-storage warehouses to the state board of health.

The Federal government, through the Department of Agriculture—the Bureau of Animal Industry, and the Packers and Stock Yards Administration—has established inspection services applying to the livestock and meat business. The first of these (the Bureau of Animal Industry) is responsible for the veterinary inspection at the yards and in the packing plants, the latter administers the regulations dealing with packers and stockyards control. These Federal agencies include in their functions a much wider scope than storage, but much of their inspection and regulation is a necessary prerequisite to ensure adequate cold-storage protection for meat products.

Quick Freezing.—A recent development in food preservation is the so-called "quick-freezing" process. Almost all kinds of fruits, vegetables, meats, and fish lend themselves to this form of treatment. The product is frozen quickly at a very low temperature, somewhere around 15 or 20 degrees below zero, and then stored at a temperature near zero. Freezing quickly at temperatures below zero causes small ice particles to form within the cell tissue, while freezing slowly at temperatures above zero results in large ice particles. The smaller ice particles expand but do not rupture the cell walls of flexible animal tissue, so when the product is thawed out the cells contract to their original size without any loss of their valuable mineral salts. Consequently, the quick-frozen product retains the properties of a fresh product. In the case of vegetable fibers, cell walls are rigid and the expansion of the ice particles causes them to break down to some extent. This shortens the time necessary for cooking. The reason for this is that the application of heat in cooking likewise breaks down the rigid cell walls. Birds Eye Frosted Foods, which are widely distributed today through retail stores, are prepared by the quick-freezing process.

Another development in the use of this process of preserving is the food-locker system, which has had a rapid growth in the last few years, especially in rural districts. In place of the canning or drying of fruits, meats, and vegetables for home use, they are preserved by renting storage space in the local food locker. These lockers may be established by an independent company, as an additional activity by a creamery or an ice plant or by others who might have refrigerating equipment available, or they may be organized cooperatively by the users of the lockers. Because of their compact nature, fish, fruits, poultry, and meats are most commonly stored in these refrigerating lockers. Such products need very little preparation for storage under low temperature.

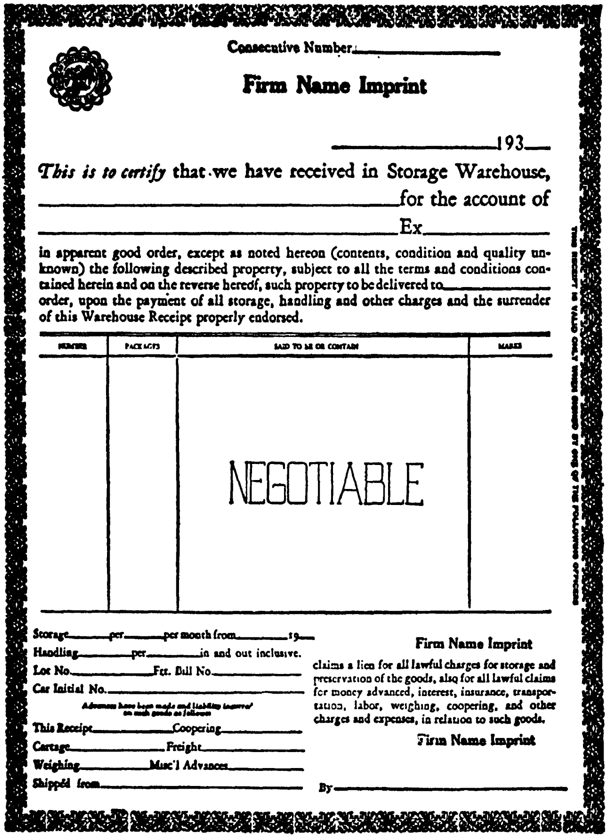
From the standpoint of marketing, the development of the locker system means that an increased amount of food products is kept out of the usual channels of distribution. There will be an increase in the amount of poultry and meat slaughtered on the farm and either sold to people in small towns or stored for future use. In other words, these products will be taken out of stocks of food stores, and a considerable saving will be effected for consumers, as the locker rent is small.

Some retailers, who might be expected to oppose such a development since it tends to reduce their sales, have added refrigerating locker systems to their equipment and so are prepared to recoup any loss that might have been occasioned by the reduction in sales. The returns from the investment in these refrigerating plants, even with a modest charge for lockers, provides a satisfactory return on the investment. Also, it is regarded as a business builder for the store, inasmuch as people who rent lockers visit the place frequently and so are exposed to goods regularly on display. While the greatest growth of this system has been in the Middle Western and Western states, it is also making headway all over the country.

Warehouse Receipt.—Reference has already been made to warehouse receipts, and it is in point here to consider them more directly and intimately. Following the passage of the United States Warehouse Act in 1916, various warehousemen's associations, chambers of commerce, and others brought influence to bear on the separate states to pass similar legislation. The advantage of uniform, or, better yet, identical, state laws regarding warehouse receipts was early appreciated and as a result of the efforts of the organizations mentioned, 45 of the 48 states have passed what is known as the Uniform Warehouse Receipts Act. This legislation has been beneficial beyond estimate. A banker or any other businessman, no matter where he is located, now need not hesitate to handle a warehouse receipt from any part of the United States with the same assurance and confidence that he would have in dealing in stocks or bonds sold on the leading stock exchanges. Goods held in a warehouse are not subject to attachment by claimants against the owner of the goods. The receipts may be attached, but not the wares for which they give possession.

These receipts are the basis upon which many commodity exchanges operate. It is the receipt that is auctioned off and that changes hands when a sale is consummated. It constitutes in every practical way a delivery of grain, cotton, tobacco, wool, or whatever else is provided by the warehouse receipt.

There are two kinds of warehouse receipts, negotiable and nonnegotiable. Each serves a separate and distinct purpose. As these receipts are practically all uniform, at least uniform in information given, they are assumed to be negotiable unless it is specifically stated on the receipt that it is *nonnegotiable*. The latter not only differs from the former in not being negotiable, but it permits of the withdrawal of goods without formal presentation or surrender of the original receipt. If the owner of the merchandise in a warehouse wants to borrow from his local bank, usually the nonnegotiable receipt is preferred, and obviously it is made out in the bank's name. This protects the bank against any inconvenience that might result from the loss of the receipt or the peculations of bank officials, for a new nonnegotiable receipt may be issued. In the case of the negotiable receipt, it is much more difficult to obtain a duplicate, as the holder of the original may turn up



Consecutive Number________

Firm Name Imprint

________193__

This is to certify that we have received in Storage Warehouse, ________ for the account of ________ Ex________ in apparent good order, except as noted hereon (contents, condition and quality unknown) the following described property, subject to all the terms and conditions contained herein and on the reverse hereof, such property to be delivered to________ order, upon the payment of all storage, handling and other charges and the surrender of this Warehouse Receipt properly endorsed.

NUMBER	PACKAGES	SAID TO BE OR CONTAIN	MARKS
		NEGOTIABLE	

Storage____per____per month from____19__
Handling____per____in and out inclusive.
Lot No.____Frt. Bill No.____
Car Initial No.____

Advances have been made and liability incurred on such goods as follows

This Receipt____Coopering____
Cartage____Freight____
Weighing____Misc'l Advances____
Shipped from____

Firm Name Imprint

claims a lien for all lawful charges for storage and preservation of the goods, also for all lawful claims for money advanced, interest, insurance, transportation, labor, weighing, cooperage, and other charges and expenses, in relation to such goods.

Firm Name Imprint

By________

THIS RECEIPT IS VALID ONLY WHEN SIGNED BY ONE OF THE FOLLOWING OFFICERS

FIG. 34.—UNIFORM WAREHOUSE RECEIPT FORM

A facsimile of the uniform negotiable warehouse receipt in general use throughout the United States.

at any time. As with currency, so with the holder of the negotiable paper, possession is prima facie evidence of ownership. Again, if the borrower wishes to obtain the release of part of his deposit of goods, this may be easily arranged through the bank in the nonnegotiable instrument. A formal order from the bank is sufficient to secure delivery of all, or any part, of the goods without presenting the original receipt. This facilitates the partial release and, consequently, is a convenience for both the banker and the owner of the goods.

Other Services Provided.—Nearly every warehouse has a fleet of trucks, which are operated primarily for the benefit of its patrons. This is particularly true of warehouses operating in the larger cities, where distribution is made to numerous wholesalers within a predetermined radius. The warehouse trucks, of course, can seldom operate any less expensively than other trucks, but they are always available and do help in many instances to speed up distribution. They provide a service that delivers goods at the receiving doors of the distributors, whereas in shipping in less than carlots or even in pooled cars, the final step in distribution is left to the wholesaler or jobber. If the warehouse does not operate its own trucks, it always has an arrangement with some local trucking business whose services can be had at a reasonable rate and in reasonable time.

It is generally understood by those who are engaged in the warehouse business that many firms can do their own warehousing more economically than they can have it done by the public warehouse. Where a manufacturer has wide distribution and operates continuously throughout the year with a volume of business large enough to justify the undertaking, he often finds that he can handle his products at less expense and greater satisfaction than through the public warehouse. This applies also where special equipment for storing or handling the product is required. It is true, however, that such services as refrigeration, ginning cotton, cleaning and grading wheat, and the like are provided economically in warehouses that are specially equipped for this kind of business.

Country-wide distribution through public warehouses is also facilitated by recent developments in which a considerable number of warehouses cooperate and solicit business. Arrangement can be made, for example, with warehouses in New York to provide storage, trucking, and such other service as may be required in 30 other cities by warehouses affiliated with New York institutions.

A scientific study has been made of the cost of the services offered by the merchandise warehouse, and a table of charges has been carefully worked out and accepted by the warehousemen's associations, which are universally in force. These are so constructed that it is assumed that a prospective customer may figure out in advance just what his cost will be.

How Warehouse Charges Are Fixed.—The costs are based on the value and hazard of service, and they fluctuate according to the weight and size of the commodity. The storage rate is based on the following classification of goods (made by the Illinois Association of Warehousemen) and is here given as illustrative of the way in which charges are calculated.[2]

1. Value.
2. Fragility.
3. Liability to claims.
4. Small volume.
5. Possible damage to other goods because of leakage.
6. Protection against freezing.
7. Isolation.
8. Attractive to vermin.
9. Hazardous.
10. Malodorous.
11. Dusty.
12. Mussy.
13. Requires access for examination or treatment.
14. Lost space in piling.

Of course, the storage charge does not cover the charges for insurance, coopering, billing, handling, and other numerous services that the warehouse usually provides. The handling charges are uniformly assessed on every item.[3] They have been fixed according to

1. Assortment.
2. Fragility.
3. Liability to claims.
4. Small volume.
5. Size of package.
6. Nature of package.
7. Illegibility of marks.
8. Necessity for special piling.
9. Hazardous.
10. Malodorous.
11. Dusty.
12. Mussy.

Owing to the fact that the warehouse is limited by the height of the ceiling and by the carrying capacity of floors, standards of floor loads and pile height are arbitrarily established. The height available for storage is standardized at 87 inches, the maximum floor load to 250 pounds per square foot. This is calculated in another way, being 34.56 pounds per cubic foot or 50 cubic inches per pound. On this basis the Illinois Warehousemen's Association has determined its storage rates by a combination of weight and volume. The terms are as follows:

If it is possible and expedient to pile a package 87 inches and the weight is sufficient to produce a floor load of 250 pounds per square foot, the rate may be based on either volume or weight.

If it is possible and expedient to pile a package 87 inches, but the weight is not sufficient to produce a floor load of 250 pounds per square foot, the rate should be based on volume.

If it is not possible or not expedient to pile a package 87 inches, but the weight is, nevertheless, sufficient to produce a floor load of 250 pounds per square foot, the rate should be based on weight.

If it is not possible or not expedient to pile a package 87 inches and the weight is not sufficient to produce a floor load of 250 pounds per square foot,

[2] *Merchandise Warehouse in Distribution,* U.S. Department of Commerce, pp. 17–18.

[3] *Ibid.*, p. 19.

the rate may be based on volume or weight, but (*a*) if volume is used the basic rate per cubic inch must be increased in proportion as the actual pile height is less than 87 inches; (*b*) if weight is used the basic rate per 100 pounds must be increased in proportion as the actual floor load is less than 250 pounds.

Tables are published showing the rate in both pounds and cubic inches for each classification of goods. It is obvious that there will be a progressive increase in charges according to the 14 classifications of risks that have already been enumerated.

Handling charges have also been standardized according to three factors which determine the difficulty, time required, and labor involved.

1. Type.
2. Weight.
3. Density or bulk.

Again quoting from the rate published by the *Illinois Warehousemen:*

> 1. Packages fall in respect to type, into two groups: (*a*) bags, cartons, cases, crates, and metal ingots; (*b*) bales, bundles, cooperage, pails, rolls, and tubs. While there is a difference in cost as between groups, there is practically no difference in cost as between the types in a given group.
>
> 2. The cost of handling packages of a given type varies; (*a*) in accordance with the weight; (*b*) in accordance with the density. Under this system density is defined as "the relation of volume to weight expressed in terms of cubic inches per pound."

The warehousing cost can be accurately estimated by any shipper from published tables giving rates for both the handling and the storing. It is common practice to communicate with a warehouse before shipping goods for storage. Otherwise, one could not be sure of there being space available upon arrival. Each warehouseman maintains a sufficient clerical staff so that he can give very prompt response to every inquiry regarding rates or service.

It is customary to include with the first month's inventory of storage costs the charges for handling, weighing, marking, selling, inspecting, coopering, insurance, billing, carting, and freight.

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Questions and Problems

1. What relation is there between (*a*) the large city retail store, (*b*) city real-estate values, and (*c*) warehouses?
2. Name six types of warehouses, or warehousing methods.
3. Discuss the United States customs warehouse.
4. What is the function of a United States internal revenue warehouse?
5. Comment upon the three major services performed by the merchandise warehouse.
6. What are the three types of cold-storage warehouses?
7. Demonstrate by illustration the need for modern cold-storage warehouses.
8. Write a short article on the "quick freeze" industry.
9. How are warehouse receipts used in the commodity exchanges?
10. Define "negotiable warehouse receipt."
11. Why is the nonnegotiable receipt preferred by banks as collateral?
12. If you were a businessman, how would you go about securing storage facilities throughout the country without building your own warehouses?
13. Name two factors upon which storage costs are based. Name considerations that influence storage costs.
14. Write a short article on the topic "The Illinois Association of Warehousemen and the Storage-rate Problem."

CHAPTER IX

THE MARKETING PLAN

Producers' Problems.—The previous chapters have dealt with sources of goods for the consumer. We have now reached the place where it will be well to look at the producers' problems. We have a considerable number of people in this country who feel that there should be no sales effort or advertising. It is their contention that consumers should be left to buy what they wish to buy without being urged or supplicated. With this viewpoint the authors have no sympathy. Thousands of new products that have come on the market have needed an introduction which takes the form of selling and educational advertising.

In order best to serve the public, a producer has six primary problems: (1) *Perfecting the product before placing it on the market.* (2) *Selecting the best channels of distribution.* (3) *Timing.* The product should be offered when it will sell with least resistance. (4) *Quantity.* If packaged, the amount should be the most convenient for consumers. (5) *Pricing.* The price must be such as to give the producer a profit, yet the lowest that can be afforded. (6) *The market.* The country is comprised of many markets and the right ones must be selected for cultivation.

Each of these topics will be discussed on the following pages. The most difficult and intricate is the problem of markets, which are considered along with trading areas and shopping centers.

Perfecting the Product.—When Ivory soap was placed on the market about 75 years ago it was so carefully conceived and so perfected that for more than a half century the formula was not altered. The size remained the same; the shape of the soap was not changed, nor was the face of the wrapper redesigned. Has any other product retained such popularity with the public for so long a time? This is evidence that the preparation had been carefully made and was complete. In contrast to this, it is easy to point out scores of items that have been prematurely offered to the public. Sunkist oranges was one of these. When they were first advertised, they were permitted to go on the market before they were ripe, and, as a consequence, they were so sour that few people liked them and the advertising was practically wasted.

Months of tireless sales campaigning and thousands of dollars in publicity were required to convince the public that that mistake in the product had been corrected.

A very recent example of care in offering a new product is that of an ingenious camera with a cylinder only slightly larger than a quarter and otherwise so small that it can be carried in one's pocket. The inventor went to New York to find a manufacturer. It was his belief that the camera could retail for a dollar and still return a good profit. He thought a factory could be erected which, with operating funds, would not involve more than $50,000. He found a ready interest for his new product but the firm that promised to undertake manufacture insisted on making some changes. While the crude original model took a fairly good picture, it was evident that in order for the camera to be permanently popular it needed many refinements. For more than two years the firm worked on these improvements and more than 20 models were made before it was thought to be perfected. At the time this is written, the camera is not yet ready for the market.

Channels of Distribution.—There are many channels of distribution.[1] And though people cling to old habits and continue to buy from familiar sources (as is illustrated by their tenacity in buying from the large mail-order catalogues when it would be possible to go to one of the mail-order stores), nevertheless the channels continued to change and increase. The Gruen Watch Company has recently changed its distribution to include department stores, although for 75 years it had sold watches exclusively to retail jewelers. The host of new goods that have appeared in drugstores in the last few years is another evidence of the change in the channels of distribution. Yet another example is the Good Humor men, who sell so largely from their carts along the roadsides where traffic is heavy.

The vending machine is by no means new but more types of merchandise are sold through vending machines each year. Probably the greatest user of this kind of merchandising is New York City. As owner of the chief transportation systems, it controls the vending machines installed at the various stations. In a recent year the city's profit on these was over $4,250,000. The manager of the Brooklyn Dodgers recently stated that without the sale of advertising space and merchandising concessions, including vending machines, at the ball park his team would lose money. Probably the same thing is true at other ball parks. Many hotels place a limited number of vending machines in their rooms, including those for tooth paste, shaving cream, razor blades, and talcum powder.

[1] See Chap. X for further discussion.

Delicatessens and rotisseries are constantly adding new items of prepared foods, most of which were formerly cooked at home. Still other products are frozen vegetables and frozen fruits, which have become so common that they are very largely taking the place of canned and even of fresh fruits. This change in the channels of distribution will probably continue for many years to come. New channels are invented and old ones discarded.

Timing.—With some products the right time is obvious. When the farmers' fruits are ripe, they must be marketed. Heavy clothing is bought at the approach of cold weather and electric fans at the approach of hot weather. As these seasons come in different months in various parts of the country, timing presents more of a problem than at first would be supposed.

Men's straw hats are an example. In Miami, they are worn at least to some extent the year around. As one comes farther north, the seasons differ. In Washington, D.C., "straw hat day" marks the opening game of the baseball season. In New York, Philadelphia, Detroit, Chicago, and other cities of approximately the same latitude it is the first of June. The makers of straw hats, of course, endeavor to get the season under way as promptly as possible, hoping that the men of these cities will buy not just one straw hat for the season (which would be unprofitable) but at least two per person.

On the other hand, sales of many goods that once were supposed to be extremely seasonal have been distributed over practically the entire year. This is true with English walnuts, which a few years ago sold only at Thanksgiving and Christmas. An effectual advertising campaign extended the season to at least 6 months past its former limit. Greeting cards at one time were used only at Christmas and 90 per cent of the year's sales came in October, November, and December. By extending the subjects of greeting cards and by energetic advertising, the business has been so extended that nearly 40 per cent of the sales of the producers comes during the first six months.

Manufacturers of Palm Beach cloth induced tailors to begin displaying this material in April; consequently, many sales were made for delivery in May and sales were greatly increased with the longer summer which this cloth enjoyed. Other examples are numerous.

The Right Amount.—Because of the old habit of buying a pound at a time, many new food products were at first put up in pound packages. One of these was baking powder. After a can of baking powder has been opened, it deteriorates rather rapidly and, to guard against this loss, the manufacturers began packing it in smaller containers. They went to the opposite extreme and offered eight different-sized tins ranging from 2 ounces to 5 pounds; however, that proved to be an expensive way of packing it for the public. As the tins had to be of different sizes, so did the labels, and also the packaging and weighing machinery. Also, the storage problem of the manufacturer was greatly complicated. Gradually the number of sizes was reduced to a more reasonable limit.

The first people to put up tea in packages originally produced a pound carton. This was rather too much for most families and the last of the tea deteriorated seriously before it was completely used. Lipton appreciated this and not only put his tea in tin cans in order that it would be better protected, but he made the tins small enough for an average supply to the family. This practice proved so popular that in a short time Lipton had the leadership for the country in his product. Others argued that the cost of the tin was out of proportion to the cost of the tea that it contained. However, with this as with other merchandise, it was the consumer who decided and the small package continued with great popularity.

At the time prunes were first packaged, the packers economized by using a 5-pound carton. By so doing they saved some money on each 100 pounds, but 5 pounds of prunes was too much for many families. Grocers, in order to effect a quick turnover, broke open the package and weighed the prunes out, a pound or more at a time, to suit their customers. The following season the packers corrected their mistake with a vengeance: they reduced the package to 1 pound. They found, however, that the contents in this size package tended to dry out, and by the time the carton left the grocers' shelves, it was frequently short 2 or 3 ounces. Finally the 2-pound package was decided upon and has continued to be the standard weight.

For many years soft drinks were sold exclusively in drugstores. Finally one of the manufacturers conceived the idea of making a package of a half dozen bottles. These were not acceptable in drugstores but the grocers stocked them without hesitation. They found that a large number of customers purchased them for home consumption. This is an example of adjusting both package and channel to a new condition.

The Right Price.—The fundamental philosophy of competition is to permit the price to be fixed by the most efficient producer. That is what we call "the American way," "free competition," etc. It has not prevailed 100 per cent in this country, however, for more than a century. Our tariff laws have made it possible for local producers to charge a higher price for their products than they could have received had they been in direct competition with imported goods. The last few years we have gone from a competitive price to a regulated price on a great number of items. We began with regulating utilities and the price the companies might charge, including gas, electric, and water companies as well as transportation corporations. Regulation of prices has now been extended to many retail items. The so-called "fair trade" laws of many states limit the price at which goods may be sold. The limit is at the bottom and not at the top. Economists, including the authors, believe this to be bad policy as it tends to make the price high enough to protect all but the most inefficient operator and provides a cost-plus profit for all. This frequently requires the consumer to pay considerably more than he otherwise would if the prices were fixed by open competition.

Another form of price fixing is that of subsidies by the government. Many of the food products are now so subsidized that, as Mark Sullivan points out, the consumer has to pay twice. First the price is kept up by the subsidy; then the consumer is taxed to raise money to pay the subsidy. An example of this was dried eggs, which normally would sell at about 65 cents a pound, but the Agricultural Department bought millions of pounds at approximately $1.25. This not only kept the price of dried eggs at that figure, but it also prevented fresh eggs from dropping to the normal level. Here consumers paid the higher price for eggs and then were taxed to make up for the subsidy. Many economists view this condition with apprehension. They feel that the competitive system under which the country has grown is rapidly giving way to a government-dictated price system and that business cannot continue as it has in the past with such uneconomic regulations.

The Market.—As has been pointed out above, this country is made up of numerous markets. Water softeners are sold primarily in the hard-water districts including western New York, Pennsylvania, northern Ohio. Raincoats are sold in the Pacific Northwest in large numbers. Through the arid districts of Nevada, Arizona, and New Mexico, they are sold scarcely at all. And so it is with other products. Many of these districts having definite requirements change from year to year. Movie theaters are no longer being built in the medium and small towns of the Central States; the drive-in theater has lately taken their place. Bathing suits, which at one time found no sale in such dry country as Albuquerque, have a ready market there, the change having been brought about by the irrigation canals, which swimmers use for their sport. Also, municipal swimming pools have been constructed in scores of cities. The styles of bathing suits have changed so radically that they are practically a new item now offered to the public as compared with those of a decade ago. Laundry soap as sold before World War II is giving way to a new detergent. Paper napkins are replacing linen in the cheaper restaurants and are used in many homes except when company is present.

A manufacturer of a new breakfast food that was much more expensive than those already on the market came into New York and advertised it, seeking to reach the "Park Avenue" trade. He was reasonably successful; yet before considering a new advertising campaign he had a marketing investigation made. He found that it was not the affluent homes that bought his product but rather those in the more populous, but low-income, areas. Furthermore, the publications that were carrying his advertising were seldom read in the districts where he was selling the bulk of his product. The reason for this situation was, he discovered, that nurses and doctors in the hospitals, free clinics, and settlement houses in the populous area recommended the new food for babies, and through their recommendations it had found its way into a considerable number of homes in this area.

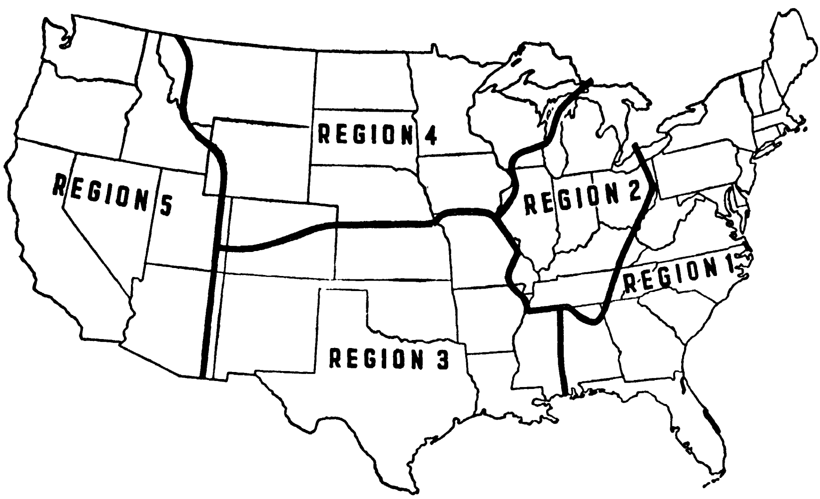

FIG. 35.—THE FIVE RETAIL REGIONS OF MONTGOMERY WARD & CO.

In addition to the more than 625 retail stores now open, the Company has over 200 Catalogue Order offices, and about 50 Farm Stores in operation. See legend, Fig. 38, for comparisons with that illustration.

Markets may not be guessed at; they must be investigated. Also, markets change over the years. In the following paragraphs further consideration is given to markets as they are affected by trading areas and shopping centers. These help to break down the vast area of the country for more detailed and accurate consideration.

Trading Centers.—In the early settlement of the country a general store, blacksmith shop, school, and church, and possibly a post office, constituted the trading center or place to buy supplies. These places

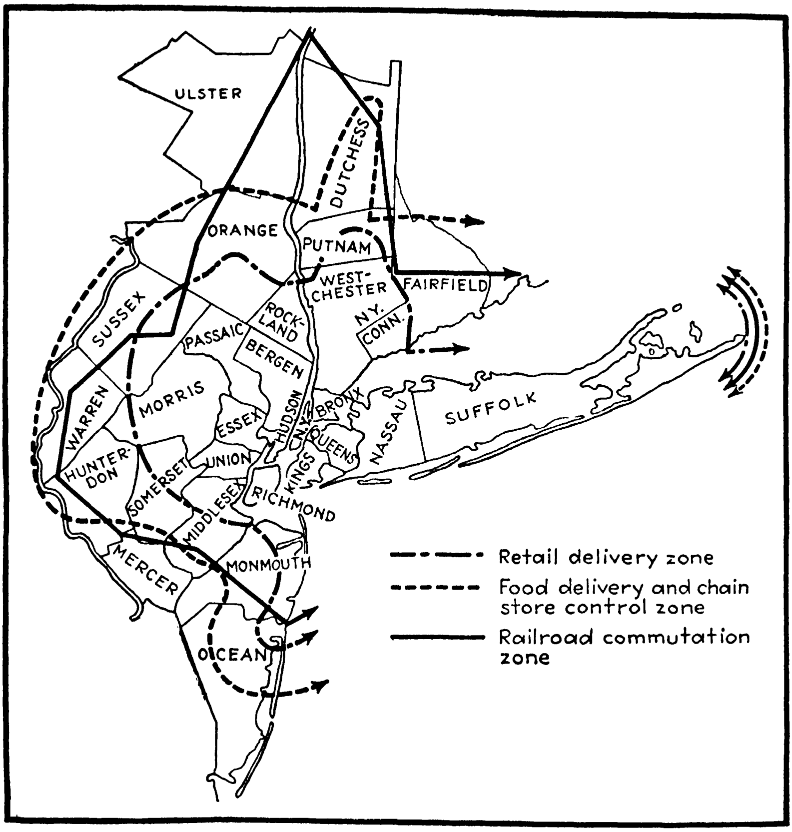

FIG. 36.—RETAIL TRADING AREA OF NEW YORK CITY

This is the trading area of the metropolitan district of which New York City is the center. The area covers a much larger territory than is accredited to any other city. All of Long Island, which extends 142 miles, is included. Upward of 100 cities, towns, and villages are included in the district as laid out. ("*Equivalent Markets*," *New York Times*.)

were frequently called by the name of the township with the word "center" added, as Ransom Center, Somerset Center, and Amboy Center. Even in the last few years such a name has been applied to a residential community in New York State: Munsey Center.

After the railroads were built, many of these Centers became larger cities. There might be one sizable village or small city which would be the county seat. Other towns and hamlets might still persist, but the main trading center of the district would be at the county seat, the core of the trading area. It is supposed that ordinarily people who live within a trading area buy all their goods there and seldom does one come from outside the area to make purchases.

As cities continued to grow, the stores found it profitable to congregate in one district. This was for the convenience of shoppers, who would not be required to move their carriage or wagons from one place to another in making purchases. As the cities grew still larger, stores were opened in the suburban districts to handle convenience goods. These were usually grocery stores and occasionally a drugstore. If the district was in the midst of a rather populous area, it might have numerous other stores. Recently the department stores have established branches in trading centers. These are a great convenience for women shopping for their children in that they can avoid a trip into the city which might involve almost a day.

Shopping centers are seldom referred to except in connection with the establishment of a new place of business. If a district of 200 families has one doctor, another physician would hesitate before opening a practice there unless he expected the population to grow. In the best districts, from 500 to 600 people will support a doctor, although it requires from 2,000 to 2,500 to keep a dentist busy.

Retail Trading Areas.—The term "retail trading area" is used mostly for towns and smaller cities. In the agricultural districts there are many counties possessing very few stores, practically no hotels, theaters, or other places of amusement. In the grain districts these trading centers will be the markets for the farmers' grain and the place where he will buy his supplies. Garages, gas stations, harness shops, and stores handling farm machinery and equipment will be the chief lines of business. Stores selling clothing will be scantily supplied and have few selections. Yet, a city of 2,000 or 3,000 may be the center of a trading area accommodating several hundred farmers.

In the larger towns, especially in isolated districts, a good hotel, one or more moving-picture houses, besides various stores, will be the center of the district. Unless such a town is far away from other trading centers, there will not be a women's clothing shop until the town becomes large enough to support at least three, the idea being that a woman prefers to shop in at least three stores for clothing before making her selection. She goes many miles to find something that suits her particular tastes.

Furniture, floor covering, electrical appliances, high-priced jewelry are some of the other goods for which buyers will go long distances. Nearly all the high-grade furniture sold in the United States is bought in cities of 50,000 population or more. So, a furniture dealer might claim a trading area of at least 100 miles in diameter, while a neighboring magazine and newspaper store would be wholly dependent upon the people who happen to pass.

Wholesale Trading Areas.—A wholesale trading area is the same as a retail area except that it is much larger. The wholesale trading areas

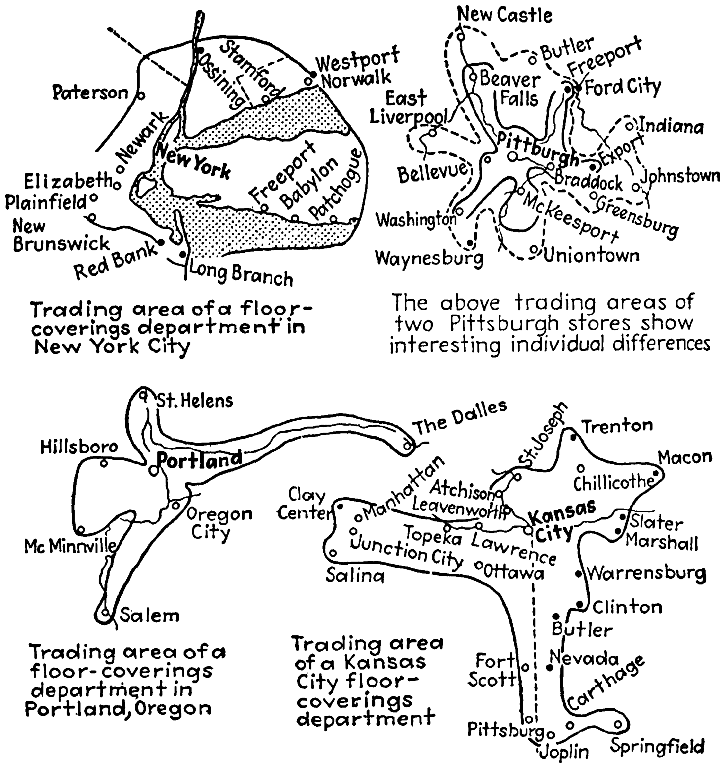

FIG. 37.—TRADING AREAS VARY

The above maps show the diverse forms a trading area can take. Some of the peculiarities are caused by topographical features, while others have their origin in the store's methods and policies.

are seldom so large that articles will sell at different prices in different parts of the district. It is not often that a city will have just one wholesale house which is highly prosperous. The transportation lines, especially the railroads, are one of the chief factors in locating the center of a wholesale trading area. It must be possible to ship in goods by the carload, if necessary, as well as to have shipping facilities for local produce. In thickly settled districts the wholesale trading area may be limited by transportation costs. An example is Philadelphia, which is about halfway between New York and Baltimore. There are numerous towns and cities along the way, and merchants will usually patronize the wholesaler nearest the breaking point where the freight rates change in his favor. If it is a lesser rate to Philadelphia, he may send there; otherwise he will choose one of the other cities. The wholesale salesman usually covers the trading area in which he is located.

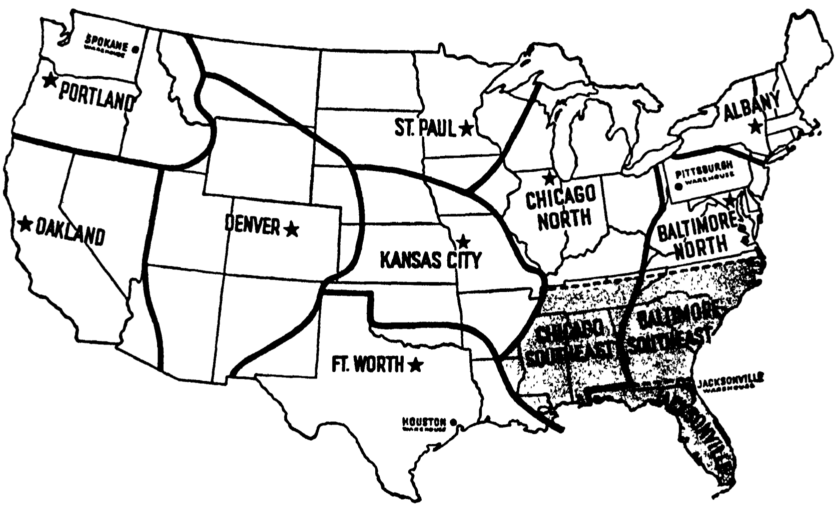

FIG. 38.—THE NINE MAIL-ORDER TERRITORIES OF MONTGOMERY WARD & CO.

Note that Chicago and Baltimore territories are each divided into "North" and "Southeast." Separate editions of the catalogue are issued for the two Southeast districts and also for Jacksonville. Also, refer to Fig. 35 and note the differences in the territory for retail regions from those shown above.

The importance of a wholesale center does not always depend upon the size of the city. Watertown, N.Y., with 30,000 population, is so isolated from large cities by mountainous country and by Lake Ontario that it is the center of an important wholesale district. There are hundreds of other small cities which are equally important because of their isolation or strategic topography. Evansville, Ind.; Cedar Rapids, Iowa; Dodge City, Kan.; Lake Charles, La.; Lewiston, Me.; Muskegon, Mich.; and Albert Lea, Minn., are a few of them. Over the Columbia River there are few bridges, and consequently the wholesale trading areas of the Northwest frequently are bounded, at least on one side, by the Columbia.

Trading Areas of Cities.—It is impossible to take a pencil and draw a circle around a city on a map, and say that this is the trading area. For convenience goods, there will probably be many trading areas within the city. There may be groups of stores constituting shopping centers for a limited number of goods, although in themselves they do not constitute trading areas, as most of their customers go elsewhere to get a large part of their supplies. Again, a city may have one or two stores so outstanding that people will travel hundreds of miles to make at least part of their purchases from them. One would not credit any city with having a trading area reaching to the farthest limits from which any of its stores or other places of business draw customers. At least a few people from almost every district in the United States plan to go to New York once a year or once in two or three years. They postpone certain purchases so that they may be made during those visits. Then there will be a better opportunity to choose antiques, rare books, or special articles of furniture, and to indulge in the enjoyment of the theater, grand opera, art galleries, and night clubs. The same thing is true of Chicago, except that the second city has not attained quite the degree of attraction offered by the metropolis of New York.

What, then, can one say is the trading area of a city like New York? This has been extensively studied by the businessmen of that city and presented in a carefully prepared survey and report. The ideal trading area is made up not merely of a line but rather of a zone that extends around the city at a distance of 20 to 60 miles. The chief factors used to determine the area are sought in the answers to the following questions. (1) What are the commuting distances? How far out do people live and still come to the city daily to work? Here again there are exceptions. One member of the faculty of New York University lives in Philadelphia and commutes daily to New York, but he is an exception. So there will always be exceptions that must be disregarded. What is the greatest distance that regular commuting trains run? (2) How far out are evening papers delivered?[2] The evening newspapers are more closely restricted territorially than the morning papers, and the distances from the city that evening newspapers are sent is another indication of trading habits. The merchants are interested in this because of their advertising. How far can they expect to draw customers? A possible but not exact answer is, only as far as the evening papers are distributed. (3) How far do the largest department stores deliver goods? They have a kind of general

[2] Figure 36 shows food-delivery and chain-store control zone, here used instead of evening-newspaper circulation. For most metropolitan centers, the newspaper circulation would be preferred. The reason for this is that many, perhaps most, people buy newspapers that carry the advertising of the stores they patronize regularly.

understanding among themselves that it is not profitable to deliver beyond a certain distance. Within the city limits they make daily deliveries. For people living farther out, deliveries may be restricted to two or three times a week. This is directly connected with the area covered by the evening newspapers. It seems only fair that customers attracted by the advertising in the evening newspapers should be accommodated by store deliveries after they have taken the trouble to come to town and make the purchases invited by the advertising.

Other factors also may be used in establishing trading areas, but these three are the usual dominant influences.

Influences That Affect City Trading Areas.—It is evident that a trading area will be quite independent of a political boundary line. County lines and state lines are crossed without the travelers even being conscious of the fact while they are on their way to do important shopping. The only time that political boundary lines influence trading areas is when some artificial impediment is placed upon buying and selling. For a number of years trade restrictions between states were multiplied. These took the form of milk, fruit, and livestock inspection of an onerous nature. The idea was not merely protection of health, but protection of home producers who were in competition with outside products. Sometimes the search of baggage and the inconvenience and delay, where there was no probability of infraction of the health law, deterred people from crossing state lines.

Sales taxes have the same effect. New York's city sales tax is an example. There are no similar taxes in New Jersey and Connecticut, or in other parts of New York state. The result is that many who would normally buy in New York City go to other places for their supplies. Probably a greater loss occurs from those who work in the great city and live elsewhere, and who would normally buy where they go daily to their employment, but who, because of a 2 per cent tax, patronize other markets even at considerable inconvenience.

These are given as examples of artificial barriers that tend to deflect trade from its normal arteries and so distort normal trading areas. On the other hand, indifference to political boundaries in selecting supply sources makes the delineation of trading areas difficult, as all census data are given for political divisions, of which the city and county are usually the smallest.

Another factor that too often has been neglected in considering trading areas is price. Price tends to be the same everywhere within a designated trading area. This applies to buying perhaps even more noticeably than to selling. Telephones make investigations easy, and if one grain elevator is paying more than another, the first will be chosen, even though the distance is considerably greater. Wool growers of southern Michigan usually go to some Ohio city to dispose of their clip. In the wholesale wool centers, Ohio wool has a better standing than Michigan wool, and so brings a higher price. This factor extends the trading area of the counties adjoining Michigan.

Cities that offer better markets for farm produce naturally draw trade from a greater district. Sometimes this is a matter of better shipping facilities, including loading and unloading equipment.

No trading area will be exactly the same for two classes of goods. A woman will go much farther to buy a fur coat than a man will to buy an automobile. Many stores become so highly specialized that they draw customers from far beyond the limits of the city's trading area. One of these is Gump's of San Francisco. It has probably the finest collection of imported furniture in the United States and other related goods of equal value. Phondorf of Denver has as fine a collection of gems and precious stones as is to be found, particularly of native stones. Petrified wood, fire opals, and pink quartz are some of their specialties, unequaled anywhere. I. Magnin of Los Angeles offers a collection of sportswear which attracts buyers from many states. Macy's book department is patronized by many who buy nothing else in the store. These are just a few examples of the extended influence of superior stores.

When the great mail-order houses began to establish stores throughout the country, instead of meeting opposition from keen merchants who were already established, the new stores were warmly welcomed and small cities competed in offering inducements. It was thought that the new stores would draw to the town enough new trade to more than offset any competitive loss. That is, they would extend the trading area.

The automobile and paved roads have very greatly extended the trading areas of the larger cities. There were literally thousands of thriving little towns in the early part of this century, but now a great many of these towns have been reduced to a school, a few gas stations, and stores selling convenience goods and other merchandise used by the traveling public. Cities large enough to maintain good hotels, theaters, and well-stocked stores, meanwhile, have gained by the greater ease with which customers can now reach them. In other words, their trading areas have been extended to cover the territory formerly supplied by the little stores in small towns, villages, and hamlets.

Illustrations of City Trading Areas.—In eastern Pennsylvania is the little city of Mauch Chunk in Carbon County. In point of direct distance, Mauch Chunk is closer to Scranton, Wilkes-Barre, and Allentown than to Philadelphia. But because of the superior attractions of the great city, most of the people of Mauch Chunk go to Philadelphia for their major shopping items. An investigation showed also that a manufacturer with wholesalers in both Wilkes-Barre, which is only about 30 miles distant, and Philadelphia, which is approximately three times as far, sold nothing to Mauch Chunk retailers from the nearest wholesaler, but that they bought liberally from Philadelphia. The topography of the country is such that it is very difficult to get from Mauch Chunk to Wilkes-Barre, and for that reason, as well as others, the manufacturer should have redistricted his wholesale areas and put Mauch Chunk in with Philadelphia. Then the wholesalers would have had much more accurate credit for the territory that each covered.

Some other striking characteristics of the trading areas of cities can be given briefly. Los Angeles is practically surrounded by natural barriers, with mountains on three sides and the Pacific Ocean on the west. Within a distance of 50 miles there are scores of cities, ranging from mere hamlets up to Long Beach with 150,000 population. For all of these, Los Angeles is the logical source of supply.

Omaha and Council Bluffs are on opposite sides of the Missouri River, one in Nebraska and the other in Iowa, but these two are so integrated that they make one center for a very large trading area extending into two states.

Columbus, Ohio, is limited by pressure from Cleveland, Toledo, Cincinnati, and Pittsburgh rather than by geographical influences.

Chattanooga, Tenn., is similar to Columbus, as it is limited by the proximity of Nashville, Knoxville, Atlanta, Ga., and Birmingham, Ala.

Florida is divided by limitations in east-west transportation. Trading areas run north and south.

Chicago is the greatest railroad center of the world; consequently it has a widely radiating trading area: Milwaukee on the north, St. Louis and Indianapolis on the south and east, and Dubuque on the west. Also, Chicago attracts much business from Michigan, especially during the summer. St. Joseph and Benton Harbor are sizable cities in the center of a populous fruit-growing district. It is only 90 miles across the lake to Chicago, and excellent steamer service provides a comfortable way of visiting the great city. Many people take advantage of this service who might otherwise be expected to travel to South Bend or Grand Rapids. The same is true of South Haven and some other Michigan cities.

St. Louis and Kansas City, Mo., share the territory between them about equally.

Sioux City, Iowa, has a long, narrow trading area, extending largely westward.

The Des Moines, Iowa, area is rectangular, partially because highways divide the state like a checkerboard.

Butte, Mont., is hemmed in by mountains.

Mountain ranges cause the area of Salt Lake City, Utah, to spread in a north-south direction. These same mountains make most of Nevada a part of the San Francisco area.

Uses of Trading Areas.—It is evident from the foregoing that wholesale trading areas differ in size as do retail trading areas. For one thing, they differ for different products. For some products, such as furniture, the trading areas probably would not coincide with those of any other product. In New York, Grand Rapids, and Chicago, there are annual furniture shows that correspond roughly to the annual new-model shows for automobiles, but perhaps there is a much greater overlapping of territory represented by visitors to the furniture shows than by those who attend the automobile shows. Another striking difference is that the greatest part of the retail furniture is sold in cities of 50,000 and more, which is in strong contrast with automobile sales. There are only a few manufacturers of automobiles left, and in each of the leading shows most of them are well represented, so that visitors or dealers would scarcely go from one city to another to visit a second exhibit. In the case of furniture, there are many more manufacturers, and, of course, many more units and variations of the units than there are of automobiles. The furniture shows are put on primarily for dealers and not for consumers, which is quite the reverse of the case in automobile exhibits. This illustrates the complications incident to establishing trading areas among wholesalers.

Once adopted, trading areas break up a large territory into units so that each may be studied more accurately, and the result as a whole may be given with a much smaller percentage of error than if a study is made from one point for a very large district. Even though the trading area does not correspond directly to political boundary lines, usually there will be a sufficient number of counties and cities so that it is possible to get fairly accurate statistics. For subdivided counties and other split districts, approximate population figures usually can be secured and used as a basis for estimates. An automobile manufacturer in planning his advertising campaign took the registrations of his car for each of the wholesale trading areas of the country. Then he carefully selected magazine circulation to parallel the distribution of his automobiles. This gave him what he thought to be an ideal circulation to cultivate, as most of his new cars were sold to people who already owned older models.

Fitting magazine or newspaper circulation to a specific territory is one of the difficulties in mapping a campaign which is made much easier by following designated trading areas. Another valuable use of the trading area is in estimating the part of the business in that district that one is able to control. Take, for example, such a wholesale trading area as that of which Des Moines is the center. A wholesaler serving that district can usually determine with a high degree of accuracy what the total sale of his products is in the area. He would, of course, also know the competing wholesalers and their relative sizes and positions in the market. From these data he could estimate his own share of the market and determine if he were securing as much business as his resources should provide.

If a new wholesaler enters the district, the probable loss of competitive business can also be closely estimated, remembering that the size of the stocks, the variety and quality of the goods indicate quite definitely the part that any one institution may have in the business of a designated district.

Market Index Needed.—If goods were distributed in direct proportion to population, there would be no need for a market index. Unfortunately, that happy condition does not exist. No article that we have ever been able to discover is used alike by everyone, or by every family. Take one of the most common household supplies as an example—salt. At first thought it might seem that everyone would eat about the same amount of salt and the consumption for different parts of the country would be in proportion to population. But it is not. A higher standard of living does not mean a greater per capita consumption, for of all items of the household that might be selected for economizing, salt offers the least possibilities. It is difficult to see how advertising could induce anyone to eat more salt. Yet the consumption of salt is not in proportion to population. In rural districts much more is consumed for each thousand people. One of the reasons for this is that it is used as a preservative for meat that the farmer slaughters and in pickling other food products. Also, most kinds of livestock eat salt. Furthermore, Illinois, Missouri, and other states where there are large packing houses have an exceptionally high consumption of this staple.

In making a sales quota there are two fundamentals of a market which should be considered—one of them is ability to buy, the other is the willingness to buy. The former is indicated by such indexes as per capita wealth, the number of income-tax returns, the number of homes owned, the amount of savings-bank deposits, the amount of life insurance carried, and, to a lesser extent, the number of automobiles owned. Willingness to buy is indicated by the way people actually spend money, particularly the way they spend it for luxuries. This, of course, is indicated by what they buy. Records may be had for sales of a few commodities and services, such as postage stamps, telephone rentals, automobiles, radio sets, power washing machines, magazine circulation, and, more recently, the total retail sales.

Of these the most commonly used is the last. Yet retail sales are far from a perfect index. In cities practically every home supply is bought from a store, or some other vendor. In farm districts fruit, vegetables, poultry, and dairy products are largely produced on the farm. Wood for fuel, flour for baking, and home-dressed meats together may constitute a considerable part of a family's food provision, none of which necessarily appears in the record of retail sales. The money saved on these supplies may be used for other purchases. In such cases low per capita retail sales may reflect ability to buy clothing, automotive products, etc., rather than lack of ability to buy, which is the usual interpretation of low retail sales. If luxury purchases are made in the same trading area as foods, the retail sales will reflect it. But often luxuries are shopped for and are bought from distant stores.[3]

One of the first appreciable improvements over population figures came when the market analysts substituted the number of families for the total number of people. That gave a smaller working unit; also, as a very large number of products are sold to the family rather than to the individual, it was more definite and more accurate. But the purchasing power of one family compared with another family varies as widely as that of one individual to another's. "Native white population" gives a much smaller index than the total population but has proved only a refinement rather than a basic figure. The poor whites, particularly of the mountain districts, have very little buying power. Also, some of our most prosperous citizens, particularly in cities and in such states as Minnesota, are foreign-born. Again, Tennessee has more native white families than Minnesota, though it has a smaller population, but its income-tax returns per thousand population are less than those of Minnesota. The same is true of the number of home telephones, of automobiles registered, and of magazines bought. Also, the Negroes, who make up such a large part of the Southern population,

[3] A usable index for this type of merchandise is sometimes made by subtracting food sales from the general sales.

are liberal spenders and, for the classes of merchandise they buy, make a profitable market.

Direction and Supervision of Marketing.—Until a few years ago the sales manager had charge of all marketing activities in most of the large companies. In fact, this is true at the present time for many of them. With the extension of the marketing program to include advertising, research, sales promotion, and public relations, new men with

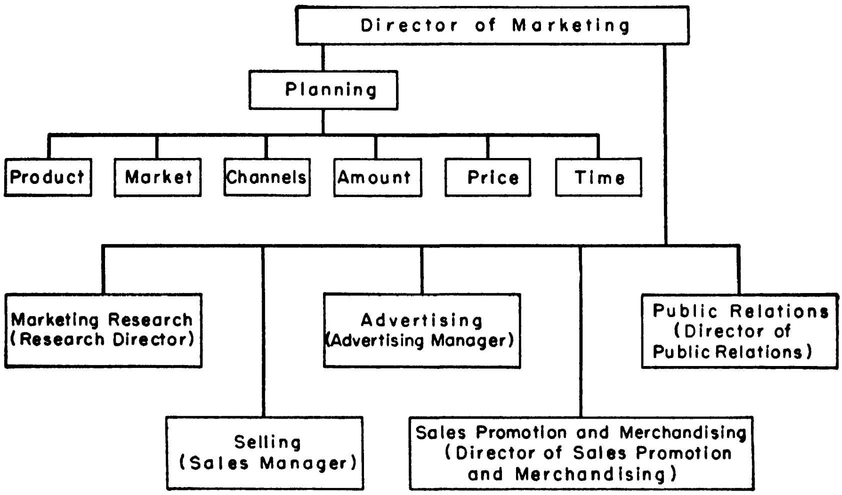

FIG. 39.—ORGANIZATION CHART OF MANUFACTURER

various titles have been included in the direction of marketing activities.

It is common practice at the present time to name a vice-president to have general charge of all these activities, while the sales manager's duties are restricted primarily to recruiting, training, and supervising the sales force. In a few firms the president retains active direction of this department. In some others there is a committee in charge of marketing, and it lays down the broad principles that are to be followed. It is then left to the marketing director and sales manager to carry them out.

These enumerated activities are so inclusive and of such a general nature that whole volumes have been written about them. Indeed, that is true of most of the chapters of this text: the majority of them have been the subject of a treatise. As has been stated above, it is the purpose here merely to discuss the general principles involved.

Standard Marketing Processes.—While the marketing departments of different institutions vary widely in their make-up and in their ac-

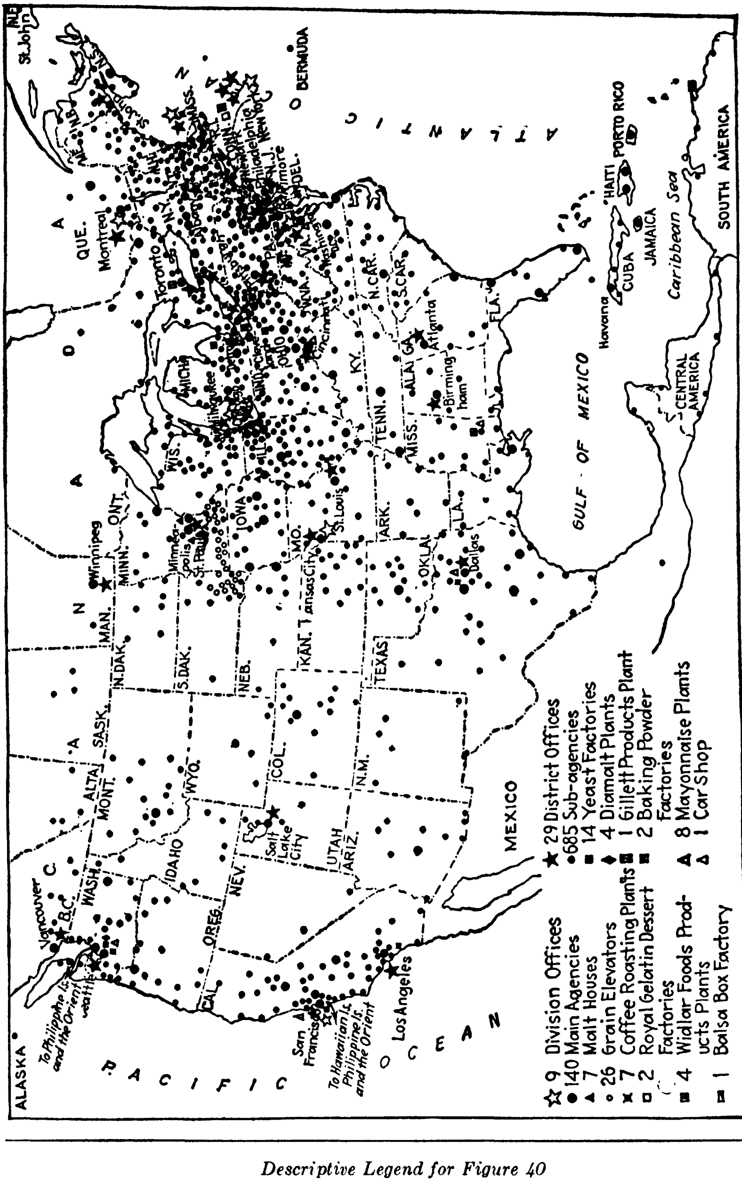

FIG. 40.—MANUFACTURING AND SALES UNITS OF STANDARD BRANDS, INC.

Descriptive Legend for Figure 40

The above map shows the location of approximately 900 sales units. In these units are approximately 5,000 employees. From these sales agencies Standard Brands covers with its own equipment 15,000 other cities, towns, and villages. Also, through public carriers (parcel post, express, etc.) 36,000 additional towns and villages are reached. (*Courtesy of Standard Brands, Inc.*)

tivities, fundamentally they all involve the same principles. This is illustrated by a laconic remark that a marketing specialist made when called in by the National Association of Morticians to discuss their marketing problems. They protested, as most advertisers do, that their business was *different*. After listening to many explanations, the marketing man said, "As I see it, your business is just the same as selling peanuts except that you have no complaints, no returns, and no repeat sales." He might have added that with the morticians no one bought for his own use.

This was a cryptic way of saying what was stated above: that all marketing activities are founded on the same general principles. This will be more apparent in reading the chapter on Marketing Policies for Consumer Goods. There, the different tools of marketing are given more extended consideration than in this chapter, but for emphasis they should be repeated here. They are: salesmanship, advertising, research, sales promotion, merchandising, and public relations.

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Questions and Problems

1. List six primary problems facing the producer.
2. Mention three channels of distribution.
3. Approximately how much profit accrues to the city of New York as a result of controlling vending machines in the city's subway system?

4. What effect does season have upon market timing?

5. Comment upon the statement "To a considerable extent the consumer decides upon the size of the package that shall be used by food marketers."

6. What is meant by the statement "The fundamental philosophy of competition is to permit the price to be fixed by the most efficient producer"?

7. How may government subsidies be regarded as a form of price fixing?

8. Explain, "Markets may not be guessed at; they must be investigated."

9. How large a population is required to "support" a doctor? a dentist?

10. Name several items of merchandise for which buyers will travel long distances. In what way does this fact affect retail trading areas?

11. Why is it that one may not arbitrarily draw a circle around a city on a map and say that this is a trading area?

12. What are some specific considerations that may affect the trading-area delineation of your home town?

13. Comment on the statement "Advertising should be related to the trading area potential."

14. Name two fundamentals of a market that should be considered when establishing a sales quota.

15. Draw an organization chart of a marketing department, pointing up some of the best current thought and practice.

CHAPTER X

MARKETING POLICIES FOR CONSUMER GOODS

Establishing Policies.—Every business must establish rules to govern its activities; these are usually designated as "company policies." They cover labor relations, manufacturing, financing, and, what is of more interest to the students of marketing, numerous marketing policies, which will be considered in this and the two following chapters.

Product policies involve such questions as the number of products to manufacture, and the quality, price, and varieties that will be included. Often there is a question as to whether there should be one product or many. Some of the most striking advertising successes have promoted just one product, as Coca Cola, Wrigley's chewing gum, Sani-Flush, and Old Dutch Cleanser. There is always a temptation after one product has been established on the market to introduce a second and a third and perhaps many more, with the idea that the good reputation of the first will help to sell the other members of the family.

Consumer policies pertain to the final destination of the goods. What kind of guarantee is provided for the consumer? Shall there be a partial or deferred payment plan? How can the consumers' needs and preferences be determined? Will low price and corresponding quality be best received or will high quality be preferred in spite of greater cost? It is the consumer who, in the end, will make or break the product. What provisions can be adopted that will win his favor?

Price policies include first establishing a base for fixing profit. Shall it be on investment, on sales, on costs as the accountants recommend, or on conversion costs? Shall there be one price or a series of quantity discounts? What will be the trade discounts—the amounts allowed the various distributors? Shall the firm try to maintain prices? How will change of price be determined? Will there be special price reductions to meet competition? All these and perhaps other factors must be considered in making prices.

Channel-of-distribution Policies.—The purpose of manufacturing is to have something to sell. With a few rare exceptions, income derived from manufacture and practically all other types of business comes through sales. The manufacturer has first to determine just how his sales are to be made. He has open to him many channels of distribution and he will choose among these according to the nature of his product or products, the number he has to sell, the sales price, the location of his customers, the amount of capital he has available, the amount of advertising he can do, and many other factors he may have to consider. To determine his policies he must consider the following questions:

1. Will he sell through salesmen or brokers?
2. What middlemen will he choose? Will there be exclusive agencies?
3. What will the credit terms be? Manufacturers of automobiles sell for cash. This is the only large business conducted on a cash basis. If credit terms are to be granted, some limits will be given.
4. How will the price be established? This includes giving a quantity price, discount to dealers, etc. The above will be more fully discussed in the paragraphs that follow.

At the time factories began to function on a larger scale, the bulk of their products was turned over to wholesalers. However, with a new product such as farm machines, which were expensive for the ultimate consumer, there were no wholesalers capable of handling the factories' output. That was true of so many other products that the promotion of markets by the factories was undertaken almost simultaneously with mass production.

Some manufacturers produce goods on contract for distributors. For example, a small soldering outfit is manufactured for one of the chain stores, which has no other source of supply; and the manufacturer has no other outlet. This kind of arrangement is frequently found where the manufacturer has only a few customers. He does no advertising. He merely produces the merchandise as the distributors want it. They take it off his hands and assume full responsibility for selling it. This is true of many firms that manufacture for wholesalers who want distinctive merchandise; and also of large department stores. Such goods are usually sold under private brands.

The manufacturer who attempts to sell to consumers is at the other extreme. If he is operating on an extensive scale, it may mean the employment of 4,000 to 5,000 salesmen. These men have to be trained, supervised, encouraged, and kept in a spirit to push the product. Such selling requires an immense amount of bookkeeping, the handling of thousands of accounts, and it involves an amount of correspondence that is staggering. Selling to retailers is less involved than selling to consumers, but even then the number of stores to be called upon, the number of adjustments and credit risks to be examined, and the number of accounts to be collected run into such figures as to approach the impossible. For the manufacturer who sells through wholesalers, the advertising may be more difficult, but fewer salesmen will be required. There will be fewer credit risks and comparatively few accounts to watch over. Again, the manufacturer may choose to sell through brokers, which is the case with many who do not maintain sales organizations. In the case of raw materials, brokers and special agents may perform most of the selling operations. In consumer goods, this form of selling naturally tends either to a strictly price basis or is wholly dependent upon the consumer advertising to control sales.

Selling Direct by Mail.—In selecting the channels of distribution, selling by mail should still be considered. References have already been made to the mail-order houses and the mail-order wholesalers. We have yet to discuss the sale of single items, among which a small number are still sold exclusively by advertising. If the manufacturer is so fortunate as to have a small, comparatively inexpensive product, the use of which is easily demonstrated, there is still a possibility of selling it direct. This possibility is greatly enhanced if the product is protected by patent and has no close competitor to be found in retail stores. The ideal article will be light enough so that shipping expenses are not a handicap. It should be simple and strong enough so that rough handling and use in demonstration will not damage it. Selling costs usually will be high, so a wide margin is necessary. The guarantee must be simple, sweeping, and scrupulously observed. It is inevitable that there will be some returns of the item, regardless of how good it is. Unless the marketer has well-prepared circulars or catalogues to supplement his publication advertising, $5 is about the maximum price that can be expected from a reader by an unaided publication advertisement.

While this kind of business is on the decline, there is still enough of it to maintain publications that are known as mail-order journals. Some of these have a very large circulation, most of which is in the small towns and rural districts. Low subscription rates are the rule. Mail-order publications carry no advertising except for goods sold by mail. Students will find interest in checking through the popular magazines and the commonly read newspapers to see how few advertisements offer to sell direct. There are only a few advertising agencies that specialize in this kind of selling. Successful copy is distinctly of the mail-order type—such as one finds in the catalogues of the mail-order house. Illustrations, if any, are small. The type fills all available space and is closely set. The coupon, if any, is very much condensed and frequently the whole advertisement does not occupy more than one-inch space in a column. Publications are given emphasis here, as they constitute the chief means of promoting direct selling by mail.

Selling by Canvassers (House to House).—There are some types of goods that seem inevitably to be sold by house-to-house canvassing. For many years that was true of the more expensive books. Such well-known works as "Grant's Autobiography" and "The World Atlas" by Rand McNally & Company were sold by canvassers. Encyclopedias and similar expensive sets of books are still sold primarily in the same way. There are many household appliances which are sold mostly by demonstrating in the home.

Retailers Who Have Canvassers.—While few firms have made striking successes by house-to-house selling, many companies have undertaken this method. Articles that require demonstrations continue to be sold by salesmen who go to the home. Sometimes automobiles, mechanical refrigerators, vacuum cleaners, oil burners, power laundry equipment, and sewing machines are sold by salesmen who call at the home and make arrangements for demonstrations. That probably will continue to be true for many years to come. This is not looked upon, technically, as "house-to-house" selling, because a local store or agent is representing a manufacturer.

A retail store frequently has charge of the demonstrating for such products as power washing machines, ironers, and even for vacuum cleaners. However, such selling is usually done through an arrangement with the manufacturer, who trains the demonstrator and shares in the expense of his work. Pianos and farm machinery are also sold in this way for the most part.

Selling the merchandise commonly found in stores by house-to-house canvassing is becoming less from year to year. There are some rolling stores that sell in this way, but they have regular routes and schedules. The great difficulty with most house-to-house selling is that the salesman must take an order and then go back to deliver the goods. People are often not at home when deliveries are made, or they may not have the money, or may refuse to accept the goods they ordered. If the item is such that the salesman can carry it with him, the difficulty may be that the buyer may not have ready money on hand, or the woman of the house may want to consult her husband, and other objections may intervene, so that it becomes extremely slow and expensive. Hosiery companies that sell from house to house have overcome some of these difficulties. The salesman collects a down payment at the time the order is given. That is his commission. He sends the goods purchased through the mails, so that the post office makes the collection of the money due. Usually no one hands money over to a stranger, but extensive advertising provides an entree for the salesmen of such firms as those mentioned.

Selling Direct to Dealers.—There are many firms that sell direct to dealers rather than through wholesalers and brokers. If the goods are highly perishable, the most direct route from producer to consumer minimizes the loss. Except with farm products, there is a tendency to sell perishables direct to dealers. Extreme-style goods fall in this class. In articles of large unit value, such as heavy furniture, pianos, agricultural machinery, and heating appliances, each sale is of sufficient importance to make direct selling profitable. If the article requires installation and will need replacement parts, selling direct to the dealer is unavoidable. A large family of products, so similar as to be sold in the same store, results in such sizable orders, involves so great an investment, and bulks so large in shipping that selling direct is economical. This is particularly true of such products as shoes and paints, where a large assortment is necessary and especially where the store buys most of its supplies from one manufacturer. Again, in men's clothing, which is bought by sample and ordered before it is made up, the normal channel is direct to the store. The men's-wear stores usually restrict their source of suit supplies to very few manufacturers. The amount bought of each is so large that it may constitute all, or nearly all, of a store's supply. No service that a wholesaler could offer under such circumstances would be of material value.

Then there are a large number of miscellaneous items, such as corsets, men's shirts and collars, and wallpaper, that have long been sold direct to dealers rather as a trade custom than because of any pressing necessity. Some items require high-pressure selling, and among these are proprietary medicines; there is then an advantage in going direct to the store.

This form of selling has its obvious advantages and disadvantages. The overhead is great because a large office force has to be maintained to look after the various orders and make collections and to attend to a large number of shipments, many of which are comparatively small in amount. One of the large silverware manufacturers carries more than 40,000 retail accounts. Selling expenses are heavy. Sometimes these expenses will be greater than the margin allowed wholesalers. Selling direct to dealers often involves the shipments of small amounts when the transportation charges are so large that they absorb all profits. This type of selling almost wholly prevents fill-in orders from customers. The disadvantages, in whole or in part, may be offset by advantages. The manufacturer is close to his consuming public and more quickly discovers defects and opportunities for improvements. Stores cooperate better with the manufacturer when sales are made direct to them. Price maintenance is made much easier. Also in selling direct to the dealer, the manufacturer avoids the competition of the private brands of those who are selling his product, a serious evil, which will be discussed at greater length in another paragraph. Cooperative sales-promotion efforts by supplier and dealer are possible in selling direct, which would not be possible if a wholesaler intervened between the manufacturer and the store.

Exclusive Representation.—Many manufacturers prefer to restrict the distribution of their products to a few middlemen rather than to have them thrown upon the open market. A few wholesalers may be selected who are given the exclusive agency for a product or, if the manufacturer is selling direct, he will prefer to choose a few retail outlets and give them the sole privilege of handling his product. The exclusive agency is to be preferred in the case of articles that require professional skill in installing. This would include oil burners, furnaces, and plumbing fixtures. If replacement parts have to be carried in stock by the distributor, the exclusive agent is usually the best representative. In cities up to 25,000 and sometimes even in much larger cities, one store may be sufficient. In the largest cities, the territory may be divided among several stores. The exclusive agency is then called a joint agency. Where more than one store is selected in a city, it is customary to place one in each of several districts, or to see to it that the stores are a certain distance apart. The dividing lines are difficult to establish.

The arrangement of the exclusive agency is a business transaction in which each party offers something of value to the other and gets something in return. The manufacturer offers the distributor the privilege of exclusive sale in his territory. The distributor offers to make some effort to sell the product over, and in addition to, that usually given to articles of the same general class.

The advantages to a manufacturer of exclusive retail distribution may be summarized as follows:

1. Smaller sales force required.
2. Credit problem lessened.
3. Accounting simplified.
4. Greater cooperation with retailers.
5. Concentrated advertising.
6. Little likelihood of price cutting by retailers.

The disadvantages of exclusive retail distribution are

1. Sales volume depends upon the ability of the individual retailer.
2. It is difficult to determine territorial limits of agencies.

3. Distributors of competing products may unite in "knocking" the article whose sale they are denied.

4. The selected store may deteriorate as a distributor.

When, in introducing a new product, a manufacturer can induce a first-class store to put it in stock and help to develop sales, a highly desirable arrangement is established. However, as the product becomes better known and as the manufacturer spends more money for consumers' advertising, he is pretty sure to reach the point where he regards just one outlet as inadequate and wants to maintain an open market. There is always danger at this point that the store which has the exclusive agency for the product will become offended and refuse to carry the product at all. Sometimes the loss of a principal outlet is so serious that it more than offsets the sales that would result from additional stores offering the merchandise.

In giving an exclusive agency to a store or wholesaler, a manufacturer should fully protect himself. Stores sometimes will accept an exclusive agency for a brand of merchandise they do not care to push but want to keep out of the hands of a competitor. The protection that the manufacturer commonly asks is the sale of a minimum amount of goods, stocking a complete assortment, or doing a reasonable amount of sales-promotion work in the form of advertising, store display, demonstration, or the like. Stores or wholesalers accepting goods on these terms usually try to get a contract for the longest possible definite period. If a manufacturer has a very well-known product of wide acceptance, he will probably refuse to tie himself with an exclusive contract for any considerable time. However, if he has a new product, he may be glad to give the exclusive sale for three or five years in exchange for the sales promotion that the distributor, either wholesaler or retailer, is willing to provide.

Miscellaneous Specialized Middlemen.—Brokers usually handle a much smaller variety of merchandise than do wholesalers. Their knowledge of markets and of goods, although not extensive, is thorough. They enable the manufacturer to cover a wide territory economically and also assist the manufacturer of limited capital to find a market at small cost for selling. This results in accepting whatever demand there is at the price offered. Very little sales effort is made by the broker, who usually contents himself with offering price and a description of the goods. If the manufacturer is a small operator, he gets scant attention from the brokers, who often handle competing lines and sometimes, in order to make a sale, play off one manufacturer against another.

The general sales agents offer some advantages that cannot be had from the brokers. They seldom handle competing lines and some of them are especially trained in the limited kinds of merchandise that they represent. They are particularly active in marketing industrial goods where technical training may be necessary properly to represent the product. They may represent several related products coming from different factories, but they avoid direct competition in the lines that they handle.

Sales agents have a highly specialized knowledge of the goods they handle, which is valuable to both buyer and seller, so that they are able to take the place of salesmen who would require technical training. As he is under a separate organization, the seller can exercise very little control over the sales agent and often finds cooperation difficult when he attempts to do advertising or other promotional work.

Selling through Mixed Channels.—Some manufacturers are able to adopt one channel of distribution and stick by it without deviation as a selling policy. Many others are obliged to cultivate more than one channel in order to serve their numerous customers. With such an article as toilet soap, which is bought in drugstores, grocery stores, and department stores, it is evident that the manufacturer must cultivate all these outlets if he is to reach the maximum distribution. One who produces such an item will of necessity adapt his method of marketing to provide a supply for the various stores patronized by his consumers.

There are many goods that do not have a definite home, such as razor blades, fountain pens, pocketbooks, stationery, and cutlery. These may be bought at hardware stores, drugstores or perhaps at novelty stores. When Ernest Buxton brought out his "Keytainer," he was at a loss to know what kind of stores he should cultivate. Finally, he decided to place it in as many stores as he could. He made the statement "All types of stores, except morticians, have sold the Keytainer with profit." Before the *Esquire* magazine was issued, the publisher went to some high-class clothing stores and induced them to place the magazine on sale. From one of the leading clothiers he received an initial order for 20,000 copies of the new magazine. If he had followed the usual method of placing the magazine on sale on the newsstands, it would probably have taken years to secure a circulation equivalent to that one order.

Sometimes a manufacturer finds it profitable to sell through two different channels because of different market conditions. Procter and Gamble have their own warehouses and sell direct to grocery stores in the metropolitan districts. Throughout the country territory served by the rural towns, wholesalers still distribute their products.

This is true of many other firms. Again, the nature of the product sometimes requires a variety of distributive channels. One of the great silverware manufacturers sells the large retailers direct. He sells the wholesalers who supply some 40,000 jewelers. Then again he sells the great hotels, dining cars, and steamships direct. This manufacturer received one order for $200,000 worth of silverware from a South American country that was furnishing its president's mansion. In this case there is a minimum of conflict between the different channels. The wholesaler could scarcely hope to get the business of the large stores which are supplied direct. It is possible that some of the wholesalers might get orders from some of the other large consumers. In that case, there might be times when the manufacturer would find himself in the embarrassing position of bidding against one of his wholesalers for an order. This is the thing that the manufacturer who uses more than one distributive channel tries to avoid. If some of his distributors are already soliciting business, the manufacturer regards it as good policy not to interfere, as there is a fair prospect that he will ultimately get the order. It is only when a manufacturer's distributor is underbid by other manufacturers that the manufacturer feels justified in going direct to the consumer.

A "mixed" trade channel policy should be governed by one very definite principle of combination. A line of division between different trade channels should be decided upon and adhered to strictly, so that marketing methods may be stabilized. The particular division may be a product division or a territorial division, or both. The manufacturer who uses several different kinds of middlemen must develop and hold the good will of one and all to obtain maximum effectiveness. Middlemen desire, above all else, equal opportunities with other middlemen of the same class, in the same territory, and in handling the same product line.[1]

Installment Selling.—Although installment selling is supposed to have started with furniture early in the 1800's, it did not come into general use until a much later time; not until after the First World War did it become so prevalent as to be generally criticized. Isaac Singer, the business genius of the sewing-machine industry, is supposed to have been the first to popularize the idea of installment selling with the sewing machine and also to originate the idea of a trade-in.

Installment selling, as the term implies, is selling for an initial payment with the article remaining the property of the seller until all the payments have been made. For items of considerable unit value, installment selling has been a great aid to distribution. Few people would

[1] G. R. Collins, *Marketing,* Alexander Hamilton Institute.

save up money in advance to buy a refrigerator or an automobile compared with the very great number who are able and willing to make the sacrifices necessary to keep up the payment after such a purchase has been made. The coming of the chain store also greatly stimulated installment selling. Before that time it was the common practice for people to run accounts at stores, sometimes extending over many months. With the inauguration of the chain stores, a cash basis was adopted. Having to pay cash for the day-to-day household expenditures encouraged buying on credit such luxury items as radios, jewelry, and sets of encyclopedias. Installment selling has had its greatest vogue with products of this nature.

Alarmists at one time thought that by installment buying the future would be so mortgaged that the time might come when business would be curtailed. It was feared that only a few would have money not already pledged to pay for merchandise partly worn out. That has not proved to be a serious difficulty for the public. During the years of depression, the failure of financial institutions organized to take care of installment sales and the credit resulting from it was not at all spectacular. In fact, their records during depression years were better than those of many other forms of business.

The automobile industry has been particularly friendly to installment selling. Although the manufacturers themselves have always sold for cash, they have encouraged their distributors to extend the most liberal credit possible. As that involved very large capital, banks at first were called upon to accept purchasers' notes endorsed by the dealers, but that plan was too limited, so installment credit institutions were established to take over, in large numbers, the notes of purchasers. This proved to be as helpful to the automobile distributors as it was to the individual buyers. In order to meet the cash payments for large shipments, automobile dealers go to the finance company and borrow the necessary money to get the automobiles from the transportation company. The cars then become the property of the finance company. They are released to the dealers when sold and paid for. The consumer buys a car on the basis of a partial initial payment and future installments and signs notes, which are turned over to the finance credit institution. The large automobile manufacturing companies finally established financial credit houses to handle this "paper," but there are many other credit institutions that "handle" consumers' notes in this and in other fields.

To be sound a plan of installment selling requires that the initial payment be sufficient to provide for immediate depreciation; future payments must be sufficiently large to more than cover the wear of the product, so that, if any payment is not made, the repossessed value of the product will be more than the unpaid installments.

So great was the enthusiasm for installment selling that paint houses and roofing concerns and many others adopted this sales plan, but selling on installment when a product was used up immediately, like paint, involved so many difficulties that most concerns have abandoned it. If the product cannot be repossessed in such good condition as to avoid loss on the payments still outstanding, it is no longer thought to be adapted to this method of selling.

Laws Controlling Installment Selling.—Some installment houses, taking their lessons from the most predatory "loan sharks," devised a system of contracts that provided huge profits on the loans. Penalties for default of payment when due, exorbitant insurance rates, excessive demands for supplementary security, and the assignment of wages were among the numerous devices used to mulct the hapless purchasers. Such unfair dealings were beginning to give the whole institution of installment selling a bad reputation and so to injure the honest participants as well as the unfortunate buyers.

Acting on the advice and information that was given by independent organizations, representing both consumers and the best of the installment sellers, the legislature of the State of New York in 1941 passed a series of laws to cure a large number of injustices accompanying deferred-payment sales contracts.[2]

1. The customer is to get a copy of the contract, itemized and clearly printed in type large enough to be read easily. Much criticism in the past has been directed toward contracts or clauses printed in type so small that it has been impossible for the buyer to read them easily.

2. A breakdown of the total sum of money that the buyer must pay, including such items as cash price, credit service charge, and insurance premium, if any, must be set forth in the contract. All too frequently the customer has only a hazy idea as to what his total charges will be. The new ruling was designed to solve this difficulty.

3. Repossessions and resale of merchandise are further controlled for the protection of both buyer and seller. For example, for the protection of the customer, certain notices of intention to retake are provided for, and the reasonableness of costs of repossessions or values of goods returned may be determined by the court. This prevents some very serious injustices, such as the repossession of merchandise when only one or two installments remain unpaid and the amount paid has far exceeded the remainder unpaid but for which no allowance is made.

[2] See Fred H. Clarkson in *The Family Dollar*, May, 1941.

4. Separate contracts are required to cover any security other than the property sold that the seller may demand of the buyer. In the past, some sellers on the installment plan have insisted that the contract include security, such as wage assignments, real estate, or other personal property, in addition to the merchandise purchased. Separate contracts are designed to bring into bold relief the significance of the step the buyer has taken in giving additional security.

5. When additional goods are purchased and added on to the sales contract, the buyer's payments and resulting rights in merchandise previously purchased are protected. Under some types of installment contracts, items of merchandise not fully paid up have been included as security for new purchases made on the same contract. The object of the new provision is to protect the buyer's equity so that a time will arrive when his original purchase under the contract is fully paid for.

6. Insurance charges, if any, as stated in (2), must be indicated and a copy of the policy must be given to the customer. This provides evidence that the insurance policy has actually been issued, and that the amount charged is the legal schedule. These items have been abused in the past.

7. Safeguards for and restrictions upon both the seller and the buyer are established in conjunction with wage assignments. As indicated by their name, "wage assignments" are obligations placed voluntarily upon the buyer, and through him upon his employer, to make periodic payments to the seller in the event of default under the normal terms of the contract. The new laws specify wage levels at which assignments can be made, require that the assignments be in separate documents duly filed for public record, and that they be enforceable only after formal demand by the seller and after a prescribed lapse of time.

8. Confessions of judgment used in connection with an installment transaction prior to default are abolished. Frequently the buyer has been asked to provide the seller, at the time of the purchase, with the necessary legal instrument for a judgment against him in case he should default on his contract. This installment technique is to be limited. So also have all possibilities for "legal costs" that have been collected but not incurred.

9. The position of the guarantor, who frequently undertakes to assume the burden of installment payments when the purchaser fails to keep his agreement, is clarified and his responsibility is defined. Under the new law the guarantor must be given a copy of any paper signed. The paper must specifically describe the transactions, and,

if a continuing guarantee is specified, it must be limited as to amount and time. To protect the guarantor still further, it is proposed that no wage assignments can be made against him unless he is a copurchaser with the buyer of goods for their common usage.

These laws will probably serve as models for other states and be widely copied.

Consignment Selling.—Much farm produce is sent to commission men in the large centers of population for sale on consignment. This means that no definite price is guaranteed. The consignee receives the shipment, sorts, grades, and offers the product for sale. After all expenses are deducted, including his own commission, the balance is sent to the shipper. It is assumed that the sharp competition between commission men will assure shippers fair dealing and good service. Probably the greatest part of consignment selling has to do with agricultural products.

Manufacturers sometimes are required to place goods on consignment in order to get distribution for them. This is regarded as the weakest kind of all selling. If the product has not enough standing of its own and is not given a sufficient amount of advertising to create a market, there is no other method for the manufacturer to use in introducing his product than to place it on consignment with stores, hoping thereby to cultivate some sale and ultimately to sell it in the regular way through the regular channels. It is evident that when a manufacturer places a product with a retailer or a wholesaler to be sold on consignment, he is assuming all or practically all of the risks. Seldom will a retailer push an article on consignment when he can substitute one into which he has already put his money.

The only exception would be that the retailer might make a little wider margin on the consigned article or, in rare cases, he would have sufficient faith in it so that he would undertake to create a market for it. The usual method is to take a receipt for the merchandise left with the store. At the end of a month, or some other designated period, the manufacturer's representative comes around and takes an inventory of the goods left and collects for those sold. Many newspapers and magazines are sold through newsstands on this plan. Bakery products, candies, and some other perishables are also sold on a consignment arrangement.

However, there are a few extremely strong manufacturers who prefer consignment selling. The Mazda lamp represents an item sold in this way. The manufacturer does not employ wholesalers but rather agents who act as wholesalers. Also, the retailers are agents, and not owners of the lamps. In terms of the legal side, the Mazda lamp changes ownership only once, that is, from the manufacturer to the consumer. It can be seen that this requires an immense amount of capital and a very large amount of detailed bookkeeping, as well as close supervision over agents. The great advantage is that manufacturers can require their agents to handle only their products. If competing goods are taken on, the agency can be discontinued. This is true only to a limited extent where goods are sold outright. There are, however, very few manufactured items that have been on the market for a considerable length of time that are sold on consignment.

Selling By-products.—Almost every manufacturer has one or more by-products, which may be an important source of revenue. These by-products are of almost limitless number and variety with such firms as meat packers, petroleum refiners, and cottonseed processors. Where the products differ as widely as these, separate sales organizations may have to be employed, wholly separate advertising campaigns laid out, and what in general amounts to separate business conducted.

A specific example from Swift and Company is revealing. The firm's principal product is fresh meat; other food products are ham, bacon, eggs, butter, dried beef, lard, sausage, frankfurters, cheese, etc. These all go to food stores and meat markets. Then there is a list of toilet soaps, cleansers, and laundry soap, requiring other channels. A large group of chemicals opens up another business enterprise. Wool, hair, hides, glue, etc., go to industrial consumers. Fertilizers go to the agricultural market. In order to operate profitably on a small margin, all these by-products have to be utilized—a thing that would be impossible on small-scale operations. Meat packing has to be done, as will be seen, on an extensive scale in order to be done economically. The marketing may or may not be more complex than for a smaller institution. That is, each of the numerous campaigns may be comparatively simple. But as they are coordinated, the resulting organization has attained a complexity that is an extensive study in itself. There is always danger that students may oversimplify the task of selling the products of a factory.

Profit Policies.—The possible bases upon which profit may be figured have been briefly indicated. These should be given further consideration. If profit is to be figured on sales, it should be definitely established that the price of every item provides the required profit. This, of course, will have to include all costs, such as material, labor, rent, interest on investment, salaries, and the other items of overhead, which are too numerous to recount. If investment is to be the basis for fixing profit, the same items of expense should be included. Merely securing a return on an investment is not necessarily providing a profit. If the money market will return from 4 to 6 per cent on investments, such rates on capital should be included as part of the operating expense.

If costs are taken as the basis for figuring profit, sufficient allowance must be made for the kind of risks that cannot be accurately measured. Some risks, as breakage, losses from carelessness of employees, or losses on unsalable goods, together with numerous other losses that are of necessity part of each business, are so difficult to estimate that to use cost as a basis is complicated.

Using conversion cost as a base for profit has much logic behind it. Conversion cost is what may be considered as the "amount added by manufacturing," as it is called in the *Biennial Census of Manufactures.* It is the costs of labor plus overhead. This is a reward for enterprise, for good management, and is not a markup on materials. Here again the indefinite costs must be included along with the overhead in arriving at the total conversion cost.

A profit, or reward, for the assumption of business risks, determined by the care or expertness with which the risks are assumed, is theoretical and impractical, for there is no way of measuring the value of such risk taking.

Whether to take a liberal profit, thereby restricting the number of sales, or to limit the profit as much as possible in the hope of making a greater number of sales is often the most difficult policy to determine. The first automobiles sold for $2,000 to $3,000. It is evident that we should never have had many automobiles if those prices had remained in effect. When Ford brought out one new model he and his son Edsel are reported to have sat down one evening and worked out the new prices in about an hour's time. They figured that if they could make 1,000,000 cars, they could sell them with a profit for approximately $600 each. If they made only 500,000, the price would of necessity be considerably higher. They had made and sold more than 16,000,000 cars in the low-price market, and acting upon that experience, they chose the lower price, which, as everyone knows, was eminently successful. Some of the utilities have found that with a reduction of price, the quantities consumed have increased so much that profits also have increased. Indeed that has often been demonstrated. Liberal profit invites competition. Dr. Dorrance, late head of the Campbell Soup Company and the man who really built it up, was glad to have business papers publish his sales cost. Including the advertising, his selling costs were a trifle under 5 per cent. That profit did not invite competition, but it was profit enough to enable Dr. Dorrance to make $30,000,000.

Price Policies.—Once the policy is established for providing profit, the next thing is to determine a system for prices. There is a strong trend toward a restricted number of price levels both in manufacturing institutions and in stores. Three price levels are regarded as the right number in many instances. In selling, will there be quantity discount, one price, or will there be arbitrarily fixed prices of so much for chain stores, so much for department stores, so much for wholesalers, and so much for independents? Will there be an attempt to maintain prices? How will prices be fixed? If the firm is one of the leaders in the field, will it have to take the position of advancing or lowering price for the rest to follow? The price structure is sometimes arranged to help maintain prices. For example, an item may be sold through wholesale drugstores, through wholesale grocery stores, through chain stores, and through department stores. The necessary margins for each of these channels differ. The one-price concern disregards competition and price cutting, and sells to all at the same fixed price. This is not pleasing to the large buyers, but the smaller institutions like the idea of buying at the same price that larger competitors pay.

If there is a quantity discount, it may be founded upon the very sound basis that it costs less to sell in large quantities than in small quantities. So, if the buyer lumps his purchases in such a way that a salesman will not need to call frequently, there will be only one order to put through, only one account to collect, and only one shipment to look after. This buyer should naturally receive a lower price than each of ten buyers whose combined quantity is no more, but each of whom has to be given a comparable service.

Sometimes the quantity discount is so arranged as to monopolize the customers. This is what is called a "cumulative" or "period" discount. It is usually computed on the total sales of a given period. For example, a certain spice house gave the following discounts:

Up to $15	No discount
$15 to $29	1 per cent
$30 to $59	2 per cent
$60 to $119	3 per cent
$120 to $239	4 per cent
Above $240	5 per cent

This kind of pricing does not permit the buyer to divide his order between two different sources without losing part of his discount. In practically all bulk goods or merchandise that does not bear a trademark, the quantity basis prevails.

The Federal Trade Commission looks with disfavor on such a price setup. They regard it as a monopolistic device, which in reality it is.

In April, 1948, the Supreme Court supported a ruling by the Commission which prevents manufacturers from adopting a single point for basing a price including transportation charges. The purpose was to give consumers within the same district an identical price. Since the Supreme Court has forbidden that practice, it seems legally impossible for the manufacturer to give his buyers the same price if there is a difference in the expense of transportation.

Even businessmen sometimes become confused on discounts; a sharp distinction should be made between quantity discounts and trade discounts. The quantity discount should depend upon the saving effected by buying in large quantities. The trade discount is more difficult to determine. It is given to different classes of purchasers as a reward for service. For example, a manufacturer offers an extra 3 per cent discount to wholesalers for the same quantity that a department store buys. The wholesaler sells to small stores, which it would be difficult and expensive for the manufacturer to reach. Furthermore, the wholesaler takes charge of packing, shipping, and collecting. Without the wholesaler's help, only a small part of the business he turns in could be secured.

Price Maintenance.—There is much discussion as to just what should be involved in price maintenance, but an acceptable definition is found in the Glossary. The theory is that price cutters use well-known merchandise as a bait by reducing the price until they make little or no profit, and competitors who try to sell at the same price may actually suffer loss. The manufacturers claim that this discourages their dealers, so they refuse to carry the product, and therefore the factories lose business; also the price cutters attempt to substitute some other product in place of the one upon which they have cut the price. But the ones who are clamorous for price maintenance, and legislation that fosters price maintenance, are the independent retailers. They look to some system of price maintenance as the only way that a legitimate profit can be guaranteed them. The manufacturer also maintains that, while the goods belong to the distributor, the name and reputation of the manufacturer do not belong to the distributor. W. H. Ingersoll makes this comparison:

Suppose that Colgate makes two batches of soap. They are alike in every way except that one batch has the firm name stamped on it and the other is wrapped up without any designating marks. The retailer, or other distributor, will much prefer the soap carrying the name of the manufacturer, because there is already a market prepared for that soap. He can sell it without effort and without lengthy arguments and description. In other words, the Colgate Company when it puts its name on a cake of soap sells the soap and supplies the market. Now, if the price of the soap is cut so that it becomes unprofitable for many stores to handle it, then the market is impaired and it is the Colgate market that suffers. So cutting the price has impaired the manufacturer's market and curtailed sales possibilities.

Chain stores, department stores, and others that buy in very large quantities maintain that some retailers are much more efficient than others, and if they are able to do business on a smaller margin of profit, they should be permitted to share the saving with their customers. This is particularly true with such stores as the super markets. They employ very few clerks, and expect their customers to wait on themselves, pay cash for their purchases, and do their own delivering. This reduces expenses very materially, and the proprietors of all self-help stores logically insist that they should not make their customers pay for services that they do not want and do not get. Professor Paul Nystrom is of the opinion that manufacturers of goods sold through stores that have different policies in regard to service given must choose their customers according to the methods used; that is, they will not be able to sell both self-help stores and service stores.

Opponents of price maintenance pointedly ask where the price should be set. Should it be placed so high that the very inefficient retailer can still make a living? Then, if many more retailers enter the field, should the price be raised again to provide a margin for everyone? These are the principal arguments offered for and against price maintenance.

Branding Policies.—Not only will the establishment of product policies cover the topics already enumerated, but it will consider such matters as: what should be the style or styles; whether there will be merely one quality or several qualities of the same article; what shall be the price range; whether the product will be guaranteed; how the guarantee will be handled; whether complaints will be handled through distributors or taken up directly with the factory; whether they should be implied, written, verbal, limited, or unlimited.

Another phase of the product policy will be that of identifying or branding products for consumers. In the eyes of the law, the purpose of a brand or trade-mark is to identify products so that the consumer can be sure of the source of his purchase. In practical business, the brand or trade-mark also is of great advantage to the manufacturer, in that it enables him to get the credit for his good product as well as to be held responsible for the product, whether good or bad. So the brand is a protection to both consumer and manufacturer. Manufacturers who do not attempt to sell their own products through salesmen or advertising usually do not have brands. The middlemen in that case attach their brand, which is called a private brand or distributor's brand. In the case of the store buying direct from the manufacturer and placing its mark on the article, the brand is called a store label, or less frequently a store brand. These are discussed in another paragraph.

To select and establish a trade-mark is a very important part of the sales program. The business or selling requirements of a trade-mark are summarized as follows:

1. It should create a pleasing impression.
2. It should be easily recognized.
3. It should be easily recalled.
4. It should be easily pronounced, if a word.
5. It should be appropriate to a group or family of products.
6. It should be appropriate to the article it identifies. ("Angelus" might be acceptable for a piano or a radio, but would you apply it to chewing gum or a fertilizer?)
7. It should not become generic. (A "frigidaire" to many people is any mechanical refrigerator.)
8. It should be of a nature that does not go out of style in a few years. (The motherly woman serving Baker's cocoa does not meet this requirement.)
9. It should be easily reproduced mechanically—for newspaper advertising and printing on containers.

Legal Aspects of Trade-marks.—A trade-mark is a name, design, picture, or combination of any of these that is used to distinguish a product as originating with some particular manufacturer. Under our laws the primary purpose of the trade-mark is to assure the buyer that the product comes from a recognized source. There is much legal controversy concerning the brands, and a recent new law has cleared up many questions—but at the same time has confused others.

The general practitioner in law knows little about trade-marks. Although the laws themselves do not seem to be complicated, there have been so many court decisions that the trade-mark laws have become so involved that only those who specialize in them are qualified to advise on questions arising.

A few of the basic legal qualifications may be reviewed, which, if carefully adhered to, will avoid much litigation.

1. The trade-mark must be distinctive. That is, it must be so different from all others that it will be readily recognized.
2. It must not be descriptive. Dictionary words which describe articles may not be appropriated by any individual or firm for its exclu-

sive use. That is exactly what a trade-mark does—gives its owner exclusive use.

3. A trade-mark may not be a symbol, insignia, flag, emblem, or coat of arms of any country, state, school, church, or fraternity. This, of course, includes the United States flag and coat of arms.

4. It must not be deceptive, and if the advertising used in connection with it is false or misleading, it practically vitiates the trade-mark.

Trade-marks are registered for a term of 20 years and may be renewed as often as the term expires. The ownership and use of a trade-mark is a private affair in this country, that is, the owner must take affirmative action in a proper court to protect his trade-marks. However, if they are infringed by a competitor, there are stringent laws which protect the owner. For example, if damage can be shown to the extent of $100, the court will award $300 as punitive damages. Also, the enforcing officer will enter the infringer's premises and destroy all cartons, labels, advertising material, and other printed forms that infringe the trade-mark. Furthermore, when a trade-mark is registered in the U.S. Patent Office it gives the Federal courts jurisdiction, and one suit against an infringer will apply to the whole country. Each of the several states has trade-mark laws, but their application applies only within the state and for the most part the state laws are subordinate to the Federal enactments. Therefore, a trade-mark registered in Washington is subject to the laws of the Congress, which supersede the state laws.

The choice of a container and a label is also part of the manufacturer's selling program. A distinctive package greatly aids recognition. It also aids the customers in recalling the advertising message. The label has two types of message: one for shelf or display reading, which includes name, manufacturer, or other sponsor, amount, and sometimes price; the other for hand reading, which covers such topics as directions for use, formula or ingredients, terms of guarantee, or other information that the consumer needs in order to use the product satisfactorily, and finally grade marks, if any. The dealer is interested in the package; he wants it to make a good display and at the same time to be convenient for storage.

Private Brands.—The advantages and disadvantages of selling through private brands should be given a brief discussion, as it is a part of merchandising that is receiving a great amount of attention at the present time, not only by businessmen but by lawmaking bodies. Wholesalers and department and chain stores like to offer their own brands of merchandise. In other words, if they can have an article such as coffee packed under their label, they feel sure that customers will come to their stores for that coffee and competition will be considerably lessened. On many items of this kind the private brand offers a wider margin than regularly trade-marked goods. If the manufacturer has only three or four customers who are able to sell all his output, the inconveniences of the private brand are of small consequence, but, as his customers multiply and as they acquire notions of their own in regard to styles or sizes or finish, the manufacturer may find himself operating a shop rather than a factory, having to change his whole process with each order. If his product has to be adapted to each distributor, the private brands become an almost impossible source of profit. This has happened many times.

Manufacturers both in the food and drug fields often find themselves in competition with the wholesaler's brand and the very wholesalers who are distributing their product are their most active competitors. This is very frequently the case with coffee. When a wholesaler is distributing a national brand and the same wholesaler has his own packaged coffee, it is evident that the trade-marked package will get second attention, and will be sold only where the private brand is not acceptable. Wholesalers, like department stores and chains, get a larger profit on their private brands; also they feel that their brands help to hold their customers. The retailers have to go to the wholesaler for the article that he labels and that consumers come to accept. This is sometimes avoided by preventing the wholesaler from having the distribution of an item unless he agrees not to handle the same or a similar product under his own brand.

If a manufacturer has but few customers, all of whom sell his product under their brands, and if he loses one or two of these customers, he may be unable to replace them. As he has no standing with the public, he is to a great extent helpless. On the other hand, if a manufacturer tires of the dictation of those for whom he makes goods to be sold under their labels, he may refuse to sell them. Then the owner of the private brand may be unable to get another satisfactory product.

Summary. The Manufacturers' Outlets.—The reason that many manufacturers have established their own sales departments and have gone so far with their own advertising and selling plans is that middlemen, generally speaking, became arrogant. They looked upon the users of the various products as their customers rather than the manufacturers' customers. They attempted to dictate to manufacturers not only what they should make but how they should make it. This irked manufacturers and many of them found a solution in advertising to consumers.

The Federal laws providing for trade-mark registration were of great aid in advertising to consumers on a national scale. The fundamental law for registering trade-marks was passed in 1905. The growth of circulation of national magazines, the organization of the various outdoor advertising companies, and the rural delivery of mail were all developed at the turn of the century. Together these made advertising not only possible but profitable for the manufacturer and provided him with a means of identifying his product which led to a dominating influence over his distributors. When an article was trademarked, the ultimate consumer was the customer of the one who produced it rather than a special customer of the middleman who passed it along. There followed a flood of private brands of wholesalers, on goods manufactured to their special order, or merely run of factory upon which their label was placed. Manufacturers retaliated by organizing their own sales departments. By coordinating their sales efforts with their advertising, many were more than able to dominate their own distributive channels.

However, the functions of the wholesaler, such as storage, transportation, introduction of goods, assisting in financing the retailers, all were services that could not be avoided. In many instances, the wholesaler was better organized to perform these services efficiently than were the manufacturers. A large percentage of manufactured goods continues to be distributed through wholesalers because of the advantages present. These are

1. Overhead is lower.
2. Fewer accounts have to be carried.
3. Sales force may be reduced to a minimum or even dispensed with.
4. Manufacturers can operate on very much less capital.
5. Much wider territories can be served.
6. Because of the large number of items that the wholesaler carries, his expenses in selling to small stores are greatly reduced.

The disadvantages that might cause a manufacturer to avoid the wholesaler are

1. Direct contact with dealers or consumers is lacking.
2. Competition with "private brands" of the wholesaler, who is also the manufacturer's distributor, has to be met.
3. Price maintenance is more difficult to enforce.
4. Sales volume is dependent upon sales force and sales efforts of the wholesaler.
5. It is more difficult to accomplish cooperative advertising with the retailer.

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Questions and Problems

1. In connection with the establishment of consumer policies by a marketer of a product, name at least four questions that may arise.

2. Name three channel-of-distribution decisions that must be made by the marketer of a product.

3. Write a short article on the topic, "The promotion of markets by the manufacturers of products was undertaken almost simultaneously with mass production."

4. What are some of the advantages accruing to the manufacturer of a product in marketing through the wholesaler-retailer channels rather than in selling direct to consumers?

5. Discuss the problems associated with the sale of single items by direct mail.

6. Name at least seven characteristics of goods that are bought for personal or family consumption.

7. If you were selling women's watches, to what extent might the chart "Male vs. Female Influence in Brand Selection" condition your marketing efforts? Treat this question from two points of view: (*a*) channels of distribution; (*b*) advertising.

8. Name at least three difficulties inherent in house-to-house selling.

9. If you were the manufacturer of agricultural machinery, pianos, or extreme-style goods, why is the likelihood strong that you would not use wholesalers in your distribution channel?

10. Define "exclusive representation."

11. List *four* advantages and *three* disadvantages in using exclusive retail distribution.

12. How might a matter of differing market conditions make it advisable for a manufacturer to use mixed channels in his distribution setup?

13. Write a short article on the subject, "Installment Selling as a Distribution Policy."

14. Why is consignment selling regarded as the weakest kind of selling?

15. Set up an example to justify the assertion, "If the money market will

return from 4 to 6 per cent on investments, such rates on capital should be included as part of the operating expense when establishing profit policy."

16. Why is it difficult to use costs as a basis for figuring profit in establishing a profit policy?

17. How is "profit" defined in this text?

18. List at least three questions that may arise in connection with the establishment of a price policy.

19. What is the theory behind the price-maintenance philosophy?

20. What is the position of the opponents of price maintenance?

21. List the business or selling requirements of a trade-mark.

22. Name the basic legal qualifications of a trade-mark.

23. Define "private brand."

CHAPTER XI

MARKETING POLICIES FOR INDUSTRIAL GOODS

The Nature of Industrial Markets.—Consumer goods have been discussed in previous chapters. Factories and establishments that provide these goods and services are also consumers of materials, supplies, and equipment. To that extent they are part of the industrial market.

For example, before your watch was finished by the manufacturer, it was necessary to place in operation a considerable plant and equipment. Also, quantities of materials, supplies, and services were used. Those business organizations that furnish plants, equipment, materials, supplies, and services to other business organizations for their use in the prosecution of their business are engaged in what is known as "industrial marketing."

Some years ago it was reliably estimated that the industrial market used about 45 per cent of all the goods manufactured in the United States. On the strength of this estimate, the 1948 industrial market totaled some $95,000,000,000. This is a tremendous figure representing, as it does, some 42 per cent of our $224,000,000,000 national income (Fig. 45, page 245).

Industrial Goods and Services.—Whether an item is to be classified as industrial or consumer goods sometimes depends, as will be shown later, upon what use is to be made of it. It has been estimated that one-third of all the goods turned out by our factories are sold to other factories, either as supplies or parts for further processing. The difference between this and the 45 per cent mentioned in the above paragraph goes to railroads, steamship companies, mines, etc. The following will give a comprehensive review of industrial goods and services.

Plant.—Under this heading should be noted all real properties (land and building structures)[1] that are devoted to industrial purposes. Examples of industrial plant would include factories, plants, mills, warehouses, wharfs, and the land upon which they rest.

Equipment.—This category would include goods under two general divisions: (1) equipment of a heavy, permanent, "fixed asset" type,

[1] Land and building structures may be correctly regarded as economic goods since they are *wanted* and have the property of *satisfying* these wants because they possess the necessary *utility.*

such as ovens, lathes, steam and diesel engines, presses, looms, and electric generators; (2) equipment of a lighter, more mobile, less fixed type, such as hand tools of all kinds, floor trucks, typewriters, cutting tables, unit heaters, and filing cabinets which are used in factories and in business offices.[2]

Materials.—All goods are purchased with the intention that they shall become part of the ultimate finished product that is turned out

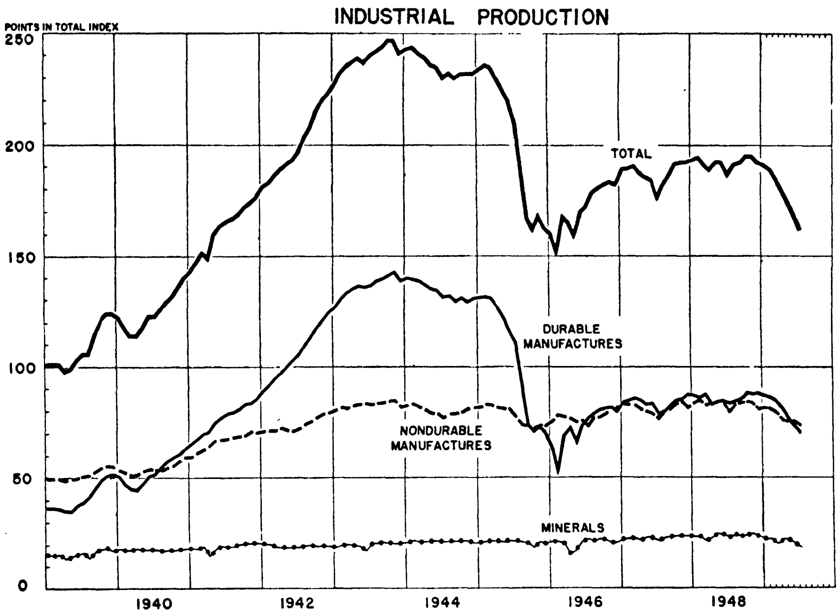


FIG. 41

by the purchaser. Such materials subdivide logically into three classes: (1) Raw materials. These include goods that have not been processed further than is necessary to make them capable of handling and transport. Products such as grain for the dry-cereal industry, cotton for the textile industry, logs for the paper industry are found in this class. (2) Processed materials. These include goods that have been fabri-

[2] The industrial market for plant and equipment (manufacturers only) runs into the billions of dollars as shown in the following selected data taken from *Historical Statistics of the United States,* U.S. Department of Commerce, 1949, p. 185:

1915	$ 616,000,000	1939	$1,572,000,000
1929	2,739,000,000	1948	8,350,000,000
1932	574,000,000		

Note: The latter figure was taken from *Survey of Current Business,* U.S. Department of Commerce, February, 1949, p. S-1.

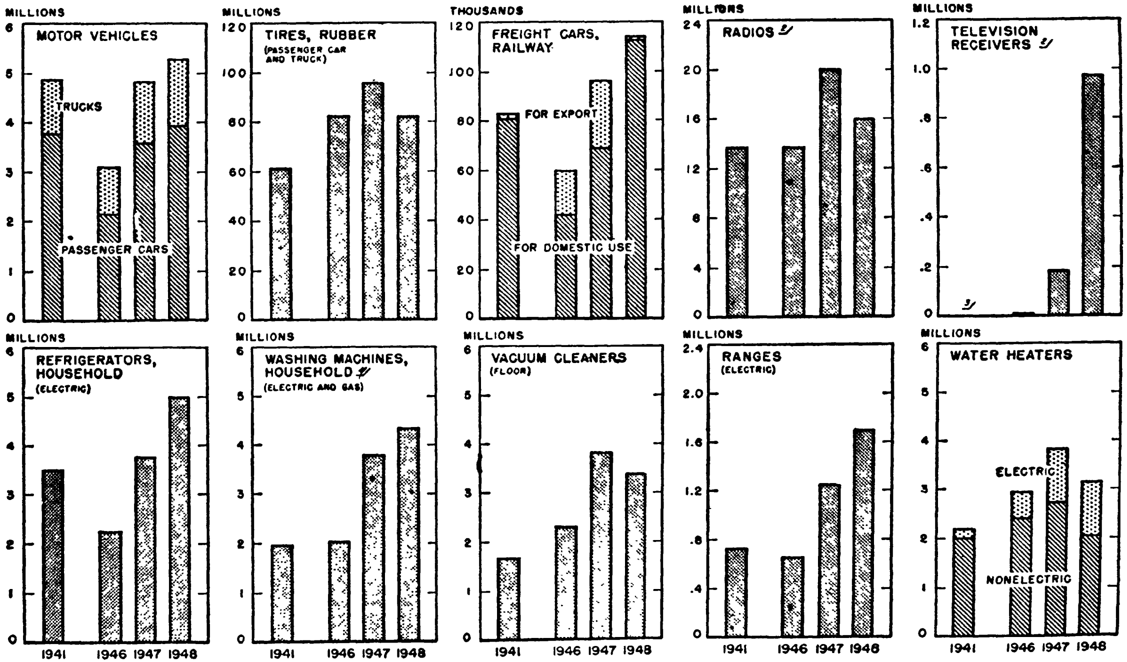
cated by a manufacturing process. Such materials have been subjected to considerable change over their original raw-material form. Products that fall into this class include sheet steel for making refrigerator cabinets, chemicals for industrial use, pigments for making paint, textiles for making clothes, and flour for making bread. (3) Manufactured parts. These goods are characterized by their finished makeup. In the refrigeration business there are firms that do what is called an assembling job. They buy manufactured parts such as cabinets, compressors, and motors, and assemble them into a complete product, the refrigerator. The large automobile manufacturers buy manufactured parts such as batteries, tires, and spark plugs, which they incorporate into their finished product, the automobile.

Supplies.—All business organizations require what might be called "operating supplies." The factory needs fuel for heating and for the firing of prime movers; consequently wood, charcoal, diesel oil, coal, coke, and gas are industrial goods when so used. Lubricating oil for the machines, typewriter ribbons, stationery, and writing ink for the office, and brooms, pails, sweeping compounds, and detergents are needed to continue the firm as a going concern and to implement the "housekeeping" functions. These supplies keep the industrial organization in gear and in motion, but they never become a physical part of the finished product turned out by that organization.

Services.—It is obvious that business firms are in need of services such as banking, insurance, transportation, telephone, electric light, and power. Not only does factory and other industrial management require these services for their organization, but, in addition, they also require the professional services of the doctor, lawyer, engineer, and advertising agent on what is termed a consulting basis.

Many of the items listed above as industrial goods and services may well be used by individual and household consumers. Very often the purpose to which the products and services are applied determines their designation. If a college student buys a typewriter and uses it to prepare his term papers, the typewriter is regarded as a consumer good. On the other hand, had that same typewriter been bought by a business firm and used in its office, it would be regarded as an industrial good. The same reasoning prevails for goods such as tires, coal, and electric fans, as well as for the services of the doctor, and of the electric, utility, and telephone companies.

Characteristics of Industrial Markets.—At this point it should be clear that there is a considerable difference between the consumer and the industrial market. In order to point up this difference even more completely, the following characteristics are outlined:



[1] Data represent production or shipments.
[2] Include radiophonograph combinations.
[3] Production in 1941 was negligible.
[4] Data for 1946 are not strictly comparable with other years.

Sources of data: Motor vehicles, Automobile Manufacturers Association; tires, Rubber Manufacturers Association; freight cars, American Railway Car Institute; radios and television receivers, Radio Manufacturers Association; refrigerators, electric ranges, and electric water heaters, National Electrical Manufacturers Association; washing machines, American Washer and Ironer Manufacturers Association; vacuum cleaners, Vacuum Cleaner Manufacturers Association; data for nonelectric water heaters for 1941, War Production Board products reports, and for 1946–48, U. S. Department of Commerce, Bureau of the Census.

FIG. 42.—PRODUCTION OF SELECTED MANUFACTURED PRODUCTS[1]

Numerical Extent of the Market.—The total number of buyers of industrial goods is relatively small. The industrial market includes all business organizations represented in the following list:[3]

Business	Total Number in Operation in the United States, September, 1948
Mining and quarrying	35,500
Contract construction	325,400
Manufacturing	327,600
Transportation, communication, and other public utilities	188,700
Wholesale trade[1]	202,800
Retail trade[1]	1,706,100
Finance, insurance, and real estate	346,500
Service industries, hotels, barbershops, laundries, repair shops, amusements, etc.	856,300

[1] The point should be made here that goods which are "traded," that is, bought for resale, as in consumer-good wholesaling and retailing, are not construed as coming under the heading of industrial marketing. However, the supplies and services *used* in the conduct of the so-called "trading businesses" do come under the designation "industrial goods and services."

In December, 1948, there was a total of 3,967,500 active business firms in operation, as reported by the U.S. Department of Commerce.[4] If this is regarded as the sum total of the entire *industrial market* (a customer roster quite beyond the fondest hope of any one company), it would still be an insignificant number of possible customers compared to the total *consumer market* in the United States, last reported as numbering some 149,500,000 plus![5]

Larger Purchases.—The amount of any given purchase in the industrial-marketing field is likely to be considerably larger than in consumer marketing, both with respect to the number of units purchased and the total money value of the purchase. The purchasing man charged with the responsibility of buying, let us say, brooms, will place an order for a quantity of them at one time. A housewife would buy one. Not only is it true that the industrial consumer may use *more units* of an item of purchase, but the chances are strong that the *rate of consumption* will be higher in the industrial field; that is, the broom will be used up faster in the factory than in the home.

Another consideration of great importance in industrial marketing concerns the relatively infrequent purchase by factory, plant, mill, and utility operators of very costly pieces of equipment. Generators, en-

[3] *Survey of Current Business*, U.S. Department of Commerce, June, 1949, p. 21.
[4] *Ibid.*, p. 21.
[5] Estimated by Bureau of Census, Sept. 16, 1949.

gines, ovens, furnaces, and presses[6] may be purchased from ready-made standard stock, but such items are more frequently made on specification, and because of their "made to order" characteristics their cost is likely to be higher.

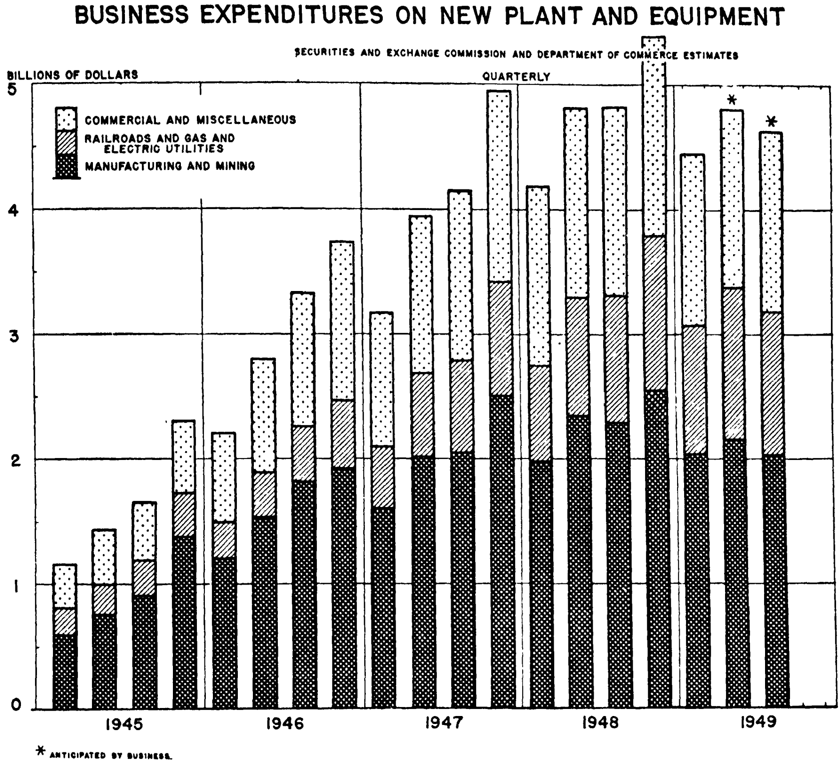


FIG. 43

Technically Competent Buying.—Because industrial goods and services are sold to businessmen for business purposes, the buyers are likely to be men who devote their entire business time to the purchasing activities of the business. They are professional buyers who have an intimate and, very often, technical knowledge of the things they buy.

[6] Observe the following quotation from a caption contained in the Sunday, July 24, 1949 issue of *The New York Times:* "With the resumption of manufacturing operations on Monday, August 1, wheels will start rolling in a new [Studebaker] stamping division at South Bend, Ind., where 61 new presses have been installed at a cost of $3,000.000. The new presses range in capacity from 75 tons to 750 tons and are capable of producing the body parts for 1,500 cars a day. Some of the presses contain four and six dies each and require as many men to operate. They will manufacture the hood panels, fenders, grille panels, gasoline tanks, tire wells, and instrument panels."

They are likely to be careful in their selections and decisions, as well as astute in negotiating with the seller.

Most of the buying is done from the viewpoint of the utility that may be extracted from the goods. The emotions of the industrial buyer are likely to play a smaller part in his work than does the rational side of his personality. Examine a technical magazine. You will see fewer pictures of bathing beauties and more pictures of machines in the advertisements. The plant, equipment, materials, supplies, and services are bought primarily on the strength of their performance.

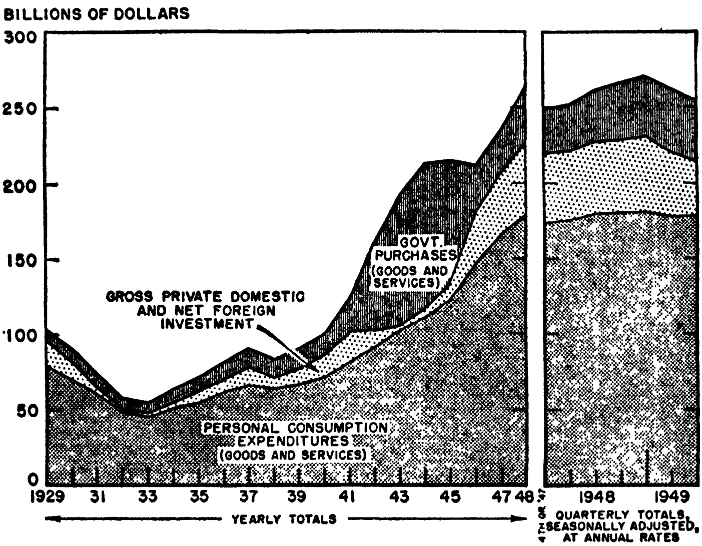


FIG. 44.—GROSS NATIONAL PRODUCT

Technical buying of this sort imposes quality-goods obligations and strict service obligations upon the seller of industrial products. He must meet the technically exacting requirements of industry with respect to both the quality of the products he sells and the services he renders, such as delivery on agreed dates, terms, and conditions. The continued operation of an entire plant may well depend upon such performance.

Longer Negotiating Period in Selling.—Because of the likelihood of the quantity purchase, the large amount of money involved, and the highly technical character of the goods bought, many industrial sales require considerable time to consummate. Indeed, it is not unusual for big deals to stretch out over periods of months or even years. Many conferences between field salesmen, sales executives, and engineers representing the seller, on the one hand, and purchasing men, treasury and operating executives representing the buyer, on the other hand, are quite common. In the 1930's one of the authors of this book was an industrial central-station service salesman. His customer purchases ran into seven figures. It was not the least unusual for him to make as many as 30 calls over a period of two to three years, contacting everyone in the firm from plant maintenance man to president before consummating the sale.

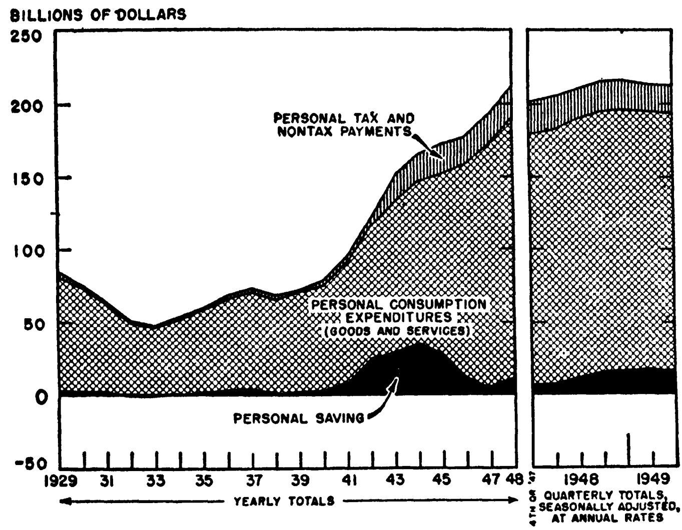


FIG. 45.—PERSONAL INCOME AND ITS DISPOSITION

Total "Personal Income" for the years 1932 to 1934 consists of the positive values shown on the chart minus the negative values shown for "Personal Saving."

Industrial Market Not Necessarily Related to Population Concentrations.—Quite at variance with the conditions prevailing in consumer-goods marketing, the industrial market has no inherent relationship to the distribution of the population. Mills and factories are often located away from the big cities. Owners of some plants find it economically desirable to locate at a point near the source of raw materials.

Because industrial goods are bought in considerable quantities and are often of a bulky nature, transportation costs wield a strong influence in industrial-marketing negotiations. Not so in the consumer-goods field, where the units of sale are small and where raw materials of large bulk are never sold.

Reciprocal Buying.—You can be fairly sure that Mr. Schultz, your corner grocer, buys his lamb chops from Mr. Brown, who runs the butcher shop down the street. And you can be equally sure that Mr. Brown buys his Corn Flakes from Schultz. That is reciprocity. It operates in all phases and levels of life. The industrial buyer, by and large, is even more reciprocal-minded than other buyers. In fact, reciprocal buying is a practice that has long been recognized as influential in the industrial-marketing field. A manufacturer will almost always insist upon buying from a business house that purchases its needs from that manufacturer. About the only exception to this practice occurs when the price is considerably out of line with that of other vendors or when the seller does not meet the qualitative and service standards.

Effect of General Business on Industrial Buying.—Business activity is not a stable thing. It fluctuates over the years through conditions of prosperity and depression. While all economic life is affected by such cyclical change in business activity, the industrial market is more immediately and more sharply affected. This is true because it is closer to the production agents of the economy, who are usually first to recognize and react to a swing, either upward or downward. The industrial marketing man's very reason for being is predicated upon the continued operation of the mines, factories, utilities, and trades in the society. The things he has for sale—industrial plant, equipment, materials, supplies and services—have no market in the depth of a busi-

TABLE 18.—INDUSTRIAL MARKET INDICATORS IN PROSPERITY AND DEPRESSION

1 Year	2 General cyclical condition of the year	3 Index of industrial production[1]	4 Railroad freight ton-miles,[2] billions	5 Manufacturing plant and equipment purchases,[3] millions of dollars
1921	Depression	58	317	1,367
1929	Prosperity	109	447	2,739
1933	Depression	69	250	717
1937	Prosperity	113	362	2,160
1938	Depression	88	291	1,393
1944	Peak of war "prosperity"	235	738	2,392[4]
1948	Prosperity	186[5]	641	8,350[6]

[1] Federal Reserve Board. Base 1935–1939 = 100. Seasonally adjusted data.
[2] Interstate Commerce Commission. Seasonally adjusted data.
[3] Capital expenditures—new manufacturing capital expenditures for plant and equipment. *Historical Statistics of the United States,* U.S. Department of Commerce, p. 185.
[4] 1947 *Supplement, Survey of Current Business,* U.S. Department of Commerce, p. 9.
[5] *Survey of Current Business,* February, 1949, p. S-2.
[6] *Ibid.,* p. S-1.

ness depression, and in such times his sales drop precipitously. On the other hand, in times of high prosperity his sales rise with equally sharp acceleration.

Examine Table 18, Column 5. Notice how plant and equipment buying by manufacturers is done in complete sympathy with the upward and downward swings of the basic economic-barometer readings shown in Columns 2 to 4.

After the examination of a considerable mass of data relating to 60 private nonagricultural industries for the years 1929 through 1947, the following table and graph were prepared by the U.S. Department of Commerce, showing the stability of these industries when exposed to the influence of the business cycle.

CLASSIFICATION OF PRIVATE NONAGRICULTURAL INDUSTRIES BY STABILITY GROUPS

Group I (highly insensitive):

- Tobacco manufactures
- Air transportation (common carriers)
- Religious organizations
- Educational services not elsewhere classified
- Nonprofit membership organizations not elsewhere classified
- Legal services
- Utilities: electric and gas
- Insurance agents and combination offices
- Local railways and bus lines
- Miscellaneous repair services and hand trades
- Telephone, telegraph, and related services
- Medical and other health services
- Highway freight transportation and warehousing
- Anthracite mining

Group II (markedly insensitive):

- Insurance carriers
- Personal services
- Local utilities and public services not elsewhere classified
- Pipe-line transportation
- Real estate
- Food and kindred products
- Highway passenger transportation not elsewhere classified
- Printing, publishing, and allied industries
- Business services not elsewhere classified
- Engineering and other professional services not elsewhere classified

Group III (average cyclical sensitivity):

- Chemicals and allied products
- Leather and leather products
- Water transportation
- Railroads
- Private households
- Paper and allied products
- Amusement and recreation, except motion pictures

Group IV (markedly sensitive):

- Textile-mill products
- Crude petroleum and natural-gas production
- Bituminous and other soft-coal mining
- Commercial and trade schools and employment agencies
- Rubber products

Wholesale trade
Retail trade and automobile services
Motion pictures
Apparel and other finished-fabric products
Services allied to transportation
Hotels and other lodging places
Radio broadcasting and television
Security and commodity brokers, dealers, and exchanges
Banking
Furniture and finished-lumber products
Miscellaneous manufacturing industries
Contract construction

Group V (highly sensitive):
Electrical machinery
Nonmetallic mining and quarrying
Transportation equipment except automobiles
Nonferrous metals and their products
Stone, clay, and glass products
Automobiles and automobile equipment
Machinery, except electrical
Iron and steel and their products, including ordnance
Lumber and timber basic products
Products of petroleum and coal
Metal mining
Finance not elsewhere classified

Group I contains the industries that are highly insensitive to cyclical fluctuation, and group II those which are markedly resistant. Group III contains the industries that showed about the same degree of cyclical fluctuation as the total (an average). Group IV contains the industries markedly more variable than the total, and group V the highly sensitive industries.

Note well how the industries classified as manufacturing and representing the bulk of the *industrial market* are concentrated in the sensitive groups, IV and V.

Channels of Distribution for Industrial Products.[7]—The manufacturer of industrial goods may sell to the ultimate industrial user either (1) directly through salesmen and mail solicitation, or (2) indirectly through middlemen such as industrial distributors, brokers, manufacturers' agents, or selling agents.

Direct Channels.—In general there are three direct channels used in industrial marketing: (1) personal salesmen operating out of the fac-

[7] For a good detailed treatment see John H. Frederick, *Industrial Marketing*, Chaps. IV, V, VII, and X.

tory or home office, (2) personal salesmen operating out of a manufacturers' sales branch, and (3) mail solicitation of industrial-consumer customers.

It is reliably estimated that about 83 per cent of all manufactured industrial goods is sold *directly* and that the remaining 17 per cent is sold *indirectly* to the industrial market. It would appear, therefore, that the direct manufacturer-to-industrial-user channel is the more

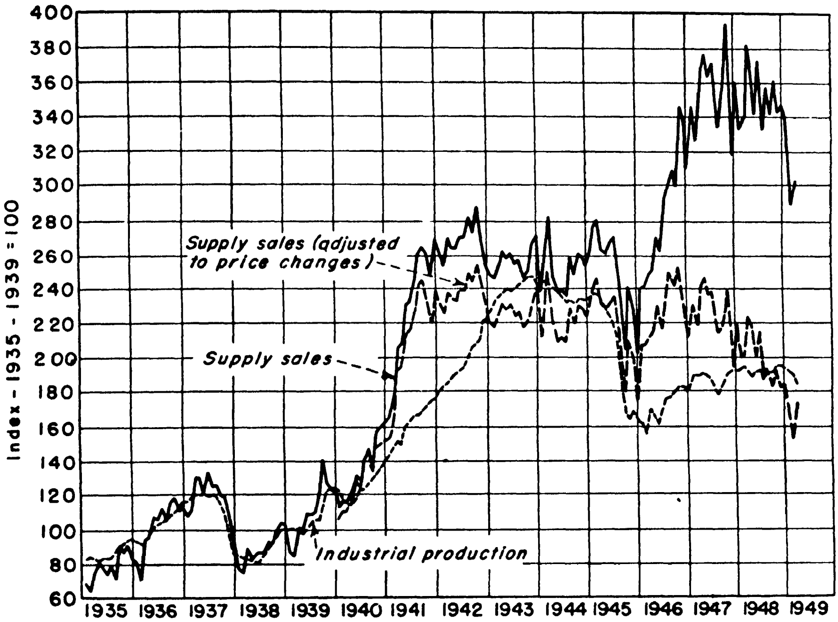


FIG. 46.—SALES OF INDUSTRIAL DISTRIBUTORS VS. INDUSTRIAL PRODUCTION

satisfactory for this particular type of economic good. The following reasons are advanced for this:

1. Very often the industrial market for a given product is geographically centered in a relatively small area, *e.g.*, steel in Pittsburgh, automobiles in Detroit, and furniture in Grand Rapids, New York, and Chicago. This makes it easy for manufacturers' salesmen to cover the market.

2. The technical nature of many industrial products often makes it necessary for the manufacturer to operate in close relationship with the user-buyer. The purchase on specification of made-to-order equipment requires personal contact between user-buyer and maker-seller.

3. Large quantities of bulky, low-unit-value materials preclude the need or desirability of a middleman. A volume buyer will inevitably drift toward and seek out the prime vendors.

4. Better control of the selling process is maintained by the manufacturer. The selection and training of the salesmen is completely controlled. The sales methods used by the men in the field and the supervision of the salesmen are entirely controlled by the manufacturer. The price, terms, delivery, and, frequently, the servicing of

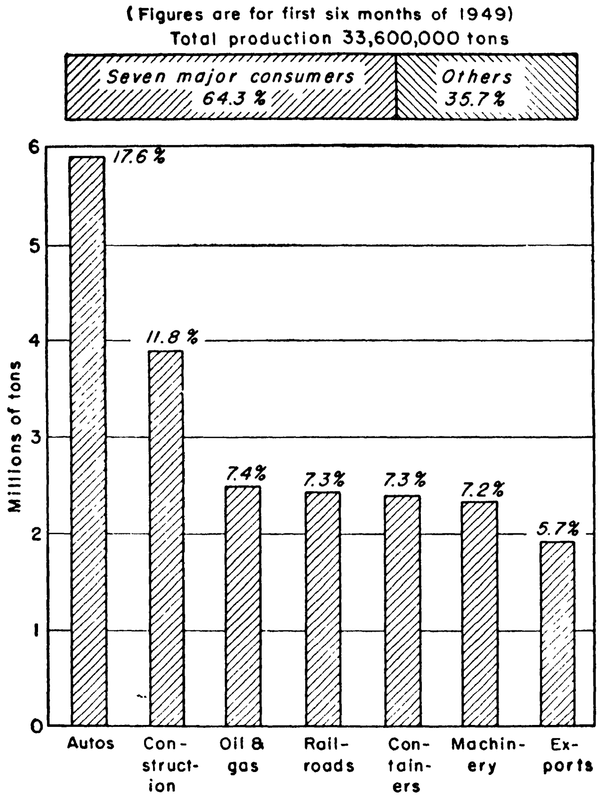


FIG. 47.—STEEL PRODUCTION AND WHERE IT GOES

the product are also closely controlled when the manufacturer handles his marketing on a direct-to-industrial-user basis.

Indirect Channels.—There are four broad classes of middlemen through whom industrial goods are distributed: (1) industrial distributors; (2) brokers; (3) manufacturer's agents; and (4) selling agents.

Industrial distributors are the most numerous and most important of these four classes of middlemen. They are the machinery dealers, the counter and fixture distributors, the mine supply houses, the mill supply houses, etc., all of which, as their names imply, often specialize within an industrial classification. As far as the industrial-goods manufacturer is concerned, these distributors have four advantages to offer.

1. They carry a stock near the user's plant. This means that there exists a local stock of the manufacturers' products available for the quick supply of industrial plants in nearly all sections of the country. Emergency deliveries are made in small quantities, a practice normally quite outside the custom or desire of large manufacturers.

2. The use of industrial distributors results in reducing the total number of customers, thereby simplifying accounting, and credit and delivery problems.

3. Each distributor employs a staff of salesmen who know well their relatively small territory and who, in the aggregate, make frequent contact with many more prospects than would be possible in direct selling by the manufacturer.

4. These distributors buy many industrial products in much larger quantities than the individual industrial user. The transportation and inventory economies of large shipments thereby accrue to the manufacturer.

Brokers are middlemen who act as negotiators, bringing buyers and sellers together. They seldom take title to the goods or perform other marketing functions. Such middlemen are not very important in the industrial-marketing field. They do, however, operate somewhat extensively in the raw- and semiprocessed-materials areas of the industrial economy.

Manufacturers' agents are industrial middlemen who sell part of the output of selected manufacturers with whom they maintain continuous relations. Their primary function is that of selling, and consequently they seldom carry an inventory. As with many of the other industrial middlemen, their area of coverage is somewhat limited in scope, and although they are distinctly on their own, their income stems from commissions, and the prices and terms they quote are generally fixed by the manufacturer whose goods they sell.

Selling agents, the fourth type among the industrial middlemen, are not very significant. As with manufacturers' agents, their chief function is selling, they are compensated on a commission basis, and they maintain continuous relationship with the manufacturer. Unlike the manufacturers' agent, the sales agent markets the entire output of the manufacturers with whom they are associated, often helping to finance such manufacturers. Also unlike the manufacturers' agents, they are not limited as to territory and they possess complete authority with respect to price, terms, and delivery.

All four industrial-market middlemen are, in a sense, wholesalers.

The term, however, is not quite applicable in the traditionally accepted sense, where the functions of the wholesaler are understood to include the sale of goods to retailers, who, in their turn, sell to consumers. In the main, these industrial-goods wholesalers do not sell to retailers. It is obviously not their reason for being.

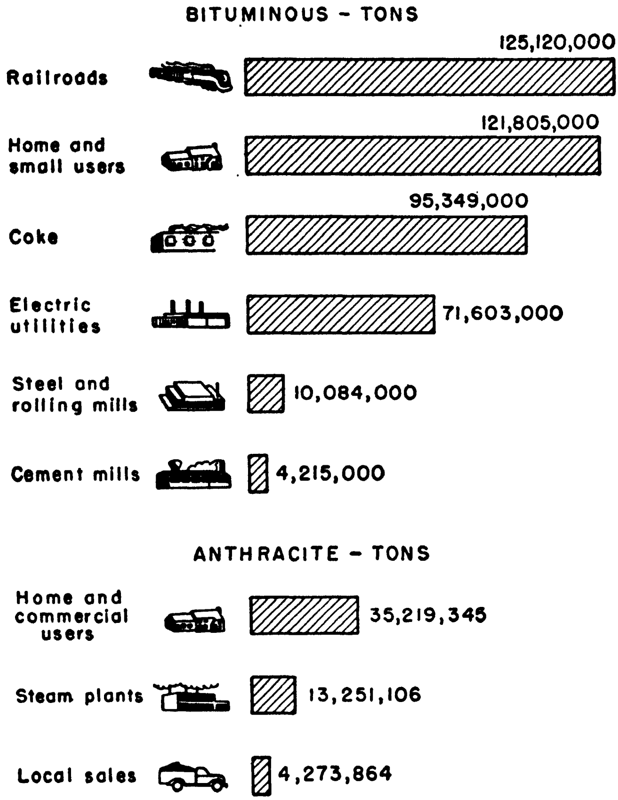


FIG. 48.—WHO USES COAL AND HOW MUCH—1945

Delivering the Sales Message in Industrial Marketing.—There are three chief methods of delivering the sales message in industrial marketing: (1) by personal contact; (2) by advertising; and (3) by sales promotion and merchandising.

Industrial Salesmanship.—Personal selling is probably the most desirable way to deliver a sales message. The salesman contacts the prospective buyer directly and conducts a complete marketing presentation. In the marketing of industrial products, this method is even more desirable—indeed, almost mandatory—because of the many technical considerations frequently encountered. It may be quite feasible to sell consumer goods such as an article of sport clothing or a fountain pen entirely without the services of a salesman. By a happy combination of advertising and the United States mail, this might well be done. But marketing techniques such as advertising, sales promotion, and merchandising, unaided by the close *advice-service-negotiation* characteristics of personal selling, can hardly be expected to do a very creditable job in selling factories, stamping machines, diesel engines, or carloads of materials.

Industrial Advertising.[8]—While it is true that personal selling is *the* prime marketing technique, it is not the only one. Nor is it economically sound to permit salesmen to contact the market unsupported by advertising and the other marketing aids. Surely unaided personal salesmanship is as wasteful as unaided advertising. In fact, the use of advertising in industrial marketing is growing to ever-increasing importance for the following important reasons:

1. Industrial advertising *covers the market thoroughly and consistently,* with infinitely greater *frequency* than is possible by means of personal selling. For example, consider the thoroughness, the consistency, the frequency, and the regularity with which the *Architectural Forum,* a professional magazine, contacts architects. Consider the number of salesmen, let us say, a radiator manufacturer would have to employ to make one contact a month with the architects who read this magazine. And architects are not the only prospects for radiators who are avid and careful readers of this publication!

2. Industrial advertising *inspires respect* and *creates prestige* for the manufacturer and his product. Before the industrial purchasing agent can buy with confidence he must know and have a belief in the product and its manufacturer. Industrial buyers read and rely upon the publications in their field. If such buyers see advertisements of a given firm in these publications they become acquainted with the firm and, because they see the advertisement in a respected publication printed along with those of other respected manufacturers, they soon entertain a confidence in the product.

3. Industrial advertising *delivers information* to prospective customers. This will make it considerably easier for the salesman to talk to the prospect since the advertisement has already done much to break down sales resistance.

4. Industrial advertising *locates active prospective customers.* Consider the vast market, numerically and geographically, for nearly any

[8] For a good discussion of industrial advertising's worth, see D. F. Austin, Vice-President U.S. Steel in Back Your Salesmen with Advertising's Fire Power, *Industrial Marketing,* July, 1949, p. 33.

of the many products in the industrial field. It is quite beyond the physical ability of any one firm personally to contact the *total* market. The mass-contact effect of advertising can and will ferret out the prospective customers who are actually interested in the particular product advertised. The salesman can then go out and attempt to close the sale, advertising having saved much of his time in locating the prospect.

Five types may be listed among the principal advertising media most frequently used by industrial-goods manufacturers. They are: (*a*) direct mail, (*b*) industrial, trade, farm, and professional magazines, (*c*) catalogues, (*d*) general business publications, and (*e*) general magazines.

a. Direct-mail advertising entails the mailing of sales literature by the industrial-goods manufacturer direct to the prospective user. The great merit of this kind of advertising is that the recipient is carefully selected by the manufacturer for susceptibility as a buyer. There is, therefore, a minimum of wasted advertising.[9]

b. Specialized business magazines are perhaps the most important industrial marketing medium.

(1) *Industrial magazines* are those published for the mining, manufacturing, construction, utility, and similar industries. *Factory Management and Maintenance, Iron Age, Diesel Progress,* and *Contractors and Engineers Monthly* are examples.

(2) *Trade publications* are those issued especially for the retail and wholesale trades. *Progressive Grocer, Furniture Digest, Chain Store Age, Sporting Goods Dealer,* and *Boot and Shoe Recorder* are examples.

Obviously these magazines are of great value to sellers of industrial goods since the readers are highly concentrated in the specialized field for which the publication is issued. Placing an advertisement in such a medium implies a high-prospect circulation and a low-waste circulation for selected specialized goods and services.

(3) *Farm magazines.* It will astound no one to read here that American agriculture has long since become mechanized. But it is astonishing to learn the extent to which it has become mechanized. For instance, there are 3,750,000 tractors in operation on American farms.[10] The Bureau of the Census reported that, in 1948, farm machines and equipment totaling $1,684,590,000 had been purchased by 6,000,000 American farmers, through 25,000 farm-equipment dealers. New tractors accounted for $450,000,000, replacement parts for an-

[9] For a good treatment of this special kind of direct-mail work, see I. H. Bloom in 11 Ways to Use Direct-mail for Industrial Advertising, *Industrial Marketing*, August, 1949, p. 33.

[10] *Farm Implement News,* August, 1949.

other $350,000,000, and the sale of oils and greases alone accounted for $380,000,000 worth of the more than $1,500,000,000 total![11]

Is there reason to use farm media such as *Better Farming Methods, Farm Implement News,* and *Farm Equipment Dealer?* The figures speak for themselves.

(4) *Professional magazines* such as *The Journal of the American Medical Association, Military Surgeon, The Journal of Oral Surgery,* and *North American Veterinarian,* are, of course, used by manufacturers of equipment normally sold to doctors and dentists. In this connection it should be mentioned that when a manufacturer uses professional publications he secures a certain amount of "recommended" selling done by the professional readers who, in their turn, recommend the use of the product to patients and associates.

c. Industrial catalogues are printed by several firms such as the Thomas Publishing Company (*Thomas' Register of American Manufacturers*), MacRae's Blue Book Company (*MacRae's Blue Book,* general industry), Sweet's Catalog Service (*Sweet's File for Mechanical Industries*),[12] and McGraw-Hill Catalogue Service (electrical, food, mining, and textile fields). These publications are of considerable help to industrial buyers since they list in compact volumes the important sources of all sorts of industrial equipment and materials. It is only good sense for manufacturers and other sellers of industrial goods to be prominently included in such lists by buying space in appropriate catalogues.

d. General business publications such as *Nation's Business, Business Week, Forbes,* and *Fortune,* are frequently found rather productive when used by industrial advertisers. Magazines of this kind might be termed horizontal business media inasmuch as their circulation strikes across all industries. The readers of such magazines are obviously not as specialized a group as that which reads industrial, trade, farm, and professional publications, but for many products the result is as good and sometimes better.

e. General magazines such as the *Saturday Evening Post, Collier's,* and *Life,* although it may, on the surface, seem somewhat wasteful for an industrial house to place advertisements in them, are surprisingly productive. This depends, of course, upon the product and how the advertisement is made up. In support of the use of general magazines by industrial marketers, notice, if you will, the frequent insertions in general magazines by truck manufacturers, office-equipment manufac-

[11] As quoted from Implement and Tractor, *Industrial Marketing,* Sept. 5, 1949.

[12] There are Sweet catalogues in the architectural, building, engineering, power-plant, process-industries, and product-designers fields.

turers, and even prime fabricators such as U.S. Steel, Aluminum Company of America, and others.

In 1948, the amount of money spent by industrial advertisers in the media just cited totaled some $240,984,000, or 5 per cent of the estimated $4,830,700,000 spent in all advertising media that year. It was made up as follows:[13]

Direct mail	$ 25,875,000
Industrial publications	94,500,000
Trade publications	18,135,000
Professional magazines	26.325,000
Catalogues	40.250,000
General business magazines	5.499,000
General and farm magazines	29,900,000
	$240,984,000

Industrial Sales Promotion and Merchandising.—Compared to the use of salesmen and advertising, the techniques of sales promotion and merchandising are generally not very significant in the field of industrial marketing. However, there are segments in the field wherein a considerable amount of specialized marketing work is done at exhibits and conventions which might well come under this designation. Also, there are firms, especially large manufacturing corporations, that encourage the prospective buyers to make what are called "open-house tours." Much of the activity connected with the participation in, or operation of, these marketing activities may be characterized as industrial sales promotion and merchandising.

Preparing and making available leaflets, broadsides, posters, and point-of-sale signs of all kinds are sales-promotional activities. The distribution of sales-promotional material and its display at exhibitions, fairs, and conventions, and in the showrooms of industrial distributors are highly important industrial-marketing practices. Designing, setting up and operating the displays at shows and exhibitions, as well as conducting demonstrations before prospects at such gatherings may be listed as important merchandising activities quite indispensable to the successful operation of many industrial-marketing departments.

Commodity Exchanges in Industrial Marketing.—Briefly, the commodity exchanges are organized places where a businessman may buy or sell commodities. In the chapter immediately following, a somewhat detailed discussion of the commodity exchanges will be given.

One of the principal reasons for patronizing an exchange is for the privilege of buying and selling futures, that is, selling commodities for

[13] Data secured from *Industrial Marketing*, Sept. 15, 1949, p. 40.

delivery at a future date. Much of such buying is strictly speculative and is made by professional traders and their clients. But a large volume also comes from manufacturers who use the product in huge quantities and find it necessary to buy on large scale in advance of consumption. For example, the large tire manufacturers want to be sure that they have a 90-day supply of rubber under dependable contract. To carry the required amount in storage all the time would require vast warehouse space and the continuous investment of a large sum of money. To add to the difficulty, the price of rubber in the past has fluctuated violently, going from 3 cents to more than $1 a pound within a year.

Much of this difficulty and practically all the risk can be avoided by buying rubber futures on the exchange. As will be discussed in the next chapter, a technique called "hedging" provides a way to avoid some of the risk inherent in operating in "futures."

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Questions and Problems

1. Define "the industrial market."
2. About how much of the goods manufactured in the United States is consumed by the industrial market?
3. Name the four general types of industrial goods.

4. What is the difference between "raw materials" and "processed materials"?

5. Refer to the series of charts entitled "Production of Selected Manufactured Products." Give an explanation for the dip in production during 1948 of water heaters, vacuum cleaners, rubber tires, and radios. What is your explanation for the considerable increase in the export of freight cars in 1946 and 1947 as against 1941? What is the per cent increase of television sets and the per cent decrease in radio sets in 1948 as against 1947?

6. What are the seven special characteristics of the industrial market which make it markedly different from the consumer market?

7. Refer to the chart "Industrial Market Indicators in Prosperity and Depression." How do you account for the increase in column 3 and the decrease in column 5 during the year 1948 as against 1944? Indicate in percentage the greatest extreme in column 5. Why are headings 3, 4, and 5 good industrial-marketing indicators?

8. What are the four reasons that account for the fact that most manufactured industrial goods are sold directly by the maker to the user?

9. List the four advantages to the manufacturer of using an industrial distributor.

10. List four reasons that account for the increased use of advertising in industrial marketing.

11. Which is the most important industrial-market advertising medium?

12. Write a short article on the topic, "Farm magazines are an important industrial-marketing advertising medium."

13. Why is it good business to advertise in a catalogue such as *MacRae's Blue Book* when you are selling industrial products?

14. What percentage of the total money spent on advertising media is accounted for by industrial advertisers?

15. What are some of the activities connected with industrial sales promotion and merchandising?

CHAPTER XII

MARKETING POLICIES FOR AGRICULTURAL GOODS

Importance of Agriculture.—Agriculture is an important part of our economy. It accounts directly for the living of nearly one-fifth of our population and supplies a large part of the food and fibers to sustain and clothe the whole population. Many have argued that the prosperity of the country is dependent upon a prosperous agriculture. Table 19 gives interesting data concerning this relationship, and the relative position of our agricultural population to the total. Early in this century one-third of our people were farm folk, but the lure of our expanding industry and improved methods on our farms combined to cause and permit a steady decline in the proportion of our population engaged in farming. Net agricultural income as a percentage of national income has declined also, but not with the same steady drop shown in population relatives. For 1931 and 1932 farm income as a percentage of national income was less than half that of the period before the First World War, and even during the generally prosperous twenties the net farm income was only about two-thirds as large a part of the national income as during the immediate prewar period.

An index of agricultural prosperity is found in the right-hand column of the table. For the period covered, 1910 to 1946, the most "normal" years were 1910 to 1916 and 1935 to 1941; in both, the farm-income percentages were approximately one-third of the proportion that the farm population bore to total population. During the twenties, the lag in agricultural prosperity is plain; in the short but sharp 1921 recession, the prosperity index was only 22 per cent, and recovered to only slightly above 30 per cent in the second half of the decade. In the bottom year of the great depression, agriculture hit its lowest ebb, its prosperity index being only 20.9 in 1932. By contrast, the First World War brought tremendous prosperity to the farmers, the index reaching 54.2 in 1918. The Second World War had similar effects, the highest index being 47.2 for 1943, and the postwar demand coupled with continued high prices—partly due to government supports—further raised the index to 52.3 in 1946.

In the past, it has been common for agricultural prices to drop early in depressions and to remain low longer than industrial prices. This

TABLE 19.—AGRICULTURAL INCOME, POPULATION, AND PROSPERITY RATIOS[1]

Year	Farming net income as per cent of national income	Farm population as per cent of total population	Farm prosperity index[2]
1910	13.5	35.1	38.4
1911	12.0	34.5	34.8
1912	12.6	34.0	37.1
1913	11.6	33.5	34.6
1914	12.4	32.9	37.7
1915	11.5	32.5	35.4
1916	11.3	32.1	35.2
1917	15.6	31.5	49.5
1918	16.6	30.6	54.2
1919	14.9	29.5	51.0
1920	11.4	29.9	38.1
1921	6.5	29.5	22.0
1922	8.0	29.0	27.6
1923	7.9	28.0	28.2
1924	7.9	27.3	28.9
1925	9.1	26.8	33.9
1926	8.2	26.3	31.1
1927	8.0	25.5	31.4
1928	8.3	25.2	32.9
1929	7.8	24.9	31.3
1930	6.8	24.6	27.6
1931	5.8	24.7	33.5
1932	5.2	24.9	20.9
1933	7.1	25.6	27.7
1934	7.1	25.4	27.9
1935	9.0	25.1	35.8
1936	8.2	24.6	33.3
1937	8.5	24.1	35.2
1938	7.6	23.7	32.0
1939	7.4	23.4	31.6
1940	7.0	23.0	30.4
1941	8.0	22.6	35.4
1942	9.3	21.7	42.8
1943	9.3	19.7	47.2
1944	8.7	18.6	46.7
1945	9.1	18.1	50.2
1946	10.0	19.1	52.3

[1] U.S. Department of Agriculture, through 1945; 1946 from The Farm Income Situation, June–July, 1947, p. 23.

[2] Prosperity index calculated: ratio of net income percentage to farm-population percentage.

condition is the basis of much of the legislation designed "to place agriculture on a basis of economic equality with other industry." The apparent "normality" between 1935 and 1941, with the prosperity index hovering about the one-third figure, as during 1910 to 1916, may be attributed partly to the government payments to farmers begun after 1933. The fear of a sharp decline after the recent war, similar to that of 1920–21, prompted the extension of agricultural-support programs into the postwar period. As a result, prices of farm products stayed

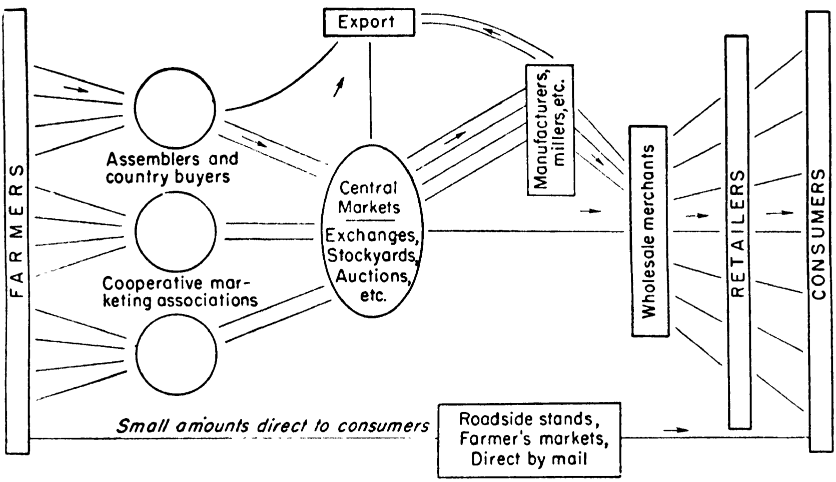

FIG. 49.—MARKETING AGRICULTURAL PRODUCTS

higher than they should have and were an important element in the postwar inflation.

Whatever the merits of the original contention that agriculture was not holding its own with the industrial part of our economy, these figures indicate that we may have gone to the other extreme: that a factor in our postwar readjustment difficulties may well have been the inflexibility injected into the economic system by the many agricultural laws carried over from the depression thirties. In addition to the problems of acreage allotments and other efforts to control surpluses and maintain more adequate farm incomes, numerous marketing problems are touched upon in the Federal acts pertaining to agriculture.[1] The Agricultural Marketing Act of 1929 provided a supplementary market through the purchases of the Farm Board, but without signal success in correcting overproduction. The Act of 1933 added produc-

[1] The discussion of Federal aids is based upon *Price Supports for Agricultural Prices,* a pamphlet of the United States Chamber of Commerce, Agricultural Department, June, 1947.

tion control with payments to farmers secured from processing taxes, but was invalidated by the Supreme Court because of the tax provisions. While payments to cooperating farmers were maintained under the guise of soil-conservation programs, a new law was passed, the Agricultural Adjustment Act of 1938, aimed again at correcting maladjustments in supply so that "parity" of farm-product prices and manu-

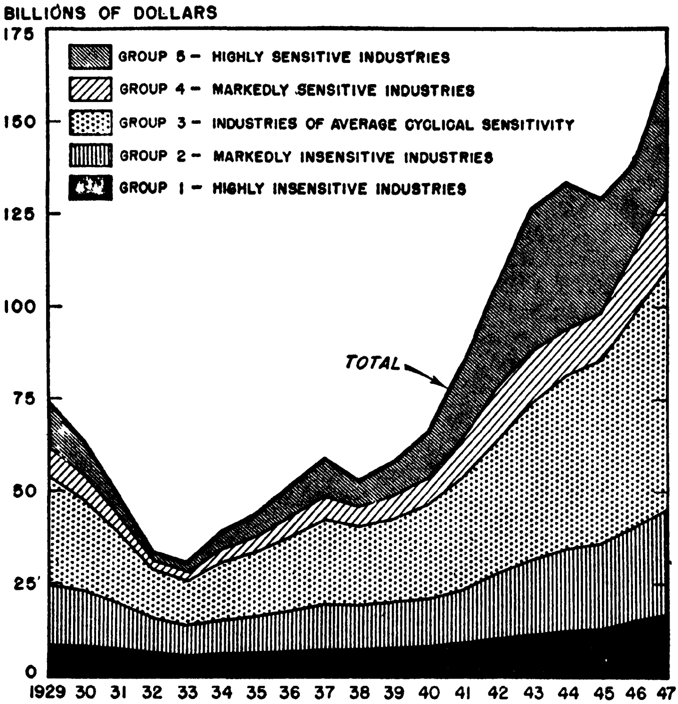

FIG. 50.—PRIVATE NONAGRICULTURAL NATIONAL INCOME BY STABILITY GROUPS

factured-goods prices might be attained. In simple terms, the parity idea is to keep the agricultural part of the economy on a level with the industrial part by having income received by farmers for their crops maintained at an equivalent with the prices they must pay for equipment and consumer goods. Agricultural "purchasing power" is maintained, this helps uphold the level of manufacturing activity, and a more stable economy is the result. This is the theory.

Three major methods of dealing with surpluses were included in the 1938 Act. Acreage adjustment was designed to control production, but the terms of the law actually required excesses beyond domestic and export market needs. Commodity loans were designed to aid the farmer if parity was not attained in the normal market. Later revisions and additions to the law gave it greater significance. "From merely checking price declines until a fundamental adjustment could be accomplished under the other methods, substantial volumes of surplus have been carried under the commodity loan year after year."[2] In effect, the government has been put into the business of marketing agricultural products. The third method, marketing quotas, was designed to help adjust supply to active market demand and thus maintain a satisfactory price level. These quotas may not be applied until the farmers approve by vote, but when put into effect provide a penalty for any sales beyond the quota established.

In many other ways the government has entered the agricultural marketing picture. A program of marketing agreements was developed for use with particular products. These agreements provide for more orderly marketing by adjusting supplies and prices, as between markets and uses. For example, some milk is sold as fluid milk and some is made into cheese, butter, powdered milk, and other manufactured products. The farmer receives for his milk, no matter what it is used for, a price based upon the proportion *in the market area* going into fluid milk and into other uses.[3]

More adequate farm-credit systems—an elaborate Federal Bank and Credit organization—programs of soil conservation, aid plans for distressed farm families, including new housing provisions, increased rural electrification efforts, and many other programs might be cited to show the wide scope of agricultural aid. The program is varied and expensive, and to many appears to be far more political than economic. However, the problems of agricultural marketing are difficult to consider apart; they are woven into the fabric of agriculture and the agricultural life. Farming is not solely a business; it is a way of life. The farmer's home and place of business are one. Farm-product prices, if let alone, are based largely upon world supply and demand, and governmental policies, both foreign and domestic, affect the farmer's market and prices directly.

Moreover there are many other economic and social forces, over which the farmer has little or no direct control, that enter the situation. Overproduction, despite controls, due to weather conditions; shifts in foreign markets; replacement of work animals with machines, resulting in losses of markets for animal foodstuffs and more acreage available for other crops; declining rate of population growth; the

[2] *Ibid.*, p. 12.

[3] Cf. Paul L. Coates with A. Nicholson, I Say Milk Costs Too Much, *Cooperative Digest*, Jan. 1, 1949. Reprint from *The Saturday Evening Post*.

"agricultural revolution," with its increased efficiency in production; the ups and downs in industrial employment; farm tenancy; increasing urbanization of rural standards of living; and the relative inflexibility of marketing costs—all these are illustrative of the forces making the problem so complex.

Difficulty of Controlling Production.—Someone has compared the marketing of citrus fruits to a factory with a continuous assembly line that runs day and night. It cannot be halted even for a minute. Yet because of uncontrollable factors, in some years production will be very small; and because of speeding up without the knowledge or consent of the marketer, in some years there will be an immense increase to market, as much as 50 per cent more than in other years. The orange and lemon groves come into bearing after a wait of from five to eight years while the trees are growing. If conditions are favorable, there may be a bumper crop. The trees will not stop producing, although there may have been a bumper crop the year before. Working overtime will not make up for blight or for loss by freezing. No matter what the demand, there is no remedy for a short crop. It is impossible to tell far in advance of harvesting whether the crop will be large, average, or small. Yet large or small, the crop must be sold. It cannot be carried over from year to year. It should be noted, however, that the increased demand for citrus fruits as canned juice or sections, and for the even newer frozen product, provides an alternative to marketing of the crop "in its skin." This change in marketing applies to many fruits and vegetables, as consumption of frozen vegetables has increased over 500 per cent since 1937, and that of frozen fruits about 300 per cent.[4]

Conditions similar to those for citrus fruits prevail with many farm crops. Even though the acreage is controlled under the operations of the agricultural acts, the exact extent of the crop cannot be learned far ahead of the time for marketing it. "Man proposes, but God disposes" is very true in agriculture. In addition to problems of domestic production, farmers of this country are in competition with growers all over the world, especially in the marketing of grain, cotton, tobacco, meat animals, fruits, and vegetables. The price-making function formerly exercised by the great world market centers, such as Liverpool for wheat and cotton, has been vastly impaired by government regulations and marketing agreements. Agricultural prices and marketing, both domestic and international, no longer are entirely free-market operations but are complicated by political manipulation and government activities. Formulation of sound principles of agricultural mar-

[4] Snow Crop to Cut Prices on Monday, *The New York Times*, Aug. 11, 1949.

keting today is handicapped, therefore, by the artificial nature of much of the process.

The United States' Farm "Plant."—"The nation's farm 'plant' consists of less than 6,000,000 widely varying establishments, or farms, with production and incomes ranging from subsistence levels, or even less, to standards of living comparable with the best that business and

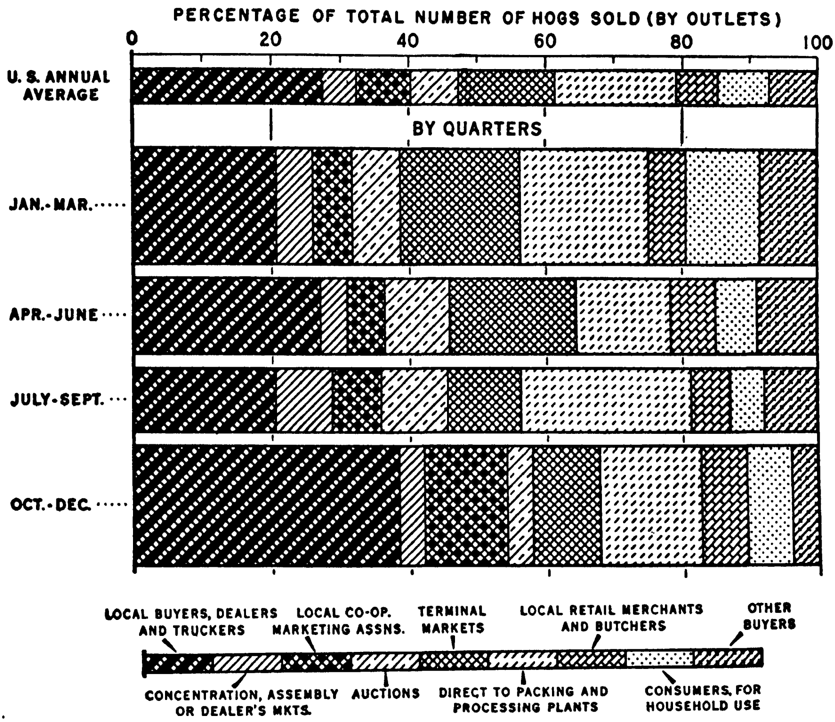

FIG. 51.—MARKET OUTLETS USED BY FARMERS FOR HOGS, UNITED STATES, 1945

industry can offer."[5] As Table 20 shows, the number of farms has been dropping since 1920. While the total acreage has steadily increased for approximately a century, the average size of farms declined for several decades after 1850, has risen steadily since the First World War, but still is just about that of Civil War times. This means less than 5,900,000 separate, largely individual and relatively small-scale producers cultivating and harvesting the essential food products to sustain 149,500,000 Americans,[6] besides the millions overseas that look to America for food and the materials from which cloth-

[5] J. W. Thompson Co., Virgil D. Reed, Director of Research, *The Farm Market,* 1948, p. 2.

[6] Estimated by Bureau of Census, Sept. 16, 1949.

ing is made. Each farmer produces so infinitesimal a part of the whole that he is helpless to influence, much less control, the market for what he has to sell. He normally, therefore, produces all he can—this practice modified today by agricultural controls—because the unit price he receives is the same whether his crop is large or small. This practice was a prime cause of agricultural surpluses, hence a major reason for the controls included in the Federal laws aimed at bettering and stabilizing agriculture.

TABLE 20.—THE UNITED STATES' FARM "PLANT"[1]

Year	Number of farms, thousands	Land in farms, millions of acres	Average size of farms, acres
1850	1,449	294	203
1860	2,044	407	199
1870	2,660	408	153
1880	4,009	536	134
1890	4,565	623	137
1900	5,737	839	146
1910	6,362	879	138
1920	6,448	956	148
1930	6,289	987	157
1940	6,097	1,061	174
1945[2]	5,859	1,142	195

[1] W. N. Peach and W. Krause, *Basic Data of the American Economy*, Richard D. Irwin, Inc., 1948. Compiled from USDA data.
[2] Preliminary estimate.

Before the First World War, the agricultural products of the world were just about enough, one year taken with another, to supply the demand. The war gave production in this and other countries such an enormous impetus that—in America at least—the product per worker was doubled for most crops. Refusal to permit the goods from other countries to come here except under the handicap of a stiff tariff resulted in retaliatory measures which shut off our foreign markets and contributed to the depressed condition of our agriculture between the world wars.

The "agricultural revolution"—greatly increased mechanization, diversified farming, improved fertilizers, etc.—and the new stimulus of the Second World War helped maintain the tremendous productivity of American farmers. And the great needs of the world during and since the war have given a market able to take the huge output. Already, however, there are evidences of the same nationalist restrictionist policies by the countries of the world that appeared after the First World War. These, together with our own agricultural laws, are complicating efforts to bring agriculture into a sound relation with manufacturing industry and with the world market. That neither we nor the other countries have learned the futility of artificial economic controls is evidenced by the many "plans," of which the Brannan Plan is typical.

Study of Table 21 and its attendant classification of our farms will reveal the preponderance of middle and small family-size farms, and help greatly in understanding the importance of the large number of wholesale marketing organizations described later in this chapter. Nearly one-half of our farm units are in these two classes. Large-scale and large family-size farms together represent less than 10 per cent. Problems of assembly, for example, are magnified by the large number of farms, 42.9 per cent, in classes V to VII, whose value of product per farm is almost entirely below $3,000.

Characteristics of Agriculture.—Farming has been undergoing marked changes, becoming much more a commercial proposition than a way of life merely, even though the family is, and likely will remain, the normal operating unit. Owner-operated farms in 1948 (USDA Bureau of Agricultural Economics survey) were 72 per cent of all farms, highest figure during this century. Long characterized by crop specialization in broad geographical areas—dairying in the Northeast and Lake states, corn and hogs in the Midwest, wheat in the Eastern Plains states, cotton in the South—our agriculture is now increasingly diversified, reducing the instability of a one-crop economy. Soy beans, peanuts, flaxseed, vegetables, and fruits all show tremendous increases. In many parts of the country, however, climate and soil conditions still limit the farmer's choice of crops that can be cultivated profitably.

Whatever the crop and wherever it is grown, agricultural marketing is largely a matter of assembling, sorting, grading, and transporting. A few merchants in the outskirts of cities, and others in towns and villages in agricultural districts, are able to buy directly from the farmers. But this market is only a tiny fraction of the total. The soil of the surrounding farms is not always suitable for vegetables and fruit, which constitute the chief products sold in this way. The great bulk of farm crops is marketed through wholesale middlemen who function all the way from local assembly markets to the great central markets and the distributing markets of large cities.

The following general characteristics of agricultural production and marketing suggest some of the problems involved.

1. Seasonal production. Except in the irrigated regions, production is largely seasonal, nature determining what, where, and when crops may be grown and harvested. Man must conform. Broadly, this

TABLE 21.—CLASSIFICATION OF FARMS[1]

Type	Number of farms		Average value of land and buildings		Average value of implements and equipment		Tractors on farms	
	Number	Per cent	Value	Per cent	Value	Per cent	Number	Per cent
I	102,136	1.7	$78,422	16.9	$6,720	11.7	207,401	8.4
II	408,914	7.0	26,067	22.4	3,135	21.9	507,081	20.6
III	1,172,971	20.0	11,135	27.5	1,718	34.3	929,125	37.8
IV	1,661,920	28.4	5,117	17.9	713	20.1	536,753	21.9
V	602,212	10.3	2,585	3.3	289	3.0	89,034	3.6
VI	923,459	15.8	2,305	4.5	269	4.2	88,993	3.6
VII	987,277	16.8	3,583	7.5	291	4.8	100,241	4.1

[1] Special Report on the 1945 Sample Census of Agriculture.

Classes of Farms by Types

I. Large-scale farms
   a. Value of products $20,000 or more, and value of land and buildings at least $15,000
   b. Value of products $8,000–$19,999, and of land and buildings $70,000 or more

II. Large family-size farms
   a. Value of products $8,000–$19,999, and of land and buildings less than $70,000
   b. Value of products $3,000–$7,999, and of land and buildings $30,000–$69,999
   c. Value of products $20,000 or more, and of land and buildings $5,000–$14,999

III. Middle family-size farms
   a. Value of Products $3,000–$7,999, and of land and buildings below $30,000
   b. Value of products $1,200–$2,999, and of land and buildings $20,000–$29,999
   c. Value of products $20,000 or more, and of land and buildings below $5,000

IV. Small family-size farms—Value of products $1,200–$2,999, and of land and buildings below $20,000

V. Part-time farms—Value of products $250–$1,199; of land and buildings below $8,000, the farm operator working off the farm 100 days or more

VI. Small-holding farms—Value of products $500–$1,199; of land and buildings below $8,000, the farm operator working off the farm less than 100 days

VII. Nominal-unit farms—All other farms
   a. Value of products less than $250
   b. Value of products $250–$449; of land and buildings below $8,000, the farm operator working off the farm less than 100 days

means that supplies must be stored in great quantities during harvest time or marketed quickly—depending upon their nature and market demand.

2. Perishability. A large portion of farm products is perishable, ne-

cessitating great care in storage and transportation. Development of the frozen-foods industry has been of significance in this respect.

3. Variable quality. Agricultural products vary greatly in quality from year to year, and standards are difficult to establish. It is most difficult to predict what the quality of many products will be until they are virtually on their way to market.

4. Output variability. The output varies greatly from season to season. Favorable growing conditions increase the supply; unfavorable conditions decrease it. This is one reason why some authorities hold legislative efforts to "balance" production with consumption must end in failure.

5. Small-scale production. Average production per farm is small. While there has been an increase from the 134 acres of 1880, the average-sized farm in 1945 was still below 200 acres, smaller than a century ago. Small output per farm means too little crop to market profitably by the individual farmer; hence middlemen are essential in agricultural marketing.

6. Local production. Local weather and soil conditions govern production, but the market is national, even international, especially for the great staples of American farming—cotton, grains, meat animals. Distances to market have been increased vastly by transportation improvements. In 1787, farm products could be shipped profitably no more than 50 miles; by 1937, the average distance was 500 miles, a 1,000 per cent increase.

7. The farmer himself. By nature the farmer is essentially a producer. For years he has been schooled in production. Only in isolated cases and chiefly since the First World War has he been very greatly concerned with marketing. Each farmer has looked upon himself as an independent businessman. Now that finding a market is so important, this independence on the part of the farmer is in itself a problem. He has learned something of coordinating his marketing with that of his fellow producers through the formation of cooperative marketing associations, but their growth has been slow, except for a few localized crops. Government legislative efforts in behalf of the farmer have run up against this attitude and, at the same time, have modified it.

8. Politics. The factors enumerated above may be said to be the normal characteristics of agriculture and its marketing problems. For at least two decades, however, an additional important factor has been government. Beginning, in its modern phase, with the recognition of the economic lag of agriculture in the twenties, government aid was pronounced during the depression thirties, and continued through and

since the Second World War. Parity, acreage allotments and marketing quotas, and government activity in the markets for foreign relief are important examples of this influence upon the marketing problem of farmers.

Wholesalers in the Agricultural Market.—Fresh fruits and vegetables ready for consumption, and processed foods—meat, canned goods, packaged foods—are bought normally by consumers from the retailer, in the same way as other consumer goods; hence the discussion of agricultural-products marketing is confined to the wholesale organization. This is the distinctive phase of agricultural marketing, as contrasted with the marketing of manufactured goods, whether industrial or consumer products.

In season, small quantities of fruits and vegetables, honey, and other products, are sold direct to consumers by farmers—from roadside stands; in farmers' markets, curb or indoors, maintained or supervised by the city, as in Harrisburg, Pa.; at sale barns in orchards; on occasional regular routes in the residential areas of nearby cities and towns; or in the form of specialties by mail, such as smoked turkey, honey, and graded eggs. Most fresh-fruit and vegetable marketing, however, is through commission merchants, auctions, and cooperative marketing associations, as wholesalers to the retail grocers. Bulk sale for canning and processing is by contract to large companies, to local canneries both cooperative and independent, and to large canners whose buyers often travel the growing areas. Meat animals are sold primarily through the stockyards in primary and secondary market centers. The great staples, grains and cotton, are marketed to local buyers—elevators, ginners, or other country buyers—or through cooperative marketing associations. These products are dealt in extensively in the great central-market commodity exchanges. The activities of a number of these typical agricultural middlemen are described in the following pages.

Local Market Buyers.—Assembling is a primary function of agricultural buyers operating in the local markets. For economical transportation, carlot shipment is essential. The operations of local buyers provide the farmer with an immediate cash market and reduce for him the functions of storage and grading. Broadly classified, these local market buyers fall into two categories: (1) those with permanent local offices or places of business, and (2) traveling buyers. They may be independent businessmen, representatives of chain stores, large packers, millers or other large processors, or they may be cooperatives.

Country Buyers.—Because of the small amounts of salable products from most farms, country buyers came early into the marketing picture, and since the settling of the Midwest have taken an important and active part in disposing of whatever the farmers have to sell. That applies particularly to products for which there is an inadequate home consumption, if any at all. The local butchers may slaughter enough sheep, hogs, and cattle to supply the people of the town in which they are located, but the surplus has to be shipped to larger and, usually, distant markets. The drover buys up the surplus. Seldom does one

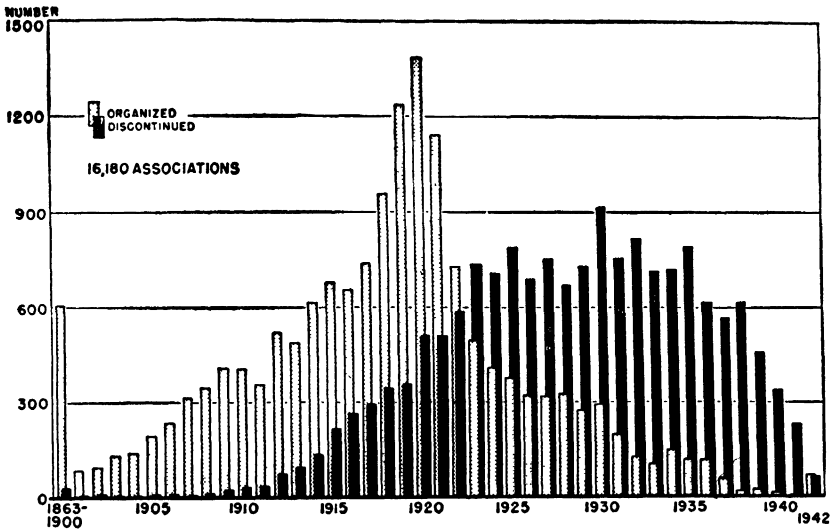

FIG. 52.—MARKETING AND PURCHASING ASSOCIATIONS ORGANIZED AND DISCONTINUED, 1863–1942

farmer—except the great ranchers in the grazing areas—have enough livestock to dispose of to make a shipment economical. The drover may operate on his own capital, or he may be a representative of large operators and work on salary or commission.

Also there are special buyers, or assemblers, for many farm products. With livestock, grains, cotton, wool, poultry, and dairy products, grades have become so well established that quotations from the large exchanges and auctions are widely published, forming the basis of local prices offered by these buyers. But for a great number of farm crops, like dried fruits, lima beans, sweet potatoes, and such semiperishables as apples and nuts, there are not enough dependable markets nor are standards well enough established so that authentic quotations are available. It is in connection with such products that the wild stories of perfidy on the part of country buyers originate. Sources of information about the extent and conditions of crops have been so meager and untrustworthy that buyers traditionally have spread reports of overproduction so that they could beat down prices until they were ruinous for producers.

The smaller country buyers, including drovers, sell largely on consignment. They make arrangements with commission houses in the large cities that specialize in the type of product handled. With drovers, it is usually the stockyard companies. If the country buyer has established credit with the one to whom he is consigning his shipment, he is given the privilege of "drawing against shipment," that is, he can go to his local bank and cash a draft against the commission house and so have money to pay those from whom he buys. In this form of consignment selling, the consignee has wide authority in disposing of the shipment. From the gross amount received he will deduct transportation charges, haulage, all expenses incident to sorting and grading, and commission charges. The balance he sends to the shipper. If the shipper has already *drawn* against the shipment, his account is credited with the surplus of net receipts.

A story is told of a farmer who sent a carload of apples to a commission merchant. They arrived in bad condition and had to be thrown into the garbage. The farmer was duly billed with the transportation and other expenses. He wrote back that he had no money to pay the bill but that he would send the commission house another carload of apples to apply on account. Though the consignment plan is open to suspicion and though accusations of dishonesty once were long and loud, the system has proved satisfactory in the main. A reputation for fair dealing and efficient operation is so important to commission houses in building up business, and competition is so keen among them, that few justified complaints have been established. Such obvious unfair practices as ownership of auction houses by the commission houses and wholesalers using them, which facilitates collusion in bidding, have in some cases been eliminated by law, as in Baltimore.

Packers and Shippers.—A large part of the produce sold by farmers is assembled, sorted, packed, and shipped by various types of country packers and shippers. Country stores still buy a limited amount of butter, eggs, potatoes, and other vegetables from farmers to sell locally. The surplus is sold to local produce houses or other local buyers specializing in farm products. These buyers often go direct to the larger producers, or the farmers sell to them at their packing and shipping houses. With poultry products, especially eggs, they usually operate a cold-storage plant as part of their business. In the case of apples, the buyer may contract for the fruit from a whole orchard and have it packed on the place, a practice typical of the East rather than of the West, where sorting and grading are much more expertly done. The apples of Washington and Oregon are packed in boxes by specially trained workers, with each apple wrapped separately. The same packers often work both in the citrus-packing houses of California and in the apple-packing houses, as the seasons for harvesting these fruits come at different times.

In the dairy industry, milk and butter are handled in many different ways, and creameries and butter factories are operated in most parts of the country. Milk is collected by the creamery, skimmed, and churned; and the butter is sold in the leading consumption centers.

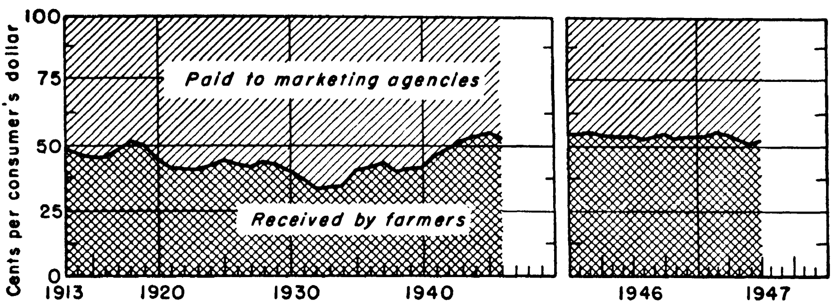

FIG. 53.—FARMER'S SHARE OF THE CONSUMER'S FOOD DOLLAR

Again, farmers cooperate to deliver milk to the shipping stations, where it is tested, measured, and credited to the producer. Then it is shipped to the milk-distributing companies. As is true of other farm products, the amount of milk varies from month to month — sometimes from week to week—and the distributors must be in a position to accept all that is offered. Cheese factories and condensing canneries are, therefore, operated in connection with the distributing business. Cattle, hogs, and sheep continue to be handled by drovers, much as in the past, where there is diversified farming and the number offered by each farmer is small. But in the great grazing districts, like Big Piney and Daniel in Wyoming, the buyers for the great packers send representatives to the ranches to buy cattle on the hoof. These are then driven to the nearest railway station, perhaps several days' drive distant, for shipment to the slaughtering centers. Other local buyers, like those at Sterling, Colo., buy up large numbers of stock for feeding. When satisfactorily fattened, these cattle are sent to the stockyards and sold at auctions along with hundreds of other shipments.

Where wheat is marketed in sacks, as in the East, South, or Pacific coast, the warehouse or flathouse is the handler. But in the great wheat belts, grain elevators are the principal markets. Standards for grading are so well established that little skill is required in buying wheat. Elevator operators buy largely by sample, and the price is fixed for spot sale according to the exchange prices in the central markets, such as the Chicago Board of Trade. Formerly, this price was related directly to the world price set largely on the Liverpool Exchange, but it is less simple today, with blocked exchange, quotas, and other governmental restrictions in most countries of the world. Some elevators are owned and operated by the railroads on which they are located. Line elevators are chains, operated by companies sometimes covering a considerable section of country. Cooperative elevators are owned by the growers, organized into a cooperative association. A third or more of the grain marketed at country points is said to go through these "co-ops." The elevators sell the grain in central markets, to millers or processors at other points, or even to truckers. Central-market buyers often "bid the country" after the exchanges close. They send "to arrive" offers—open over night—and the elevators find out how much farmers will sell at the price, usually a cent or so below the closing exchange price, and sell this amount to the central-market buyers next morning.

Elevators also act as public warehousemen. When the farmer wishes to hold the grain, especially wheat, for sale at a later date, the elevator issues a receipt for the amount and grade delivered for holding, and then the owner can sell at any time that seems opportune. He is charged a monthly rental. Of course, this does not mean that he gets back the same wheat he delivered. Wheat is a fungible product, and delivery will be in like amount and kind.

Traveling buyers may represent central-market wholesale merchants, chain stores, meat packers, or large canners and processors. Buyers for the meat packers often buy right at the farm. In the fruit and vegetable regions, many buyers who travel from section to section with the harvests are known as "brokers." Truckers, too, are frequent buyers of fruit and vegetable crops. They haul to the cities and sell their loads to wholesalers or retailers, or peddle from house to house. These truckers often provide a market for "culls," and reduce marketing costs considerably, in addition to providing a faster market service. In the cotton areas, road buyers represent cotton merchants who have offices in the chief Southern markets, and some in Northern mill centers. Their markets are the Northern mills or dealers, and the larger ones may be important exporters.

Products Grown on Contract.—One who has driven about the country much could scarcely avoid seeing small- to medium-sized factories in small cities and villages, with such signs as "Heinz Pickle Factory

Number 17," or "Wrigley's Sugar Refinery, Number 4." In order to secure an adequate supply, most of the large food packers arrange for the necessary crops in advance of growth. In the initial stages, contracts were made with farmers to raise so many acres of cucumbers, or tomatoes, or corn. A minimum price was stated in the contract. It was found that growing the specialty was more profitable than raising standard crops, that the food company wanted the products as much as the growers wanted a market, and that the producers were treated fairly. The beet growers, especially where the crop was new, were at first skeptical about engaging in raising a new crop that involved so much labor. But the sugar-beet factories did not hesitate to contract in advance for the crop at a fair price, and in that way beet growing became a standard part of farming in several states. The H. J. Heinz Company has its factories from coast to coast, located regionally so that in case of crop failure in one area a supply may be available from another. It buys more tomatoes than any other farm crop, dealing with some 40,000 farmers, usually on a crop-contract basis. The company has its own tomato and cucumber plants, and supplies selected seed, 50,000,000 young tomato plants a season, and crop advice to its contract farmers.[7]

Local buyers, too, often contract with growers for their entire crop. The price is not always fixed definitely but may be left contingent upon the market as "at prevailing prices for like grades and quantities." Where the local buyer has a contract with a packing house, or where he merely represents the packing house, this kind of contract helps to assure a supply. If it appears that more will be needed, other sources may be sought. In this way overbuying is avoided.

The large packers often bring pressure on their distributors to get definite contracts for at least the minimum number of cases of each item from the retailer. This, of course, is helpful in forecasting probable sales. However, the local food store feels that the packer is in a more advantageous position to estimate the extent of a crop and the resulting prices than he, as a local operator with limited information, could possibly be.

Cooperative Marketing Associations.[8]—Cooperatives are now a settled part of agricultural production and marketing. A long period of experimentation followed the first cooperative dairies in Connecticut

[7] Cf. Arthur W. Baum, In Grandpa's Shoes, *The Saturday Evening Post*, June 25, 1949, pp. 32*ff*.

[8] Based largely upon Ward W. Fetrow and R. H. Elsworth, Agricultural Cooperation in the United States, Farm Credit Administration, U.S. Dept. of Agriculture *Bulletin* 54, April, 1947; and Grace Wanstall, Statistics of Farmers' Marketing and Purchasing Cooperatives, 1945–46, Farm Credit Administration, U.S. Dept. of Agriculture, *Miscellaneous Report* 119, June, 1948.

and New York about 1810. The Granger Movement after the Civil War stimulated cooperative activity among farmers, but the great growth period, in numbers of associations formed, was between 1900 and 1920. The peak in numbers, 12,000 marketing and purchasing associations, was reached during the 1929–30 season; membership and volume of business, except for minor setbacks during the thirties, have grown to well over double the figures for 1925–26. For the 1946–47 season, 10,125 cooperatives had an estimated membership of 5,436,000 and did a volume of business estimated at $7,116,000,000. Since 20.4 per cent of this volume was purchasing business—supplies and equipment for farmers—the total sales of marketing cooperatives amounted to about $5,664,000,000. Purchasing activities have grown remarkably, having represented only 5.6 per cent of the total cooperative volume in 1925–26.

It is estimated that, all told, there are more than 40,000 active cooperatives with a total membership of 8,000,000 or more. Many farmers belong to more than one cooperative, so that this membership includes just about half that number of individuals, or 3,000,000, of America's farmers. In addition to the marketing and purchasing associations, there are some 7,000 producing cooperatives—irrigation, breeding, and grazing associations; 4,500 financing cooperatives—farm-loan associations, credit unions and associations, mutual insurance companies; 800 electric-power-and-light associations; 2,000 mutual telephone companies with switchboards, and thousands of other telephone associations. Agricultural cooperative activity, it can be seen, is widely varied, covering even health improvement and burial services.

Three fundamental principles distinguish agricultural cooperatives:

1. Democratic control—commonly this means one vote per member regardless of capital contributed.

2. Payment on capital limited to a conservative rate—approximating going interest rates.

3. Patronage dividends—sharing benefits and savings in direct proportion to the patronage of each member.

It is evident that cooperatives differ materially from corporate businesses. Returns of the savings—earnings—are in proportion to the amount of product marketed through the association by the member, not according to his capital investment. Each member, regardless of capital contribution or volume of product turned over to the cooperative, has an equal vote in the management. Usually the product is pooled, becomes the property of the association (note the difference from selling through the commission man), and each member receives from the proceeds according to the share of the product he contributed.

TABLE 22.—FARMERS' MARKETING AND PURCHASING ASSOCIATIONS: NUMBER, ESTIMATED MEMBERSHIP AND ESTIMATED BUSINESS[1] WITH PERCENTAGES, BY GEOGRAPHIC DIVISIONS, LEADING STATES, AND SPECIFIED GROUPS, 1946–1947 MARKETING SEASON[2]

Geographic division, state, group	Associations listed[3]		Estimated membership[4]		Estimated business	
	Number	Per cent	Number	Per cent	(000 omitted)[5]	Per cent[6]
State:						
California	479	4.7	104,340	1.9	$ 677,330	9.5
Minnesota	1,306	12.9	567,100	10.4	674,420	9.5
Illinois	612	6.0	540,670	10.0	508,740	7.1
Iowa	730	7.2	327,000	6.0	441,400	6.2
New York	392	3.9	177,640	3.3	410,050	5.8
Wisconsin	943	9.3	303,500	5.6	381,950	5.4
Ohio	312	3.1	238,460	4.4	327,140	4.6
Missouri	294	2.9	303,530	5.6	270,960	3.8
Indiana	172	1.7	229,800	4.2	256,330	3.6
Washington	201	2.0	99,790	1.8	255,670	3.6
All others	4,684	46.3	2,544,170	46.8	2,912,010	40.9
Total	10,125	100.0	5,436,000	100.0	$7,116,000	100.0
Marketing:						
Cotton and products	525	5.2	284,000	5.2	233,700	3.3
Dairy products	2,132	21.1	746,000	13.7	1,746,000	24.5
Fruits and vegetables	937	9.2	168,000	3.1	826,000	11.6
Grain, dry beans, rice	2,224	22.0	602,000	11.1	1,918,000	27.0
Livestock	572	5.6	860,000	15.8	790,000	11.1
Nuts	41	0.4	65,000	1.2	59,000	0.8
Poultry and eggs	148	1.5	127,000	2.3	225,000	3.2
Tobacco	15	0.1	239,800	4.4	70,400	1.0
Wool	127	1.3	109,000	2.0	34,000	0.5
Miscellaneous[7]	547	5.4	177,200	3.3	102,900	1.4
Total marketing	7,268	71.8	3,378,000	62.1	$6,005,000	84.4
Purchasing	2,857	28.2	2,058,000	37.9	1,111,000[8]	15.6
Total marketing and purchasing	10,125	100.0	5,436,000	100.0	$7,116,000	100.00

[1] Estimated membership and estimated business for each association is credited to the state in which the association has its headquarters.

[2] A marketing season includes the period during which the farm products of a specified year are moved into the channels of trade. Marketing seasons overlap.

[3] Includes independent local associations, federations, large-scale centralized associations, and sales agencies.

[4] Includes members, contract members, and shareholders, but does not include patrons not in these categories. (There is some duplication in these membership figures because of the fact that some farmers belong to more than one association.)

[5] Includes some intra-association transactions.

[6] Includes the value of commodities sold or purchased for patrons and the service charges for associations rendering other essential services either in marketing or purchasing.

[7] Includes associations handling commodities not specified above, those handling several types of commodities, and those furnishing special marketing or related services.

[8] After making adjustments for the purchasing business of marketing associations and the marketing business of the purchasing associations it is estimated that the total purchasing business was approximately $1,452,000,000 or 20.4 per cent of total farmer-cooperative business.

Source: U.S. Department of Agriculture.

In particular cases, some of these cooperative associations have done conspicuous sales-development work. Sunkist oranges, Sunsweet prunes, and Sun-Maid raisins are brands known nationally. Acting alone, the producer-farmer is unable to influence the general market; he cannot advertise economically because of his small output. This is usually true also of the commission man. Besides, the commission man has little incentive for building a market. Frequently he is paid by the case, or pound, or dozen, and is not deeply concerned regarding the price received; nor does his profit justify him in attempting to build up a market for the product. On the other hand, the orange growers have found it to their very great advantage, as an association handling a large volume, to spend millions of dollars in advertising and improving their product. They not only receive better prices, but have been instrumental in multiplying manyfold the consumption of citrus fruits. The California Walnut Growers Association is another illustration of both effective processing and marketing. Its plant in Los Angeles is one of the most modern processing plants in the world. "The mechanical devices that have been developed for the handling of walnuts and the all but uncanny manner in which the nuts are graded, sorted, polished, cracked, and handled lead one to wonder what is left for human hands to do. A major portion of this ultramodern equipment was developed by officials and employees of the association."[9]

Common objectives of cooperatives are lowering costs, improving quality and service, and increasing the farmer's bargaining power in both buying and selling—in sum, greater income to farmer members. They secure better prices through orderly marketing, through greater volume and knowledge of market conditions, through better grading, and, sometimes, through branding. Because of volume and organization, they often assume the middleman's function, and secure his profit. By grading, volume-shipping, and efficient operation they lower marketing costs. Many have set up processing plants, providing an alternative to marketing the product unprocessed. And, as has been noted, cooperatives that handle special crops have been able to expand their market through advertising.

Figure 52 and Table 22 provide some useful data on the extent and activities of cooperatives. Approximately three-fourths of the business volume of the marketing and purchasing associations for the season 1946–47 was in four product groups: grain, including dry beans and rice, 27 per cent; dairy products, 24.5 per cent; fruits and vegetables, 11.6 per cent; and livestock, 11.1 per cent. Of the business of the marketing associations alone, these four totaled 87.9 per cent. Both

[9] Fetrow and Elsworth, *op. cit.*, p. 76.

in numbers of associations and membership, cooperatives are much more prominent in the Central and Pacific states than in other regions. For a number of years, California and Minnesota have usually been the leading states.

Although now firmly established in American agriculture, the history of cooperatives is full of failures. Unscrupulous promoters worked this field almost as assiduously as they did the gold and oil fields. Too often the farmer, unschooled in business, could not understand the necessity for paying salaries adequate to secure trained and experienced managers, nor was he willing to pay them. His natural independence made him a poor cooperator. Also, conditions are not equally favorable for cooperative handling of all crops or in all sections of the country. Adequate volume is necessary. Geographic unity is desirable; hence cooperatives have been most successful where the crop was to a large extent localized as to its producing area, as the citrus fruits. This localization helps, also, the development of a brand and successful advertising of it. All in all, cooperatives did not find themselves upon solid ground until the period from 1900 to 1920. During that era they received two great boosts: backing by the "intelligentsia" and by the government. G. Harold Powell developed techniques for successful cooperative fruit federations. Theodore Roosevelt, as President, backed the cooperative idea. College professors discovered the movement. And in 1914, the Clayton Act gave cooperatives more favorable legal status as regards the anti-trust laws.

Federal support of the cooperative movement has been an important factor in its modern success. The Capper-Volstead Act, 1922, made it clear that the elimination of competition between farmers, acting through a cooperative, does not in itself constitute a violation of the antitrust laws, provided (1) the association is composed of producers; (2) it operates on a mutual basis for the benefit of its producer members; (3) no member has more than one vote, or the association does not pay dividends upon stock or membership capital exceeding 8 per cent a year; and (4) products of nonmembers dealt in must not exceed the amount handled for members. The Agricultural Marketing Act defines cooperatives in order to enable them to borrow from banks. This definition is similar to that of the Capper-Volstead Act but includes purchasing and service cooperatives as well as marketing associations. The Internal Revenue Code exempts cooperatives from income taxes. There is no common definition in these laws, but each specifies an association of producers and restrains nonmember business to 50 per cent. Under these conditions of public favor and with ample successful history behind them, it can be said that, cooperatives, properly managed, are an aid to efficient marketing. Their limitations, however, would seem to preclude any possibility of their dominating agricultural marketing.

Auctions.—The auction is an ancient form of marketing, and fruit, tobacco, and livestock auctions have been common in the United States for over 100 years. Some of the smaller cities of rich agricultural districts have arranged auctions for farmers once or twice a week. Livestock, farm implements, cattle and hog feed, and many other items are handled at these auctions. They are a convenience for the farmer and serve to extend trading areas and bring farmers to town more often. Increasing numbers of miscellaneous auctions may be noted in rural districts, but, as these are more nearly retail forms, they will not be discussed. The two principal types of regular auctions in the agricultural wholesale market are (1) producing-region auctions and (2) terminal-market auctions. Before the Second World War, a system of public auctions grew up in the Atlantic seaboard states, facilitating the produce market for vegetable and fruit growers. Most are privately owned and operated. They serve largely buyers from wholesale commission houses, fruit-juice canneries, wineries, and large retailers. Some specialize in one product, as strawberries, or cauliflower as at Riverhead, L.I., the largest market of the kind in the world.

> "Here, tanned and weather-beaten growers in dirty dungarees and mud-caked shoes rub elbows with experience-wise representatives of brokers and commission houses from local and distant markets, selling a crop that brought $3,000,000 in 1948 to Long Island's cauliflower belt."[10]

Another specialized, but old and increasing type, is the livestock auction. These function both in the sale of stock for slaughter and for transfers among farmers of breeding and feeder stock. Buyers may be representatives of packers, large or local, dealers, feeders, and truckers who haul to central markets. Many of these auctions are small and might be deemed unimportant, but they serve a real purpose for the smaller farmers.

Tobacco auctions are widely used, and certainly well publicized by the chant of the auctioneer on Lucky Strike radio programs. Several hundred of them are found in the tobacco-growing states. Farmers bring their cured and graded tobacco, which is displayed in rather flat baskets for inspection by buyers. These buyers are representatives of large tobacco manufacturers, or brokers, dealers, and exporters. Auction fees and commissions usually are well below 5 per cent, and buyers' costs perhaps 2 per cent. Tobacco auctions, therefore, provide

[10] *The New York Times*, Oct. 14, 1949.

a quick, short, and relatively cheap trade channel from farmer to factory. Seldom can the cooperatives, unless exceptionally well managed, handle the crop as economically.

Of the terminal-market auctions, the most important are fruit less-than-carload auctions in a dozen or so large cities. Watermelons and

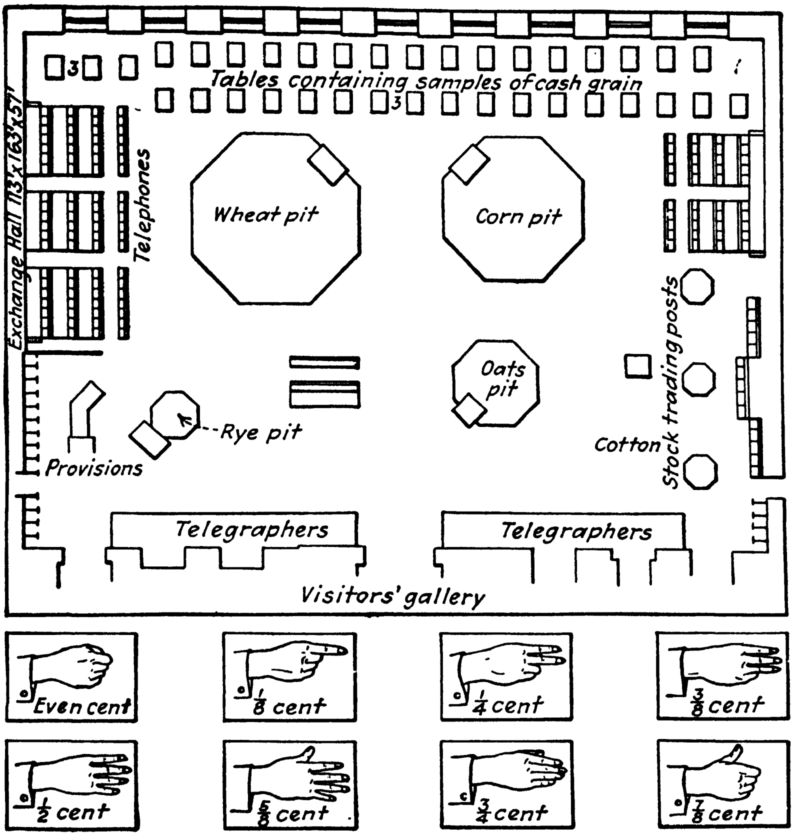

FIG. 54.—FLOOR PLAN AND PRICE CODE, BOARD OF TRADE, CHICAGO

California grapes may be sold in carload auctions, and some carlots of fruits and vegetables are sold at auction, *in transit*. But cooperatives, country shippers, shippers' receiving agents, and even carlot wholesalers mostly use the L.C.L. auctions. The fruit usually arrives by rail, in carloads, but is sold in broken lots. Jobbers are the chief buyers, but chain stores, other retailers or brokers buying for retailers, and institutional users, as hotels, also patronize these auctions. The auction method may shorten trade channels, especially when it eliminates brokers, carlot wholesalers, and commission merchants, but usually only the largest retailers can economically visit the auctions. Wholesalers may own and operate auctions, but the railroads commonly provide auction space. Unloading usually takes place at night, and top packages of each lot are opened for inspection, even though most products are graded. Catalogues are furnished buyers showing each lot by number, and after inspection buyers bid from the catalogue for the lots chosen. Auction-house income is from commissions of 1 to 2 per cent, plus sometimes handling charges of 2 to 5 cents per unit. Their recognized services are as follows:

1. They provide a sure market in bringing buyers and sellers together, thus disposing of all the produce offered at some price.

2. They make cash sales possible, and rarely does an offering fail to bring a reasonable price on quick sale.

3. Sometimes the auction company or the commission house operating an auction room advances cash to the shipper. This is commonly in the form of a bank draft at the time shipment is made.

4. The auction companies sometimes are forced to sort and grade products and offer some storage facilities. This is not a generally approved method of doing the sorting and grading, however, as that usually can be done at much less expense before shipment is made than after it reaches the place of high rents and higher scales of wages. To sum up, auctions represent a low-cost method of selling: they provide a free and open market, *if* volume is sufficient and regular enough to insure competition among a large enough group of buyers; selling is the chief function they perform; and auction prices guide other market sales, though not so completely as exchanges.

Commodity Exchanges.—Exchanges are important in industrial as well as in agricultural marketing, but to avoid duplication, detailed discussion has been reserved for this chapter. Exchanges differ from auctions in the following ways:

Exchanges	Auctions
1. Members only make deals.	1. Open to anyone.
2. Sale only at price acceptable to seller.	2. Sale to highest bidder, unless reserved.
3. Any member may sell.	3. Auctioneer only sells.
4. Graded goods only.	4. Ungraded goods on some.
5. Strict rules of trading.	5. Few rules.
6. Futures as well as spots.	6. Spot deals generally.

The exchange organization does no dealing itself; it only provides a place, facilities, and rules for trading. Members hold "seats," and include dealers—who act for buyers or sellers as well as for themselves

—actual manufacturers, elevators, and exporters, who belong in order to save commissions on their frequent and large dealings.

The fundamental idea of an exchange is to provide an organization and a place where designated goods can always be offered for sale and find buyers ready and able to buy at some price, no matter how large the offering. Likewise, if an offer to buy is made, a source of supply can usually be found, but not necessarily at the bidder's price. In order to maintain such a market, its members must be either large

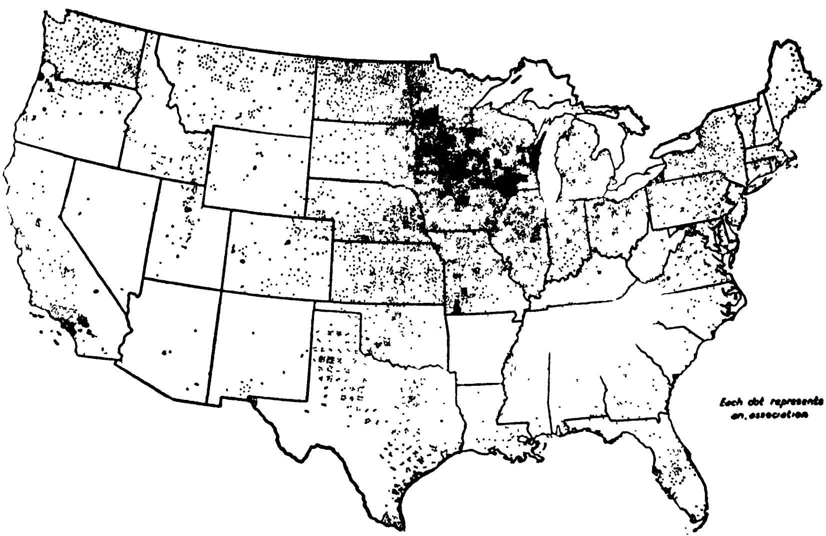

FIG. 55.—MARKETING AND PURCHASING ASSOCIATIONS, 1946

operators themselves or representatives of large operators. Exchanges are strictly big business.[11] To maintain confidence in their integrity, strict rules govern trading; violation by any member may result in expulsion. Deals involving millions of dollars may be made with but the flick of a finger; details and contracts are arranged later, and seldom is there a default. In case of dispute, settlement is made through procedures laid down by the exchange. Rules are made for establishing quality of all products bought and sold—usually standard grades—and for governing delivery on contracts, both "contract grades" and times of delivery. Use of standard grades means that, for agricultural goods, all transactions are based on warehouse receipts. The presence of exchanges protects the regular warehouse as to the value of the goods

[11] An exception is the "callboard," holding daily "calls" instead of being open a stated number of hours each business day. Small exchanges also may operate on the call method.

for which they have issued receipts, because of the continuous market provided. Also, this facilitates financing through the use of these receipts as collateral.

The services of exchanges may be summarized as follows:

1. Organization—providing a place, and facilities, for trading.

2. Regulatory measures—providing rules for trading and settlement of disputes, and standards for goods and terms of transactions.

3. Insurance—providing a broad and continuous market. Hence hedging is practicable.

4. Financing—stabilizing values of warehouse receipts by its continuous market. Hence receipts are acceptable collateral, adding liquidity to products.

5. Information—providing ticker and publication service on its prices as well as other market news.

6. Pricing—its open and continuous market enables a free play of supply and demand forces, its prices are circulated widely, and become standard price guides in lesser markets. In principle, this is the chief function of exchanges.

Speculation and Hedging.—One of the principal reasons for the existence of exchanges is the trading in futures. That means buying and selling commodities for delivery at a future date. These future dates are not arrived at individually by the traders but are set by the exchange. For example, the usual "futures" months in wheat are March, May, July, and December; for cotton, March, May, July, October, and December. Much futures trading is speculative, giving rise to the criticism of exchanges as "gambling institutions." Such deals are engaged in primarily by professional traders and their clients and are far from "mere chance" betting, as in gambling. These traders study the movements of the markets, the crop reports, business activity, and government activity, and deal accordingly. They are important factors in the market, giving it its open and continuous character, and facilitating hedging. Short selling by speculative traders enables manufacturers who use large quantities of raw materials to insure themselves a continuous supply. For example, in normal times the large tire manufacturer may want at least a 90-day supply of rubber "in sight." Rubber prices in the past have shown wide ranges, from 3 cents to over $1 a pound within one year. Under government supports, agricultural prices no longer show such spectacular fluctuations, yet recent ranges in cotton have shown 10 to 15 per cent variations in a year, and wool tops ranged from $1.538 to $1.868 a pound from April, 1949, to early 1950. Hedging minimizes the effects of such changes and reduces capital tie-up in raw materials.

The primary reason for hedging on exchanges is to safeguard normal business profits from losses due to price changes in the basic product, or raw material, over periods of time. To illustrate the working of a hedge, consider the following business situation. A miller sells an

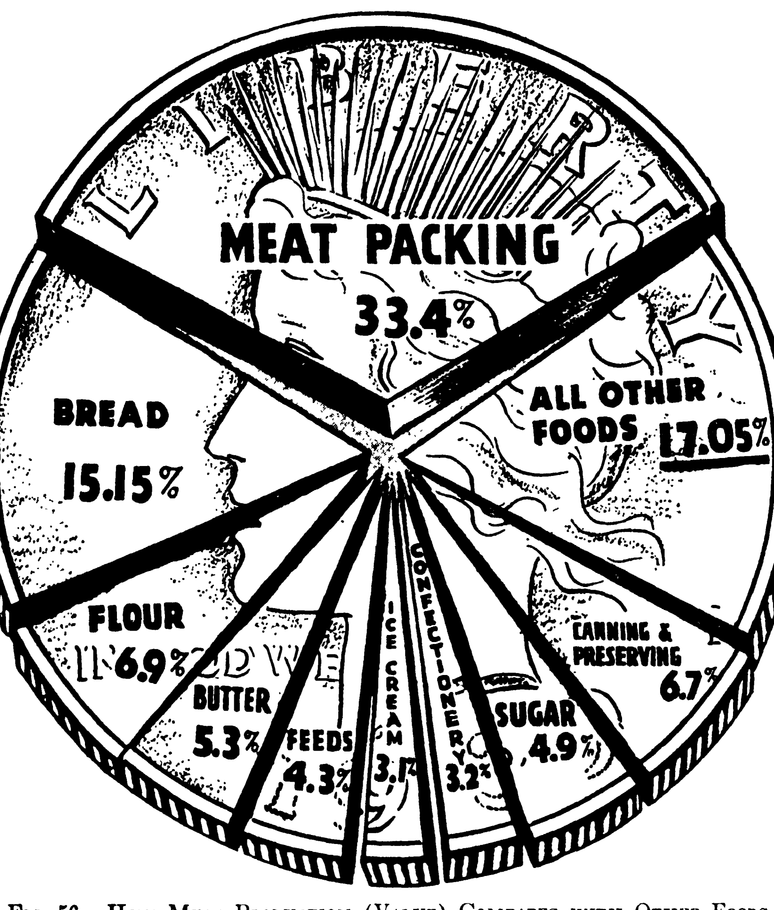

FIG. 56.—HOW MEAT PRODUCTION (VALUE) COMPARES WITH OTHER FOODS

order of flour in September for delivery to a baker in February. His milling capacity is such that he can mill enough wheat into flour in two weeks to make the flour delivery; hence he does not need to buy the wheat and begin operations for this particular order until sometime in January. His price to the baker for flour is based upon today's cash price of wheat, $2 a bushel, plus storage charges for four months, September to January, of 2 cents a bushel. This price is determined by the fact that he could buy the needed quantity of wheat today in the spot market and store it in an elevator until January. He does not wish to do this, however, as it would tie up too much of his working capital. Instead, he hedges. He buys a "March future" in wheat, quoted today at $2.12 a bushel, since March is the next futures month following the time for completion of his business deal by delivery of the flour in February. Now, he has no worries over what may happen to the price of wheat.

In January, when he has to buy wheat to start milling, he finds the market has advanced, and wheat costs him $2.40 a bushel. Had he done nothing in September when he made the business deal, he would stand to lose 32 cents a bushel, since he had based his flour price on wheat costing $2.08 a bushel—$2 spot price plus 8 cents storage charges (2 cents per month per bushel for four months). But his hedge protects him. When he buys his spot wheat in January he sells his future, thus closing out his hedge. March futures in January were selling at $2.44. This is because the "spread" between the futures and spot markets normally is about the storage charge for the intervening time. The following recapitulation of the entire transaction shows how the hedge protected the miller.

	Per Bushel
Sold flour in September based on wheat at	$2.08
Buys wheat in January to start milling at	2.40
Loss	$0.32
Bought March future of wheat in September at	$2.12
Sold his March future of wheat in January at	2.44
Gain	$0.32

Since his price to the baker for flour included a profit, that profit has been protected from any loss due to the rise in the price of wheat in the meantime. Had the wheat market gone down and had he done nothing in September, he would have stood to gain by buying his wheat at the lower price. A hedge prevents this gain, as well as protecting against loss. But the miller is not interested in speculative gains from fluctuations in the wheat market; his interest is in his normal profits from his milling operations.

Of course, the above illustration is simplified. There are commission charges to the broker handling the hedge deals on the exchange; the spread may not be exact between the spot and futures market at the time of closing the futures deal. But the principle should be clear, that hedging does minimize losses to the businessman from fluctuations in the price of his raw material over periods of time. This is important, for many businesses must manufacture far in advance of the normal time of sale of the finished product or sell for delivery at future dates. In the textile and clothing trades, for example, orders may be as far as several months, even more, in advance.

Government regulation of exchanges apparently was necessary to restrain the evils of speculation, but also it has somewhat hampered hedge trading. "Corners" are largely a thing of the past now, and price manipulation is largely minimized. The Commodity Exchange

PRICES PAID AND RECEIVED BY FARMERS
DEPARTMENT OF AGRICULTURE INDEXES, 1910-1914=100

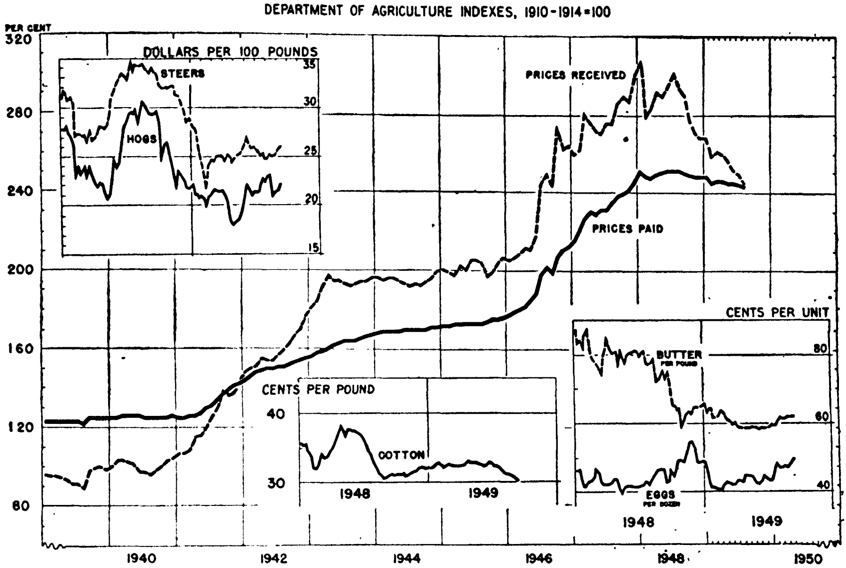

FIG. 57

Administration rules the exchanges for grains, cotton, butter, eggs, wool tops, potatoes. Brokers must be licensed and must file regular reports. Maximum daily price fluctuations are set, and other regulations check excessive speculation, dissemination of false or deceptive market reports, and specified types of trading. Because of these regulations, futures trading has declined in volume, though not enough to eliminate the hedging market. The opportunity for hedging should be maintained, unless some form of insurance against price changes can be devised or unless means can be found to stabilize prices.

Some of the important exchanges, the products dealt in, and units of trading, are listed below:

Chicago Board of Trade	Grains, soybeans, cotton, pork products
Minneapolis Chamber of Commerce . . .	Wheat, oats, rye
St. Louis Merchants' Exchange	Wheat, corn, oats, mill feeds
Chicago Mercantile Exchange	Butter and eggs, potatoes

New York Cotton Exchange	Cotton
New York Coffee and Sugar Exchange . .	Coffee and sugar
New York Commodity Exchange . . .	Rubber, silk, hides, copper, tin, lead, zinc
Duluth Board of Trade	Wheat, rye, flaxseed

Units of trading:

Grains	5,000 and 1,000 bushels
Cotton	50,000 pounds (100 bales)
Sugar	50 tons
Coffee	32,500 pounds (250 bags)
Butter	19,200 pounds (300 tubs)
Rubber	10 tons
Eggs	12,000 dozen (400 cases)

Marketing Costs.—In the marketing of agricultural products the spread between what the consumer pays and what the farmer receives seems to many people unreasonable. When the farmer receives about 1½ cents out of the 7.8 cents per pound paid by consumers for cabbage —January, 1948—it might seem on the surface that someone in between is getting too large a share. It is out of just such situations that the antagonism toward middlemen has developed.

The Bureau of Agricultural Economics compiles figures showing the retail cost and the farm value of some 49 food products in the amounts purchased annually by a typical family of three average consumers. The difference between the two represents the charges for assembling, transporting, processing, and distributing this quantity of foods to consumers.

TABLE 23.—RETAIL VALUE, FARM VALUE, AND MARKETING CHARGES[1]

Years	Retail cost	Farm value	Marketing charges	Farmer's share, per cent	Marketing share, per cent
1913–1915 av.	$268	$123	$145	46	54
1922	408	163	245	40	60
1929	435	183	252	42	58
1933	276	89	185	32	67
1935–1939 av.	340	137	201	40	59
1940	317	128	189	40	60
1942	407	196	211	48	52
1945	459	247	228	54	50
1947	643	345	298	54	46
Jan., 1948	695	380	314	55	45

[1] USDA Bureau of Agricultural Economics, selected years. Marketing charges equal margin (retail minus farm value) minus processor taxes plus government payments to marketing agencies; marketing share (per cent) equals marketing charges as percentage of retail cost.

Table 24.—Price Spreads between Farmers and Consumers: Retail Price, Farm Value of Equivalent Quantities Sold by Producers, By-product Adjustment, Marketing Margin, and Farmer's Share of Retail Price, Annual—1947[1]

Commodity	Unit: Farm equivalent	Unit: Retail	Retail price	Gross farm value	By-product allowance	Net farm value	Margin adjusted for by-products	Farmer's share, per cent	Government marketing taxes (−) and payments (+), dollars	Adjusted margin (marketing charge)	Government payments to producers	Adjusted farm value	Adjusted farmer's share, per cent
Market basket	Farm produce equivalent of annual family purchases	1935–1939 annual average quantities purchased, per family of three average consumers	$642.89	......	......	$344.60	$298.29	54	−.38 +.04	$297.95	$0.56	$345.16	54
Meat products			184.68	$142.39	$10.96	131.43	53.25	71	....	53.25	.....	131.43	71
Dairy products			121.57	73.71	.....	73.71	47.86	61	....	47.86	.....	73.71	61
Poultry and eggs			51.85	35.40	.....	35.40	16.45	68	....	16.45	.....	35.40	68
Bakery and other cereal products, all ingredients			89.90	.....	......	30.66	59.24	34	−.05 +.01	59.20	0.07	30.73	34
Grain			......	30.47	5.54	24.93	......	28					
Bakery products, all ingred.			......	.....	......	14.20	.....	..	−.05 +.01	......	0.07	14.27	
Grain			..	10.12	1.65	8.47	......						
Other cereal products			36.60	20.35	3.89	16.46	20.14	45	....	20.14	.....	16.46	45
All fruits and vegetables			144.58	60.09	......	60.09	84.49	42	....	84.49	.....	60.09	42
Fresh fruits and vegetables			107.78	49.56	......	49.56	58.22	46	....	58.22	.....	49.56	46
Fresh vegetables			62.87	28.74	......	28.74	34.13	46	....	34.13	.....	28.74	46
Canned fruits and vegetables			23.35	4.69	......	4.69	18.66	20	....	18.66	.....	4.69	20
Miscellaneous products			50.31	......	......	13.31	37.00	26	−.33 +.03	36.70	0.49	13.80	27
			Cents	Cents	Cents	Cents	Cents	Per cent	Cents	Cents	Cents	Cents	Per cent
Beef (good grade)	2.16 lb. Good grade cattle	Pound	61.1	51.3	6.3	45.0	16.1	74	....	16.1	.....	45.0	74
Lamb	2.16 lb. lambs	Pound	56.7	44.2	6.8	37.4	19.3	66	....	19.3	.....	37.4	66
Pork (including lard)	1.41 lb. hogs	Pound	47.2	34.7	0.5	34.2	13.0	72	....	13.0	.....	34.2	72
Butter	Butterfat and farm butter	Pound	78.2	59.7	......	59.7	18.5	76	....	18.5	.....	59.7	76
Cheese, American	10.08 lb. milk	Pound	56.7	34.7	......	34.7	22.0	61	....	22.0	.....	34.7	61
Evaporated milk	1.95 lb. milk	14½-oz. can	13.5	7.10	......	7.10	6.4	53	....	6.4	.....	7.10	53
Fluid milk	Farm retail and wholesale milk	Quart	18.6	12.57	......	12.57	6.0	68	....	6.0	.....	12.57	68
Eggs	1.03 doz.	Dozen	63.2	47.8	......	47.8	15.4	76	....	15.4	.....	47.8	76
Chicken	1.136 lb. chickens	Pound	53.6	30.3	......	30.3	23.3	57	....	23.3	.....	30.3	57

[1] Bulletin from U.S. Department of Agriculture, March, 1948.

The decline in the farmer's share for two decades, from 1913 to 1933, has been arrested and reversed. The cause is a mixed one. Greater producing efficiency has lowered unit costs; cooperatives have in many cases increased returns to farmers, and have stimulated greater marketing efficiency among other middlemen; better refrigeration and faster transportation have reduced wastes, as have better terminal facilities in the cities; more careful grading and increased packaging, sometimes stimulated by chain stores, and increased freezing of fruits and vegetables have both reduced waste losses and increased volume and returns in income; and government aids of many sorts have benefited the farmers. How much these have been at the expense of the consumer is not altogether clear.

Fundamentally, it should be to the over-all efficiency of the marketing system that we look for reductions in the spread. Agricultural education, cooperatives, government research, and perhaps regulation, can help. If increases in marketing costs are due to increased services demanded, or accepted, by consumers, it is not fair to consider these increases as due to inefficiency. Out-of-season fruits, such as strawberries flown by air from Texas, cannot be said to be marketed on a low-cost basis. But if the market warrants (if consumers want strawberries in January!), it would seem justifiable. Likewise, expenditures for promotional efforts, such as salesmen's salaries and advertising, need little justification when they contribute to the stimulation of new uses, larger total sales, and reduced production costs—all these adding to the satisfaction of consumer wants. If the promotional effort is merely competitive, directed at taking business from one firm and giving it to another, the net gain may not justify the expenditures involved. Even this practice, however, is part of the competitive, free-enterprise system, and may be justified to retain this system, if it is deemed the best.

What appears essential for greater efficiency in agricultural marketing is a continual willingness on the part of farmers, processors, middlemen, and consumers to analyze constructively every cost item in our present system. Is the service necessary or wanted? Is the operation most efficiently performed? Are the facilities and equipment used adequate and efficient? These and similar questions indicate the way to a proper answer. However, results can be looked for only gradually and should come from within; government fiat is a dangerous method.

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Questions and Problems

1. Make a statement of facts that will point up the importance of agriculture in our economy.

2. Comment upon the statement, "In the 36 years, 1910 to 1946, our farm population has declined more than 50 per cent while "farm prosperity" has improved 13.9 index points."

3. How did farm products' prices contribute to postwar inflation?

4. What is the "parity" idea?

5. How has the government been put into the business of marketing agricultural products?

6. Name six economic and social forces over which the farmer has little or no direct control.

7. Write an article on the topic, "Agricultural production is difficult to control."

8. How many farm units produce an average of between $1,200 and $3,000 worth of products a year? What percentage of all farm units are represented in this group?

9. What four marketing functions are largely exercised in agricultural marketing?

10. List the eight general characteristics frequently associated with agricultural production and marketing.

11. Draw a chart showing the flow of agricultural products from farmer to consumer.

12. Differentiate between local market buyers and country buyers.

13. How do elevator operators act as warehousemen?

14. List three basic sources which you might use to build a fund of information on the subject "Cooperative Marketing Associations."

15. What are the three fundamental principles that distinguish agricultural cooperatives?

16. List the common objectives of agricultural cooperatives.

17. Discuss the auction as an agricultural marketing device.

18. Compare the exchange and the auction method of marketing at six operating levels.

19. What is the fundamental idea of an exchange?

20. Summarize the six main services of the exchange.

21. Is speculation justified? Explain.

22. By way of an illustration explain hedging on the exchange.

23. Name five reasons for the reverse in the decline in the farmer's share in the consumer's food dollar.

CHAPTER XIII

RESEARCH: THE SCIENTIFIC PHASE OF MARKETING

The Need for Marketing Research.—There is very little in the field of marketing that approaches scientific accuracy. A few principles have become established and an enormous fund of information has been acquired, part of which is indexed and tabulated so as to become usable. But so much is still lacking that for a number of businesses the element of risk is so great as to constitute a gamble. This is notoriously true of the theater business in which some years produce more failures than successes. It is estimated that fewer than five magazines in a hundred survive the third year. The publication of book fiction is equally hazardous: there are probably more books that fail to pay expenses than books that produce a profit. A careful study in Buffalo disclosed that in seven years there had been a 100 per cent replacement in food stores. Bankruptcies are distressingly frequent. They have run as high as 31,822 in one year. In 1940, there were 150 failures for each 1,000 enterprises. These are not only costly to business in general but to society as a whole. More research work on the causes of failure and the extent of the risks involved in each division of business should assist in reducing these huge losses.

Even in profitable businesses there are many concerns which, though they make a profit, have crushingly heavy operating expenses. For example, in silk manufacture, of each 100 patterns produced only 5 on the average are successful in returning a profit. This is a very heavy tax on the industry and unquestionably causes the product to be much more expensive than necessary. The same thing is true of the wallpaper industry.

Even in so stable an industry as meat packing, it is impossible to predict with a high degree of accuracy the amount of prime bacon and hams that will be available in any one season—even though the expected number of hogs is known within a few hundred. Advertising hams and bacon is hazardous because of this uncertainty of production. If there is too much advertising, there may not be sufficient first-class hams and bacon to supply the demand; that means a loss in the advertising. If the publicity is too closely curtailed, it may be insufficient to dispose of the supply at its real value. Such a demand cannot be stimulated overnight.

A few businesses fluctuate so little, with their sources of supply remaining so constant and the demand for the products so unvarying from year to year, that there is a minimum of risk. Gold mining from low-grade ore is perhaps the most stable of all businesses. The production of steel is another industry that by the aid of research is forecast with maximum accuracy. The problems of research are largely con-

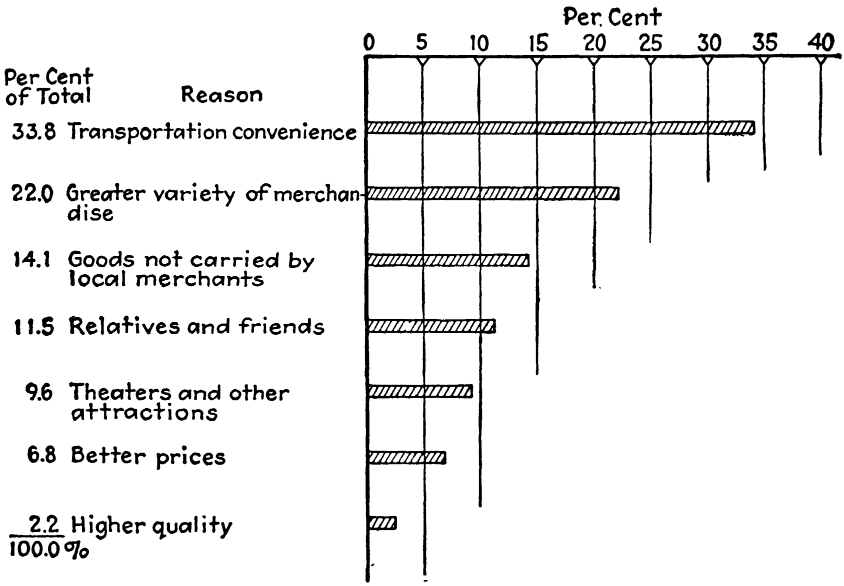

FIG. 58.—WHY PEOPLE TRADE IN CERTAIN CITIES

This study, conducted by the Tulsa Chamber of Commerce, throws considerable light on the reasons why people trade in certain city trading areas. Observe the importance of transportation convenience, which is discussed in the text as one of the primary factors. (See Fig. 60 for types of goods purchased.)

cerned with reducing the risk of business or of eliminating them if possible.

Increased Use of Market Research.—The foundation for market research is the census. This is the most extensive investigation known. For many years it was not even recognized as a form of research but recently, since data on business have been included, it is a research project of great magnitude.

When research was first applied to buying and selling, it was used primarily as a sales tool. Publishers would evaluate markets and business operators in terms to make their advertising often look alluring. With this use of research all but a very few were interested in proving something rather than in investigating to determine the truth of conditions. It was common practice in years past for a manufacturer to make an item that he thought was useful in the way he liked to make it and then to sell it by the most advantageous means available—all this with little consideration for the buyers' likes or dislikes or for the actual needs. With the development of research methods and organizations to do accurate work in this field, the attitude of most manufacturers has changed. Now they attempt to learn what will be useful and acceptable before it is made. Perhaps the greatest example of this practice is the work of Henry G. Weaver[1] for General Motors. Weaver sent out thousands of questionnaires to automobile owners asking a host of questions about the convenience and satisfaction of the cars they were driving. In one of these questionnaires a part was given over to investigating which cars were most comfortable. "How about ventilation? Visibility? Headlights? Riding comfort?" With each question a space was provided for checking one of three answers: "Excellent," "Satisfactory," or only "Fair." When the completed forms were returned to his office, Weaver was able to determine how the owners rated not only General Motors' cars but all other cars in the industry. This, of course, was the best information possible for designing and building new cars. What General Motors did so effectively, many other manufacturers have followed to a greater or lesser extent.

Figure 59 is an excellent example of research founded wholly upon records—census reports. It involved a vast amount of work but was worth the effort. That was true partly because the conditions change so little from one decade to another. In making a study of the market, it is possible to know what part of the families in the district own their homes and what part rent them. Renters buy little paint or any kind of wall decorations. They do not ordinarily buy repairs for the building, nor do they lay cement walks. They do not buy window and porch screens, or material for repairs. In an apartment-house district the items just mentioned would not ordinarily be bought from a retailer; the owner would buy only in large quantities and usually would find it advantageous to deal with a wholesaler. These are only a few of the items that mark the difference in buying between the renter and the owner. Can you add to the list?

Research in Radio.—Probably no phase of business has spent a larger part of its income on market research than radio. That much of this has been ill-advised and of little value is largely due to the fact that both radio and research are so new. But with all its mistakes, research has influenced the industry profoundly.

When radio was first introduced into the home in 1920, there were

[1] Mr. Weaver died Jan. 4, 1949.

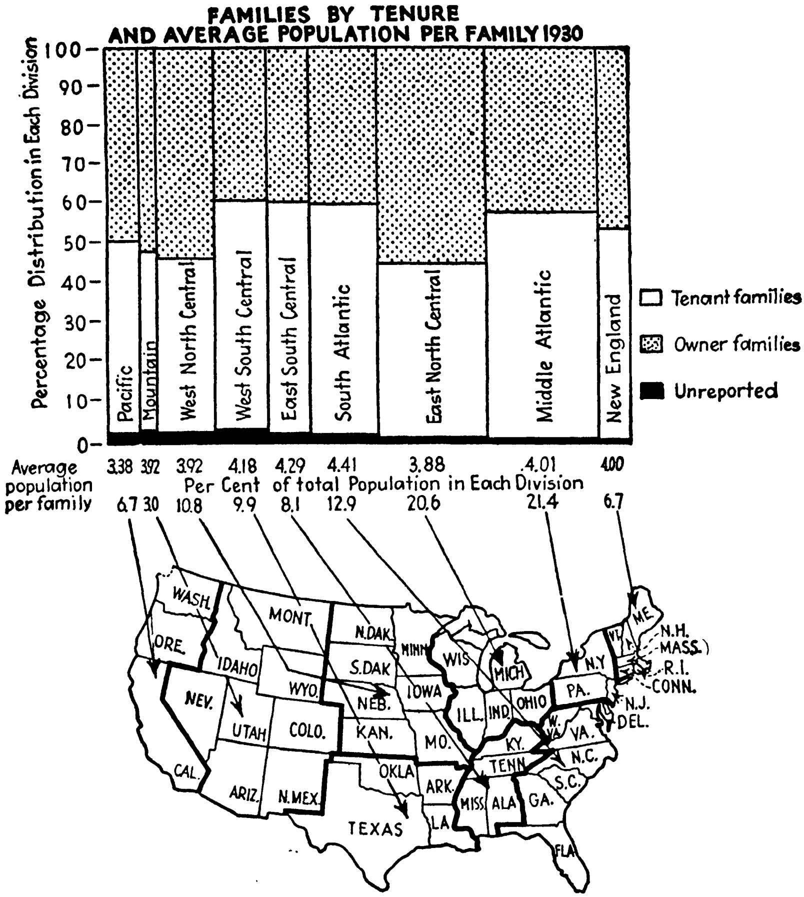

FIG. 59.—RENTALS AND OWNERSHIPS—THEIR EFFECT UPON BUYING HABITS

How many families rent their homes; how many own them outright? This is a question that has social and economic as well as marketing significance. An analysis of buying habits of people may begin with a comprehension of the fundamental information revealed in this chart. Many products such as foods, household appliances, furniture, and others are affected in type, quality, and quantity by whether a family lives in a rented apartment or house, or in a privately owned home. How and where a family lives develop buying habits peculiar to the conditions present. The tenant family, for example, may buy fewer products for the house, and more for personal use. It may do more traveling. It may not stay so long at one address. It may desire smaller packages. It may want more specialized services, such as are afforded by the delicatessen store. And it may develop many other characteristic preferences that renting a home tends to encourage.

no networks, no paid talent, and no means of determining the popularity of the programs. After much research, both by broadcasting companies and independent investigators, the programs are now graded by two different standards, and their popularity is measured as accurately as most quantities of most products on the market. The Hooper Ratings are taken by telephone in about 50 cities, each with at least three broadcasting stations. Hooper's representatives call up names taken at random from the telephone directory and ask three simple questions: "Is your radio turned on?", "To what program are you listening?", and "Who sponsors it?"[1] The other method is perhaps

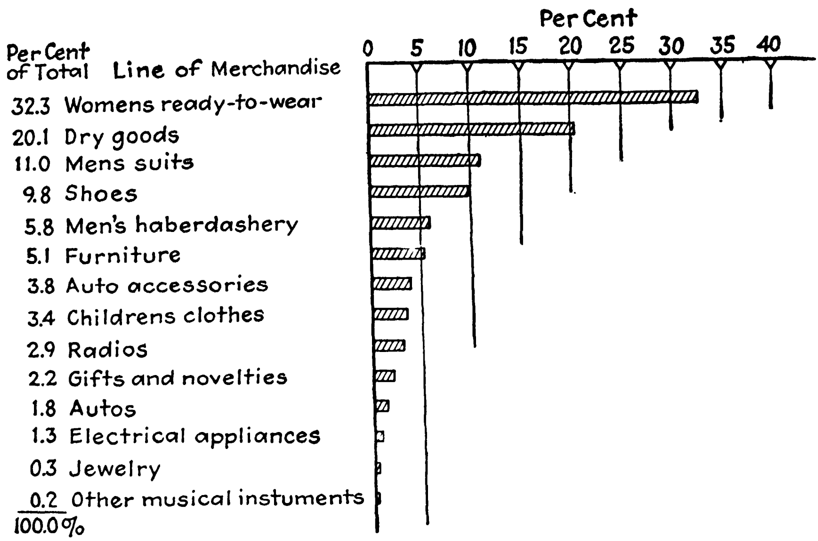

FIG. 60.—WHAT PEOPLE PURCHASE WHEN SHOPPING OUT OF TOWN

This is a companion study to the one given in Fig. 58. Second in importance as to the reasons why people trade in certain cities was "Greater variety of merchandise." The above shows a classification of the goods bought and the relative importance of each class.

more accurate but much more expensive and not in such general use. A. C. Nielsen has perfected an instrument which he calls the "Audimeter." This is attached to the radio receiving set and for a month records on a strip of paper the hours in which the radio has been in use and the stations tuned in. These strips of paper with the information are sent to the Nielsen office for decoding, which then gives the desired information. Other investigators have also done extensive work in this field. The evaluation of the various programs and the number of listeners is now so well authenticated that some of the stars make their contracts with salaries depending upon the rating that they are given. That is, if one's audience falls off as shown by the Hooper Ratings, one's pay is reduced. Likewise, if the audience increases, the salary increases proportionately.

[1] This was written before Hooper sold part of his business.

More recently radio research has been investigating the subject of radio advertising, interviewing members of the listening public to determine what is objectionable in radio advertising and who is responsible for its excesses. This investigation showed that 88.2 per cent of the people regarded radio advertising as overaggressive. Of these, 52.8 per cent thought that the sponsor was to blame, 27 per cent held the advertising agency responsible, and the majority of the remainder felt that the radio station or network should correct it.

These facts have been given primarily to show the general acceptance of marketing research today and the confidence placed in it. The ill repute of the early research schemes has been lived down.

What Research Provides for Management.—Often the research department is a source of irritation to supervisors, particularly to the sales manager. Robert F. Elder discussed this subject so ably in a recent talk before the American Marketing Association that we are reproducing his discussion in part.

In an organization built to meet the stress and strain of tomorrow's competition, sales management will find the research function set up on an independent, and perhaps on a coordinate, basis. The research unit will have no operating responsibilities. It is a staff function. It will have no authority. Its sole responsibility will be to see that management gets the fullest possible benefit from the resources and tools of modern market research, to the end that management mistakes, whether of commission or omission, may be held to a minimum.

In such a setup, a bill of particulars as to what sales management can expect from research would read something like this:

1. It can expect that market research will keep top management posted on the extent to which products are in line with current consumer needs and desires; so that salesmen need not beat their heads against a wall of sales resistance.

2. It can expect accurate information as to the size of each product's market, whether it is growing or contracting, and how fast.

3. It can expect an accurate appraisal of competitors' strengths and weaknesses.

4. It can expect a reliable measure of the probable effect of price on the amount of product which will be taken by consumers.

5. It can expect a clear picture of current consumer demand and that expected in the near future, for each product in each market area, so that reasonable quotas may be set.

6. It can expect analyses of the results typically produced by various types of sales-promotion devices, in so far as past experience and observation has permitted such studies. That helps sales management choose the right tool for the job to be done.

7. It can expect the "know-how," facilities, and willingness to conduct tests of sales methods, promotions, displays, etc., as they may be requested by sales management.

8. It can expect initiative in digging out and passing on sales or merchandising methods, ideas or devices used in a variety of fields which may possibly prove useful to sales management.

9. In cases where distribution is indirect, it can expect an accurate analysis of the movement of goods from the time of sale to the time of consumption, with data on the state of inventories in the hands of distributors and, where this is of importance, of stocks in consumer hands.

It will be noticed that this list very carefully avoids interference by the research function in the operations of the sales department. It also avoids duplication of effort. The research division, for instance, ought not to be expected to collect and analyze sales statistics. Those are internal control figures which sales management must have to regulate its routine operations, and it is not sound management theory or practice to mix up research with routine operating controls. Sales management can and should, however, expect help from research in comparisons of its sales statistics with external measuring sticks, such as buying-power indices, measures of potential, etc.

Uses of Market Indexes.—As was stated before, a market index reflects the relative abilities of different areas to absorb goods or services. If sales are known in one district, a dependable market index will enable the analyst to predict the sale in another area with a high degree of accuracy. For goods of national distribution the whole country is frequently taken as the base. There are 3,073 counties in the United States. A reliable index will show what part of the country's business will go to each county. While the distribution will be influenced by the population, it alone may be highly misleading. As an example, Jefferson and Lewis counties, of New York, have about 1 per cent of the population of the country. That does not mean that a magazine publisher can sell 1 per cent of his publications there, or that people of Jefferson and Lewis counties will buy 1 per cent of the new automobiles. They may, however, buy considerably more than 1 per cent of all the skis sold.

Any county that has approximately 1 per cent of the automobiles may be expected to buy 1 per cent of tires for replacement, and approximately 1 per cent of the oil used for lubrication. The number of gas meters may be an index of the number of gas stoves, and the number of electric meters an index of the comparative number of electric toasters that can be sold in each county.

However, for a product that is not directly related to another, of which the number is known, the problem is more difficult. The purchases of sets of encyclopedias will depend upon literary interests, and upon the ability to buy. The magazine circulation may reflect the former, and the number of income-tax returns the latter. Combined, these may give an accurate index.

In making an advertising appropriation, the districts where sales are possible should be cultivated intensively. The market index should indicate sales possibilities. If it does not, the conclusion should be that the index was faulty, not that the system would not work. So, in selecting advertising media, the index is of great importance. The same thing is true in making quotas for salesmen. It is not necessarily the best salesman who gets the most business out of a territory with a million people. Possibly the ability to buy is far less, per capita, in one district than in another having the same population.

The same method can be used again in comparing the abilities of distributors, yet "cold" figures do not always represent conditions accurately. The best baby carriages are sold to the miners of Pennsylvania. That is a buying habit that no index would reveal.

Where there are differences in seasons that affect the market the index should have a weather factor, such as that showing the number of days of rain each month, or the number of days when the temperature was above or below a definite standard.

Since oil furnaces have come into general use, many Southern homes that formerly managed with wood stoves or sometimes with wood-burning furnaces are equipped with them. This is primarily a matter of ability to buy, as it is only the well-to-do who are willing to install an oil furnace for use only a few weeks of the year.

Indexes for industrial markets are sometimes extremely simple; for example, estimating the number of parts used by automobile manufacturers. For most industrial products, an index is difficult to compute, and for many products it is so undependable as to be of little or no value. For example, the paint manufacturer who supplies furniture factories would find it next to impossible to get any system of indicators that would help him to predict sales for a year in advance.

In apportioning salesmen to territories, an index may be helpful. Until a few years ago one of the large food manufacturers kept two salesmen in the Wyoming territory. Applying an index to sales possibilities, it was found that those salesmen could be better employed in other territories. They were transferred, and the wholesale distributors were able to maintain the business without serious loss. For most products, out of a force of 12 salesmen in New England 7 should be placed in Massachusetts and 5 in the other 5 states. Almost any index would reveal such a division.

Factors for Indexes.—No one definite method that has been discovered for comparison of sales can be applied to many products and different territories. However, much of the information necessary for a market forecast will be approximately the same for a general class, as sports goods, in all territories and at least part of the information that is basic can be used for different products. This is particularly true for a comparison of one district with another, which can be represented by an index available to all marketing forecasters. For example, the sale of dentifrices in different territories will vary directly as the number of dentists; that is, in a territory where there are 20 dentists there will be twice as much tooth paste and twice as many toothbrushes sold as in a district where there are only 10 dentists. That is probably to be expected. But also the sale of high-priced merchandise will vary closely in proportion to the number of dentists. Other factors being even, there will be twice as many high-priced automobiles sold where there are 20 dentists as where there are only 10 dentists. This does not mean that the dentists buy the automobiles. Rather, the conclusion is that where people buy dental services in greater amount they will also buy high-priced automobiles and other expensive merchandise in about the same proportion.

There are many different items that are used to make up market indexes. The number of telephones, the number of automobiles registered, the amount of population, the literate white population, wired homes, the amount of fire insurance or life insurance in effect, the number of income-tax returns, and the amount of retail sales are some of the various items commonly used to compose a market index.

It must be remembered that a market is made up of people. That must, of course, be restricted to people who are willing and able to buy. The articles that they buy regularly and in quantity are supposed to be representative of what they may be induced to buy of some new product; the amount of money spent for family supplies is indicative of what might be spent for a new article. Then if the sale of a given commodity in a particular territory is known, by the use of a market index the probable sales can be estimated for another territory or trading area. The difficulty is to find sales records sufficiently definite and itemized so that they are significant. There have been four different censuses of retail sales. These are government figures and fairly accurate. They are also highly indicative of the buying habits and customs in each of the political subdivisions, down to counties. A comprehensive discussion of the market index is out of place in an elementary text and we will pass it over with the above explanation, hoping that from this discussion students can understand the meaning of an index and some of the purposes for which it may be used, one of which is forecasting.

Forecasting.—*One of the first things to consider in forecasting future business is the amount of business that the firm has been doing previously.* This should be broken down into trading areas. Usually, the smaller the area, the more accurate will be the result. It is natural to assume that what has happened will happen again and in about the same way. In other words, where a firm has sold $100 worth of its products in the years past, the presumption is that it will sell about the same amount another year. If the sales have been gradually increasing from year to year, it may also be assumed they will continue to increase at about the same rate if there is nothing new in sight that would threaten restriction of growth. Sales of most products depend upon business conditions, and that leads into a broader field of forecasting than merely predicting the sale for definite items of merchandise. What is the business outlook? That is the question most often asked of businessmen. The answer depends upon too many factors even to attempt an enumeration. In the financial pages of newspapers are given various statistics, such as carloadings, bank clearings, and the reports of the sales of securities and of commodities, with price ranges. Perhaps the transactions on the New York Stock Market are as good a single index of business conditions as can be had. Forecasting business conditions, it may be said, is a highly specialized field for the economist rather than for the marketing man. The sales manager or the vice-president in charge of sales who is attempting to forecast future business will probably confer with some of the leading economists concerning business conditions before making his own predictions. Some products are highly sensitive to business conditions. The slightest indications that business is going to drop off may curtail the buying of umbrellas in a spectacular manner. Style goods generally are highly sensitive to business fluctuations. A very large number of products move through the channels of trade in about the same proportion as the business curves indicate the state of business. If business is active, the products move rapidly. If business is depressed, the flow of such goods is retarded.

There are some goods and types of business that move against the stream, so to speak. Someone has said of them that they "fatten on hard times." One of these is the shoe-repairing industry. The sale

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Descriptive Legend for Figure 61

This map may be compared with the Standard Brands map Fig. 63 for differences growing out of the kinds of goods handled by each company.

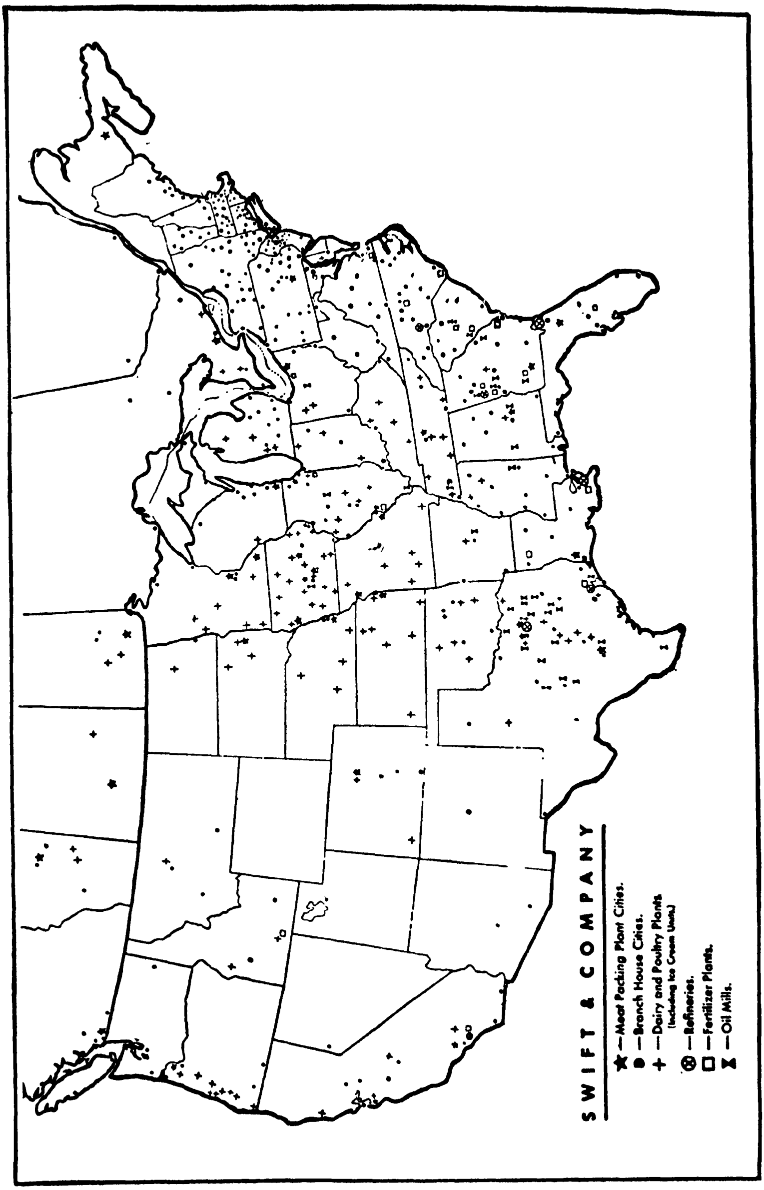

FIG. 61.—BRANCH OFFICES, POINTS OF DISTRIBUTION, ETC., OF SWIFT & COMPANY

of sewing machines tends to be increased with hard times; as women lose jobs in business, they do more of their own sewing. More fruits and vegetables are canned in the home in slack times. So, if one is concerned with forecasting sales for Mason glass jars and other similar products, one will look forward with optimism when other businesses are most pessimistic.

Many manufacturers request their salesmen and district sales managers to make frequent reports as to general conditions in territories that they represent. Are the crops good or poor? Are the mines active? Are the factories busy? All of these are influences that will be important in the forecasting of sales.

Steps in Sales Forecasting.—After the sales records have been carefully considered, the reports of field men have been tabulated, and the forecasts of economists as to general business conditions have been given their proper allowance, then the inside policies of the firm must be considered. Will there be any new territory opened? Is advertising to be pursued more vigorously? Are more salesmen to be added? Are new products to be brought out? Each of these will obviously have its influence. The careful market analyst will know the unit consumption of each of his products. For example, in the United States the average consumption of coffee is one pound for each family of five in a week, but the consumption of tea is only 12 ounces for each person per annum. The per capita consumption of sugar and fresh meat is, respectively, 112 and 125 pounds a year. The market analyst must know how these vary in different territories and, of course, how his products vary in those territories and also their per capita consumption. He must know, besides, the approximate ability of an industry to produce these products and the relative position that his company has in the industry. With all this in mind and with a fairly definite idea as to the promise of business conditions for the next three months, the market analyst can make a sales forecast that will not have too great a percentage of error. The longer the term for which the forecast is made, the less accurate it naturally will be. The greater length of time permits of many more unforeseen influences, such as fire, flood, famine, war, and new taxes and other legislation. All may interfere and cause the best of predictions to go astray.

The sales forecast is at the very base of good management. If a factory does not know what its sales are to be, it does not know how much material to buy, how many men to employ, how much capital will be needed, or how much storage space should be provided. These things can be predicted only in proportion to the accuracy of the sales forecast. What we have said here about sales forecasting is not intended to show just how a forecast is made, much less to develop amateur forecasters. The purpose of the authors is to show the importance of forecasting and to indicate the principal factors that enter into it, rather than to devise a system for any one product or business.

Qualifications of Research Men.—There are no set courses of study which prepare one to do successful research work. No institution of learning gives a certificate or diploma for work in research. The authors are disinclined to originate standards necessary for practice except in a very elementary way. If it is a simple marketing investigation, almost anyone who is familiar with marketing practice and has a copywriter's knowledge of psychology can conduct such an investigation. If the research is to lead to forecasting, the man in charge should be well grounded in economics, including statistics. He should be familiar with psychology so that he can prepare a questionnaire that will produce the desired information. This is a minimum.

Failure to choose a qualified investigator has led to unfortunate results. An example of this occurred several years ago with one of the largest soap manufacturers of the country. The company had in mind a flake soap, which looked like a good thing. It could be prepared at a reasonable price; women who tried it were enthusiastic. But being doubtful, the manager had his salesmen interview several thousand grocers, asking them about the sales possibilities of the soap. The territory covered and the number of interviews was ample, but the conclusion was 100 per cent wrong. What was the matter? The manager wanted the facts. His salesmen wanted to get the facts—or at least they thought they did. Yet it was all wrong and ended in a tragic failure.

The first thing that was wrong was choosing salesmen as investigators. Salesmen are partisan. They are always trying to prove what their employers want proved. If they were good research men, interested only in fact finding, the chances are that few would still be good salesmen. The next thing that was wrong was asking grocers to interpret their customers' likes and dislikes, especially when the grocers had a financial interest. They could see shelf after shelf already filled with soap. A flake soap would mean more money tied up in the stock of soap they carried, with no more soap sales in sight. Of course, they *thought* their customers would not be interested. Meanwhile, another soap manufacturer brought out a flake soap, and the one who originally thought of it had to spend a fortune in advertising before he regained the market he had lost.

The Parker Pen Company engaged an advertising agent to make a consumer investigation for them, and to trace effects on dealers. But this agent did not interview the dealers. That would be checking the results of his own work. He would be biased, of course. His interest would be to make a good showing. So the advertising agent engaged the merchandising department of a newspaper to make the dealer investigation.

The charge against prejudiced investigators applies to advertising agencies when the research is going to have an influence on the amount of money the client will spend in advertising. Financial interests inevitably warp the judgment of the one in charge. It is not a matter of honesty or of honor. Extreme conscientiousness may make the investigator go to unjustified lengths in the other direction, so that he won't be influenced by financial gain or loss. The very act of making an effort to counteract his interest makes him biased. There are independent research organizations that are capable of securing and interpreting facts without prejudice. Both advertising agencies and publishers have found it to their advantage to employ these research organizations, because of the accuracy of their findings and because such findings carry more influence when presented to clients. They are fact-finding and fact-interpreting agencies, which have nothing to gain or lose by the determined results.

Professional Research Standards.—There are numerous research organizations that operate independently and work for their clients, quite as does an advertising agency or a law firm. These people have no interest in the results except to have them accurate.

Many publications and even the broadcasting companies employ research men to work for them. There is no reason why these people should not produce excellent results, but they are limited in their fields. If the research department of a newspaper or magazine makes a study to show the superiority of the publication in some field, their work is immediately under suspicion and for obvious reasons. But if one of these research departments wants to make a study for an advertiser to show the effect that his advertising is having, he may get as satisfactory an investigation as if it were made by an independent agency.

The research organizations have recently formed an association to which the leading independent research men belong. They have adopted a "Code of Professional Practices" along with which they have set up "Standards of Practice to Be Used in the Reporting of Survey Results." These are given here exactly as they were adopted.

Standards of Practice to be used in the Reporting of Survey Results

Every report of a survey should contain an explanation of the following points:

A. The purpose of the survey.

B. For whom and by whom the survey was conducted.

C. General description of the universe covered.

D. The size and nature of the sample and description of any weighting methods.

E. The time the field work was done.

F. Whether personal or mail interviews were used.

G. Adequate description of field staff and any control methods used.

The main body of every report of a survey should contain:

A. Questionnaire and findings.

B. Bases of percentages.

C. Distribution of interviews.

Code of Professional Practices

Toward the goal of maintaining sound practices in the profession of marketing research and the confidence of all those who recognize the value of research, we subscribe to the principles expressed in the following code.

This organization will:

1. Strive at all times to maintain the highest research standards.
2. Endeavor always to preserve a thoroughly objective, impartial, and unbiased attitude in our work.
3. Be constantly mindful of the limitations of survey techniques and accept only such assignments as can be performed within those limitations.
4. Fully and truthfully describe to the client the methods and techniques used in the performance of a research project.
5. Hold confidential all information obtained about a client's business and markets.
6. Search for and be receptive to new and improved techniques in the profession of marketing research.
7. Encourage and participate in the exchange of ideas and experiences relative to general marketing research techniques with other organizations adhering to this code of ethics.
8. Participate in and contribute to the work of societies, schools, and other organizations interested in the improvement of research standards.
9. Exercise care in the acceptance of assignments and clients with a view toward the maintenance and advancement of the highest standards of marketing research.

This organization will not:

1. Knowingly allow its creative professional services to be hired in any case where price, rather than quality, is the only consideration.
2. Knowingly deviate from established research standards or indulge in questionable research practices in order to "prove" a case.
3. Authorize its name to be used in published survey material without prior examination and approval of the material to be used.
4. Release to any client or other organization confidential research findings paid for by another client without the latter's specific authorization.

5. Knowingly interpret survey results nor tacitly permit interpretations to be made inconsistent with, or not substantiated by, data available.

6. Accept business from competitive companies where the confidential nature of the relationship will be imperiled.

7. Accept confidential information offered by present or former staff members of other research organizations.

It is evident that a manufacturing firm may want to employ its own research staff. The questions to whom the director of research should report and from whom he should take orders arise. It is evident that research and sales are so closely related that there should be a thorough understanding by each of what the other is doing. But that does not necessarily mean that the director of research should work under either the advertising or the sales manager. The president might want to investigate some of the methods of either or both advertising and sales departments. The executive will probably get more accurate and uncolored reports from the investigator if the investigator reports directly to him. If the report has to go through the hands of the one being investigated, there may be great embarrassment. The director of research can work with the sales and advertising departments without being in them.

Because of their scientific training and familiarity with scientific method, professors of marketing from the universities are frequently called upon to make important investigations involving marketing research. These men have a reputation for mental integrity that is more valuable to them than any monetary gain that could come through "weighting an investigation" in favor of a temporary employer. Besides, if the research is at all important, it will be studied so deeply that "errors" will surely be discovered. Dr. Cook could not, even with the aid of expert mathematicians, fake data to prove that he had been at the North Pole. So it is with marketing research. It cannot be successfully faked, provided that the one who examines the report knows his marketing.

Making the Questionnaire.—Only persons who are skilled in making questionnaires should be permitted to undertake this difficult task if the matter under consideration is important. The great difficulty in asking questions is to bring out the exact information desired and to keep out extraneous ideas that have no bearing on the subject. It sounds simple to ask some questions concerning a product, but those familiar with this type of research work know very well that long and careful study should be made of every important questionnaire before it is issued. Questions that are subject to more than one interpretation, or that are likely to antagonize, should be modified or eliminated.

The following qualifications have been found helpful in preparing questionnaires:

1. Questions should be specific. Usually better information will result if the response concerns matters of fact rather than opinion. But it is often difficult to draw the line. "Do you think you save enough by buying at the super market to offset the expense of driving your car to the market?" is a matter of opinion. But it is the kind of opinion that leads to action and therefore may be important. "Do you object to a sales tax?" may ask for an opinion, but the politicians regard such answers as of great value if there are enough of them. But the question "Do you think most people object to a sales tax?" calls for an answer that is wholly a matter of opinion, and multiplying the answers is of no value, even to politicians. That is the kind of opinion that C. F. Kettering, head of the research laboratories of General Motors, meant when he put a card in his office stating: "Opinion is tolerated here only in the absence of facts."

2. A question of choice is rather fact than opinion—for example, "Which tooth paste do you regard as best?" In a technical sense this may be classed as opinion, but in practical calculation one more user for the favored brand may be tallied as a fact.

3. The persons interviewed may be asked to rate the items on a given list: those most often bought, or those preferred.

4. Questions that can be answered by "yes" and "no" can be easily tabulated. That is important where the number of questionnaires is large. Also, where the answer is merely a check it is much easier to get responses.

5. The classes of people questioned should be carefully observed. The thought here is that the questions should mean exactly the same thing to all queried. A bureau of business research, a few years ago, sent out a questionnaire to a large number of retailers, asking them to rate in the order of preference: general magazines, newspapers, posters, radio, women's magazines, etc. The advertising was that of manufacturers to aid retailers in selling their goods. The bureau did not distinguish between grocery, men's-wear, women's-wear, or hardware stores. Evidently two of these classes of stores did not vote for women's magazines. The stores should have been arranged in classes, then answers would have had definite significance.

6. Questionnaires should begin with general questions and proceed to more personal questions.

7. A sufficient number of answers is supposed to be collected when added answers do not change the relative results.

8. Definite facts of a given time and circumstance are preferred to

general statements. In surveying the newspapers read in the homes of New York City, the question was: "What newspaper did you read in your home last night?" That was regarded as more definite and convincing than "What evening paper do you generally read?"

9. Asking people why they do certain things is generally futile especially when applied to likes and dislikes. With coffee, chewing gum, cigarettes, brands of gasoline, and many other commonly used products there are definite established prejudices both for and against, but very few can give a good reason. Frequently one hears, "I wonder why I ever bought it."

A group of businessmen, anxious to get the reactions of the public to advertising, sent out a large number of questionnaires in which this was the principal question: "What is your criticism of advertising?" The question was senseless, (1) because it was asked in a way that implied that each person asked had a criticism—presumably an adverse criticism. Many who had never been conscious of having a serious criticism of advertising would try to think up one, just because it was expected of them; (2) because no one queried was capable of criticizing advertising as a whole. One might as well have asked: "What is your criticism of books, or of medicine, or of agriculture?" For a muckraking magazine article, it might have served a purpose, but as a guide to preparing copy, it brought out little of value.

If one were asked, "Is there any advertising that irritates you?" one might have given an accurate and truthful answer. That could have been followed by another asking specifically what some of the advertising was. The subject could have been pursued further by a question as to why the advertising was irritating. That would have been less safe ground. One can seldom analyze one's likes and dislikes or other emotions with any high degree of accuracy. How many can give an intelligent answer to "Why do you like cigarettes?" or "Why do you like fresh air?" or the equally pointed question, "Why do you dislike the smell of garlic?"

Of course, a question asking for the reason why some advertising is disliked is easier to answer. There may be definite, convincing reasons. Where such is the case, it is good procedure to get the reasons, especially when the reaction of the public to advertising is being studied.

The Procedure in Marketing Research.—There are two types of information that are open to the men in marketing research. One is written and printed records, and the other is data secured from the field. Oftentimes both are required. But before deciding on the method, first determine and clearly define what is the exact purpose of the investigation, what information is sought, and for what territories it is to be used. Determine what information is available from records and what must be secured from people in whom there is an interest. Records include the books of the firm, which should give seasonal sales, sales by territories, and the cost of sales for each territory. Not all these data are available from each company, but the best kept records will reveal such information. Other records are

1. The *Census of Distribution* and *Census of Business* and the current census.

2. Other government records, including the annual reports of the Department of Agriculture, etc.

3. Records maintained by industrial and trade associations.

4. Similar studies by publishers, advertising agencies, and other investigators.

The nature of the field work will be determined primarily by the kind and extent of information sought. If it is a matter of public opinion, as in the Gallup surveys, which frequently pertain to questions of governmental policy, voters are to be interviewed, and the samples should be in proportion to the number of names on the registration books, not the population. The different classes should be represented as nearly as possible in accordance with their numerical importance.

If automobile owners are the subject of the investigation, samples should be interviewed in proportion to the number of automobiles registered. It should be possible to make returns from the questionnaires representing the different districts according to their importance. Sending questionnaires to 10 per cent of representative automobile owners does not mean that replies will come in the same proportion. Suppose that 7 per cent are expected to reply. If 15 per cent from Ohio reply and only 2 per cent from California, that should be taken into account. The Ohio owners evidently have much more interest.

If the investigation pertains to some particular class, as architects, dentists, grocers, or farmers, the sample interrogated should be in proportion to the number in each class in the territory covered.

The oral, or personal, interview has the following advantages:

1. Accurate and detailed information can be obtained.

2. Many questions relating to the subject can be asked without the one interviewed becoming impatient.

3. A careful selection of people to investigate is possible, thus giving a high significance to a comparatively small number.

4. The opportunity to explain perplexing questions and to get explanations of answers that are not otherwise clear is valuable.

5. It is comparatively easy to avoid misleading questions.

The disadvantages of the oral questionnaire are

1. It is expensive. This is particularly true if the territory is so great as to require many interviews.

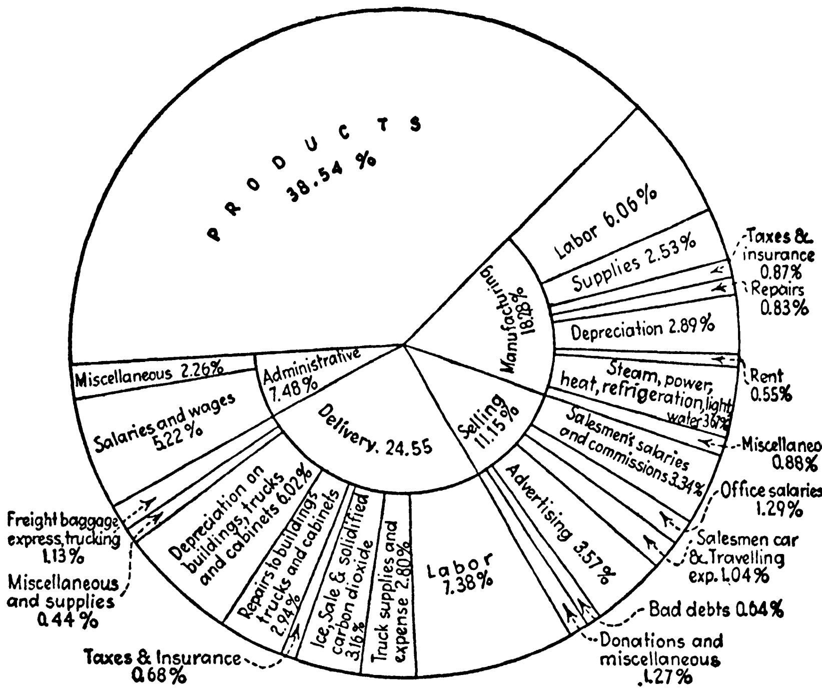

FIG. 62.—THE ICE-CREAM EXPENSE DOLLAR

This study shows a breakdown of the ice-cream expense dollar. The cost of selling is 11.15 per cent. This in turn is broken down into several subdivisions, of which advertising represents 3.57 per cent of the total expense.

Advertising is sometimes criticized as costing too much, particularly when considered in terms of large appropriations. The point is that the cost of any advertising, with relatively few exceptions, should be considered on a percentage basis, not on the basis of the total money spent. Many large appropriations represent but a small percentage of the total expense, or of the sales volume. (*From "Trends in Ice-cream Costs," International Association of Ice Cream Manufacturers.*)

2. A considerable length of time is necessary.

3. It is difficult adequately to supervise the field force. Questions that are not completely answered or are overlooked may mar the accuracy of the whole investigation. Yet, it is sometimes impracticable, sometimes impossible, to have the interviewer return and correct the faulty work of his first interview.

The mail questionnaire is also extensively used—sometimes by itself, and sometimes supplemented with personal interviews or with interviews by telephone. The advantages of the mail questionnaire are that it is low in cost and that a large amount of territory can be covered in a short time. The uncertainty about securing the right type of person to interview and of knowing that the questionnaires returned come from those who are representative are some of the limitations. For example, a questionnaire concerning such an item as an encyclopedia will receive very much greater returns from those who own sets than from those who do not. This unbalances the results received. There is also danger of an uneven distribution, which makes the sample unrepresentative. A questionnaire on crop raising might be misleading if it included too many who specialized in a particular crop.

The telephone questionnaire has the advantage of quick returns, but people are often annoyed by being disturbed in their homes in order to supply information to a strange voice about which they know nothing and care nothing. Telephone questionnaires have to be extremely brief, and even then the answers may not be very sincere. One who has been annoyed by the interruption may feel justified in giving misinformation, hoping thereby to discourage telephone canvassing.

Future Possibilities for Research.—The first *Census of American Business*, in 1929, provided a vast amount of information not available up to that time. Those for 1933 and 1935, although less thorough and far less detailed, provided other records that were valuable for comparisons. Finally, the business section of the 1940 census provided much more valuable data for many fields of marketing, and it is hoped that the one for 1950 will be still more valuable. Other sources of information, such as the files of business publications, more complete records of individual businesses, investigations, and publications of the Federal Trade Commission, have all added valuable material. It is a good start, but only a start.

Marketing students need to study methods, comparative costs of operation, consumers' preferences, and the value that consumers put on different grades or classes. Such students do not yet know the extent of their ignorance, which might well be made the subject of a research study.

Comparatively little is known of selling costs, either to the manufacturers or to the merchants. Sometimes businessmen are surprised that they know so little about their own selling costs. Standard Brands Incorporated was wholly unable to show the Federal Trade Commission the costs of selling in different quantities and so to justify its system of quantity discounts. Few other firms, we venture to assert, could have made a better showing in cost analysis.

The efficiency of the different types of stores has not been analyzed with sufficient thoroughness so that a definite comparison can be made. The same thing is true of manufacturers and wholesalers.

Some system could and should be worked out that would give a norm for operating costs for different kinds of business. Had this been done, the problem of price control would be comparatively simple. Also, a second step could easily be taken, which would set a model for rewarding administrators in proportion to the value of the service they actually render to their companies.

Another important project—one that would offer great advantages to business and to society—would be a thorough study of the fluctuation of prices. A considerable amount of study has been given to seasonal fluctuation, but most businesses vary with the activity of trade. For example, if the standard indexes show a 10 per cent drop, what effect will that have on both sales and prices of each of the leading classes of goods? In other words, the range of prices and the variation in sales volume for different classes of goods should be compared with business activity.

A better philosophy of the economics of marketing is desperately needed. What is a fair profit? The question is wholly without an answer at the present. Neither businessmen nor economists are agreed even as to what profit should be founded upon. Some think it should be on sales; others, on the capital invested. All know that it should vary with the extent of the risk, but no one as yet has proposed a scientific method of arriving at a profit that would be equitable to all interests. Economists have long wrangled over the question "What is a fair wage?" without arriving at anything conclusive. The question of wage should be used in its broadest sense. Particularly it should apply to executives. Why does one company pay its top executive $20,000 a year and a similar concern pay twice that much? We do not as yet have an established system that indicates the types of work that should be turned over to executives, although that problem is much closer to a solution than the others mentioned. Business research is in its infancy and offers wonderful possibilities for real students.

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Questions and Problems

1. Complete the sentence, "The problems of research are largely concerned with ________________."

2. What is the difference between setting out to prove a predetermined objective and collecting facts to determine existing conditions?

3. What is the essential difference between the Hooper and the Nielsen radio-research methods?

4. List nine elements in a "bill of particulars" as to what sales management can expect from research.

5. Define a market index.

6. How might a market index be used in fixing sales quotas and selecting advertising media?

7. What are some of the indicator items that might go into the make-up of a market index for Cadillac automobiles?

8. What are some of the considerations that should be examined in making a business forecast?

9. Why are research organizations interested only in the accuracy of results?

10. Write an article on the topic, "The Code of Professional Practices of the Research Association."

11. Why is it desirable to have the director of research report to higher authority than line management such as the sales or advertising manager?

12. Name six qualifications that have been found helpful in preparing questionnaires.

13. What are the two broad types of sources of information open to research men?

14. List three advantages of the oral, or personal, interview.

15. Which of the following considerations is more influential when people select a city in which to buy their needs: high quality; transportation convenience?

16. What are some of the fields of investigation wherein market research may prove helpful in the future?

CHAPTER XIV

SALESMANSHIP AND SALES MANAGEMENT

The New Salesmanship.—Salesmanship, as we commonly know it, is something new in the world. That is, it has come primarily in the last century. Until the industrial revolution, the great difficulty was to make enough goods to supply demand. With the buyer eternally seeking sources of supply, there was little or no opportunity for salesmen. It was only after the automatic machines began to turn out goods in what is called "mass production" that the manufacturer was confronted with the problem of finding buyers. The old merchants, both wholesale and retail, were accustomed to handle teas, coffees, spices, and other staples that needed very little selling. In other words, there was no effort in demand creation. Each buyer knew what he wanted and was prepared to haggle with the seller over price. With the age of invention and with new products, a new type of selling became necessary. In addition to bringing new articles to the attention of those who might use them, people had to be taught how to use them, shown their advantages, and in other ways convinced of the advantage of owning the new "gadget." This type of selling involved far more than merely showing the item and proceeding to argue about price. New types of salesmen were developed—salesmen who were convincing, who could show the advantage of buying a product that the prospect had never bought before.

If the old type of merchant, both wholesaler and retailer, had been equal to the emergency, manufacturers would probably never have organized sales departments. Most of the new articles were at first sold from house to house. That was true as recently as the introduction of aluminum kitchenware. After a neighborhood had been canvassed, the salesman went to the retailer and explained to him that the product was already in use and that there would doubtless be calls for it. Under such circumstances, the retailer was willing to take on the aluminum as part of his regular stock. When a considerable geographical distribution had been canvassed in this way, and many retailers had already placed the aluminum ware in their stores, the wholesaler was then approached and was easily induced to stock the aluminum ware in sufficient quantities to take care of the retail trade.

That is what has happened to many other articles although their distribution was not worked up methodically in so short a time and with so definite a plan as in the case of aluminum ware.

Some of the early salesmen in this country were peddlers. They have already been discussed. It was these peddlers who worked on the principle of "doing the other fellow first," as buyers might not see him again. Probably the origin of the countless tales about the sharp practice of itinerant salesmen had a foundation of fact. "City slickers" were able to reap a rich harvest by preying on gullible country people who were anxious to be progressive and would buy almost anything new. Even yet, we hear disparaging references to the lightning-rod salesmen. But we all know salesmanship has now become respectable and respected, and some day may be regarded as a profession.

The great increase in the number of salesmen and the improvement in sales technique were the results of new inventions and of new ways of doing business. The kerosene lamp had to be sold to those who used tallow candles; gas lighting was sold to people who had used kerosene lamps. Electric lighting also required selling, and even now improved electric lighting devices are being sold to replace older and less efficient models. This illustration could be paralleled in many industries. The whole life insurance business, among others, has to be sold to the public. With so much demand for salesmanship, it has improved its technique, just as education has improved in methods. Most salesmen are now given special instructions and training, not only in goods but in the method of presenting them.

Development of Markets.—In many phases of marketing the buyer to a considerable extent seeks the seller. That is particularly true of retail stores. Advertising and display of goods invite buyers in a general way, but for the most part customers come voluntarily, looking for an opportunity to buy the specific goods that they need. In wholesaling, it is true only in a limited way. Most wholesalers make some effort to sell retailers and other potential buyers. The wholesalers' salesmen call on their regular customers to get orders for needed goods. These goods are frequently listed in a "want book" and the selling effort is limited to finding the right supply of sizes, assortments, and quantities. The salesmen for wholesalers can do some educational work, but usually only a small amount. Their chief efforts are centered in supplying needs that existed before they called. They do very little to stimulate new desires or to open up new markets.

With manufacturers, especially those who produce style goods, there is a constant demand for salesmanship. Though change of style is uneconomical—some even call it foolishness—several of our industries depend primarily on frequent changes of style for their market. Just how these styles originate no one knows. The business graveyard is filled with those who have tried to be leaders in style, and the creation of new modes has led very frequently to the bankruptcy courts. But to recognize an approaching style, then to speed, spread, and prolong it is the marketing task of these industries. Many have attempted to induce men to change their clothing styles as frequently as women change theirs, but for the most part these efforts have been futile. Others have attempted to change styles of furniture periodically, with no greater success. Yet in course of time there is a "new look" for houses, for dishware, for magazines, for food, and for church pews. Automobiles change annually. All these changes make sales.

Inventions, as was mentioned, require the development of a market, but though many items are invented each year, few of them become important in commerce. To devise new uses for items already accepted is one of the common means of expanding the market, manufacturers often offering prizes for novel uses for their products. Another means of extending the market is to encourage the exclusive use of one's product. The cigarette manufacturers and many others accomplish that through their advertising. Although a fixed habit of buying a certain item is difficult to change, it is very easy, if two or three similar items have been bought indifferently, to influence the sale of another item of the same class.

Selling to Wholesalers.—Manufacturers, with few exceptions, maintain sales departments whatever their outlets may be. Many turn over their goods to brokers, but even when that is true, they find it necessary to keep someone in charge of sales. It is necessary to keep brokers advised as to the stocks on hand, new developments in the product, changes in prices, and terms of sales. Very few manufacturers are able to do without at least a minimum amount of advertising. This may be reduced to issuing circulars, a few sales letters, or a thin catalogue. Definite selling effort is the rule and not the exception. The wholesaler, like the retailer, has four definite angles from which he considers merchandise:

1. Does it offer a sufficient margin?
2. Is the volume great enough so that it is of importance?
3. Is the quality good enough so that it will be a credit to the seller?
4. Is the article one that can profitably be added to his stock? That is, is it sufficiently similar to goods regularly handled, so that it may profitably be included?

If any manufacturer is so fortunate as to have the best article on the market, which he can sell at a lower price than poorer articles, and at the same time can advertise it so that it is the best-known product in its class, his selling efforts will be reduced to a minimum. Practically no manufacturer enjoys all these advantages. He employs salesmen for the purpose of demonstrating to wholesalers that his products have sufficient advantages so that they will be profitable to handle. Margin, volume, and quality are all important. The price is also important, but it depends upon quality and quantity. Price by itself means nothing.

It is evident that the salesman who goes out to talk in terms of sales and profits must be a man of intelligence and one able to present a proposal forcefully and tactfully. He cannot know his customer's needs in the way the customer knows them, yet he should know his own product and its value as compared with other products better than the wholesaler or the retailer can know it. The good salesman no longer pleads for an order. He gives reasons why he should have the order. This does not mean that a good personality, a tactful and courteous bearing, and the general quality of showing himself a good fellow do not play a part in salesmanship. The reverse is true. Buyers are human beings and like to be treated as such. Bullying a customer may occasionally make a sale, but it is sure to make a repeat sale difficult.

The Industrial Distributor's Salesman.—The industrial distributor buys very much as do the wholesalers who sell to retailers. Their interests are much the same, but selling for an industrial distributor is quite different from selling the retail trade for a wholesaler. Industrial distributors' products are often of a technical nature. They are sold to those who buy and consume in large quantities. There is no problem of resale with them. They want to buy at the lowest possible price consistent with good quality. Oftentimes, the question of delivery is more important than a slight variation in price. They must be sure of their source of supply and feel that it will be available when needed. Buying and consuming in large quantities, they are interested in general market conditions. Particularly is this true of raw materials.

The salesman in this field must know his products in a technical way and understand how to compare them technically with competing products. In selling heavy machinery, an engineering training may be a necessary qualification for salesmen. One of the most successful of these men that the writers have known would not attempt to quote prices direct. Rather, he secured a definite statement of the work to be done. Then he designed machinery and appliances to do the job. So, instead of a quoted price on a definite machine, his quotation was

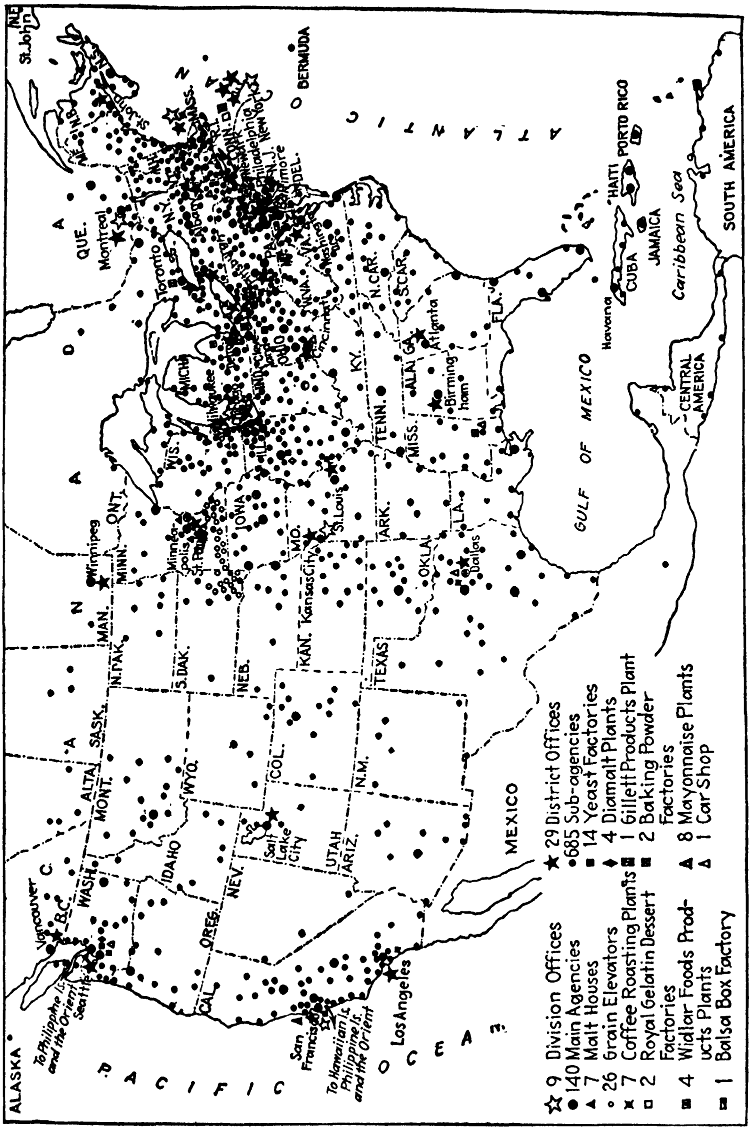

FIG. 63.—MANUFACTURING AND SALES UNITS OF STANDARD BRANDS, INC.

The above map shows the location of approximately 900 sales units. In these units are approximately 5,000 employees. From these sales agencies Standard Brands covers with its own equipment 15,000 other cities, towns, and villages. Also, through public carriers (parcel post, express, etc.) 36,000 additional towns and villages are reached. (*Standard Brands, Inc.*)

for an assembled plant that would perform the necessary work. In selling a wholesaler or a retailer, the salesman's best judgment and most careful consideration need to be used in helping his customers to select the right goods in the right assortment to produce the most profitable results.

In selling large contractors, factories, and transportation companies, the right quality of product with an assured delivery and the most advantageous price level of the market are chief considerations. It is very difficult to sell in a falling market, so the salesman in the industrial field uses his best judgment in helping his customers to tide over pressing needs with no surplus. He advises them to buy in the minimum quantities that would serve their purposes when he believes prices may decline. While no salesman, or anyone else, can be held strictly accountable for changes in prices, the industrial salesman has to be sufficiently familiar with the markets so that his advice will usually be good in regard to rising or falling prices. In this field, as in other fields of selling, courtesy, affability, and dependability are very great assets.

Supplementary Work of Wholesaler's Salesmen.—Frequently, salesmen find it necessary to collect accounts, to assist customers in the right use of the products they have bought, to make window or counter displays for their retail clients, to advise them in regard to advertising, store displays, training clerks, and keeping records. Arrangement of the stock in the store and even taking an inventory of the merchant's stock of the products that the salesman supplies are part of selling. Some manufacturers have found it profitable to have their salesmen make demonstrations in stores on Saturday afternoons, when it is difficult to sell because the proprietor or other buyer is otherwise busy.

The salesman is also expected to bring in reports showing the satisfaction that the firm's products are giving, make suggestions for improvement in the packaging, in ingredients, and in ways of shipping. Often the salesmen have to pass on the dealer's credit or make recommendations as to the limit of the credit that should be extended to individual customers. Sometimes salesmen are required to collect for the goods they have sold, or, if they fail to collect, are charged with part of the loss.

The manufacturer's salesman who calls on the wholesale trade frequently acts as a "missionary." He travels either in the company of one of the wholesaler's men or alone and takes orders from retailers, to be delivered through the wholesaler with whom he is working. Sometimes he accompanies the wholesaler's salesmen in order to show them how to sell his product. This type of selling is coming more and more into vogue and obviously requires a very high type of man, for not only must he be a good salesman, but he must know how to instruct other salesmen in order to get them to adopt the best methods. No longer can a manufacturer or a wholesaler employ a "born salesman" and then send him out without instructions, if he is to compete successfully with well-trained salesmen. From the foregoing it is apparent that a technical knowledge of the goods is necessary. The

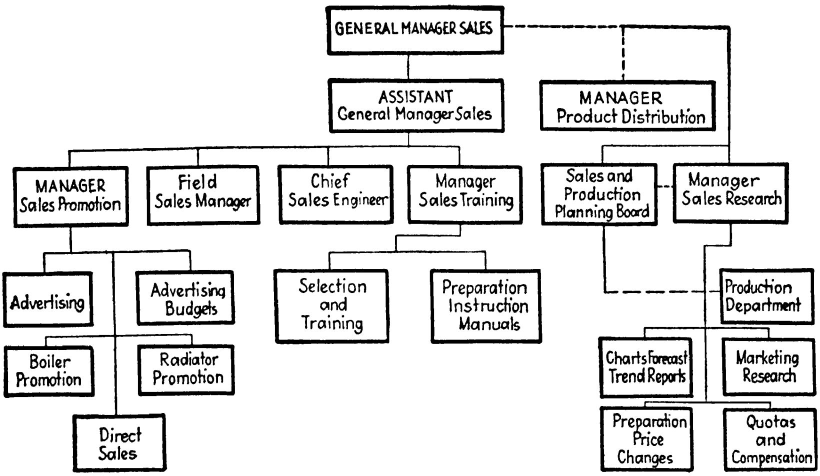

FIG. 64.—TITLES AND ACTIVITIES OF THE SALES DEPARTMENT OF A NATIONALLY KNOWN HEATING-EQUIPMENT MANUFACTURING COMPANY

The chart shows the many titles and activities that go to make up a large sales department. Note that "Sales Promotion" is placed under the General Manager, and "Advertising," in turn, under the Sales Promotion Manager. The Manager of Sales Research reports direct to the General Sales Manager—a usual custom. This firm sells primarily in the industrial field, and through hardware and plumbing stores.

best principles of wholesaling and retailing must be understood by the salesman. If he is selling the industrial market, he may be required to discuss engineering projects. All of these requirements necessitate careful training and usually very careful supervision. Selecting, training, and supervising salesmen fall under the head of sales management.

Sales Management in Marketing.—Under present competitive conditions, it is necessary for most manufacturers to seek out customers for their products. This often becomes an extremely involved proceeding, requiring the use of advertising, sales promotion, research, and publicity, as well as of salesmen. There are so many manufacturers in the country, so many different middlemen, that a manufacturer who does nothing but wait for people to come to his place of business for their supplies has small chance of succeeding. No matter how carefully the manufacturer has prepared his product to meet the needs of consumers, it is necessary for him to convince both consumers and distributors of his product that he has something which supplies a real need. If his product happens to be an innovation, the task becomes more difficult, for then it is necessary to create a demand, not merely to supply one that already exists.

Selling problems of a manufacturer may be grouped under the following:

1. Securing information regarding the market by
   a. Marketing research.
   b. Market forecasting.
2. Adopting selling policies.
   a. Choosing distribution channels.
      (1) Selecting middlemen.
      (2) Selecting warehouses.
      (3) Establishing branch offices.
   b. Organizing the sales force.
   c. Adopting prices and terms of sale.
   d. Planning the advertising and coordinating it with selling.
3. Direction of sales activities.
   a. Securing salesmen.
   b. Training and equipping salesmen.
   c. Supervising and remunerating salesmen.
   d. Coordinating the efforts of the salesmen with other selling activities.
4. Record keeping.
   a. Keeping accounts of customers.
   b. Looking after credits and collections.
5. Shipping and transportation.
   a. Boxing and freighting.
   b. Traffic management.

As all these are involved in getting the goods out of the factory and into the hands of the consumer, the complete program is indicated. The best organizations usually do not include some of these activities under the direction of the sales department. Particularly is that true of record keeping and looking after credits and collections. Shipping also is regarded as a factory activity rather than as selling. However, transportation does become an important part of the sales program for many raw materials and industrial goods and some consumer goods. As noted in Chapter XIII, it is sometimes better for marketing research to be separated from sales management; market forecasting may be done by a staff officer who is not closely connected with the sales department.

Organization of the Sales Department.—Sometimes a manufacturer has succeeded in building a very extensive business without the formal organization of a sales department. In such a case there is no sales manager and no salesmen. Yet, in every manufacturing institution, it is necessary to have someone responsible for selling the products.

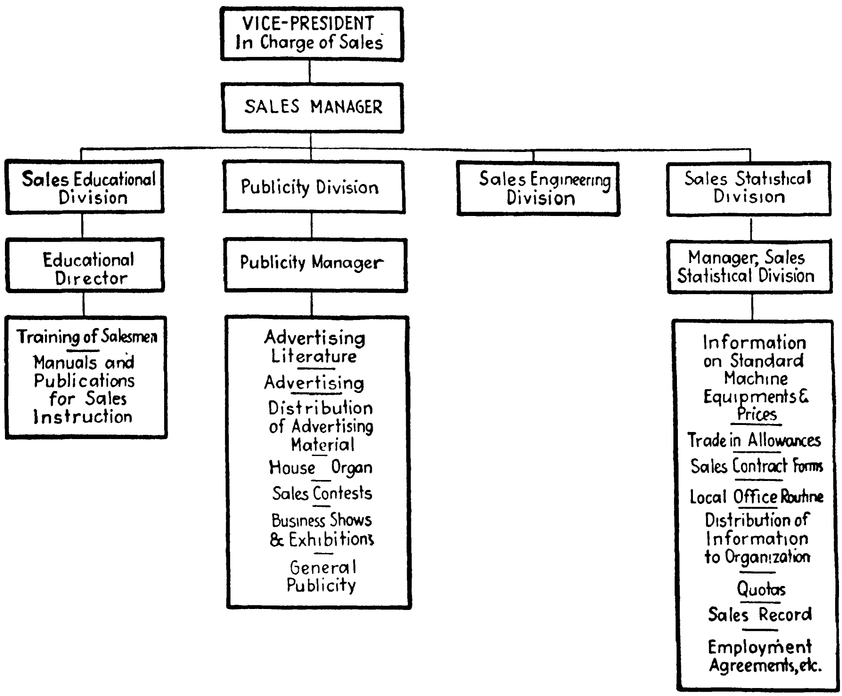

FIG. 65.—TITLES AND ACTIVITIES OF THE SALES DEPARTMENT OF A LARGE MANUFACTURER OF OFFICE APPLIANCES

The student can perhaps obtain a distinct impression of the variations in sales-department titles and similarities in activities, by comparing the information contained in this chart with that in Fig. 64. The sales of this company are very largely direct to business consumers, with stationery stores, furniture stores, and department stores also serving as outlets.

They may be sold through brokers or wholesalers or sold by contract to a system of chain stores, to large department stores, or to wholesalers who sell under their own brands. Yet, in each case, someone must be in charge of selling. The larger the number of customers served, the larger the number of products offered, and the greater the effort made to stimulate sales, the larger the sales organization necessarily becomes. Establishing selling policies is a process of determining just what activities will be undertaken in order to sell the output of the factory. Will it sell to wholesalers only? Will it sell to wholesalers and some large retailers? Will it also include some important consumers? Will it sell through exclusive agencies? Will it establish its own outlets? Will it maintain a foreign-trade department? Will branch offices and stocks in sectional warehouses be utilized? These are questions that cannot be determined from week to week. A definite program must be established and followed for a considerable length of time, unless an impelling reason presents itself that makes a change of policy advisable, or offers sufficient excuse for making a one-time exception.

Selecting Salesmen.—The selection of salesmen depends very largely upon the kind of selling job to be done. To replace the girl behind the glove counter of a store may be a simple matter of appearance, intelligence, and integrity; while to replace a bond salesman for a leading bond house might require an advertising campaign.

The classified advertising columns offer many opportunities for salesmen in different lines of business. These cannot be depended upon to bring a very high type. Those who are out of jobs, who are undependable, and who are inefficient usually make up the bulk of inquirers. Many interviews and much searching of records are necessary to pick a few grains of wheat from the chaff.

Firms who use display space in business publications will receive fewer answers, but usually the applicants are of high grade. If canvassers are wanted, this method will not be successful. A sales organization that is functioning with a high degree of efficiency is of value to the employer, far beyond the mere material worth of buildings and equipment.

Of those who advertise to get positions, the average is much higher than of those who answer classified advertisements. They have some initiative, they are in earnest, and usually they have records that will bear investigation, or they would not spend their money to find an opening.

Colleges turn out many young men of polish and intelligence. Some may have had formal instruction in salesmanship. As a rule, they lack experience, and require much training and supervision at first.

Retail clerks who know the goods they handle may be promoted to represent manufacturers or wholesalers selling similar merchandise. So too, wholesalers' salesmen may feel that there are larger opportunities in selling for manufacturers. Also, salesmen who have been handling staples may prove satisfactory in selling specialties. The method most seldom used—the one that involves the most trouble—is that of hiring salesmen away from competitors. Many firms regard this as unethical and, even were it ethical, it is not regarded as good business. The salesman who goes to a new firm will doubtless take some business with him from the old firm. He may take some of the trade secrets that it is necessary for the salesman to have, and in other ways he may be a valuable acquisition for the new firm as well as a considerable loss for the old one, but there is no assurance that the salesman after a time may not return with added inducements to his former employer.

Sometimes a man may be taken from within the organization, if he

METHODS 215 COMPANIES USE IN TRAINING SALESMEN

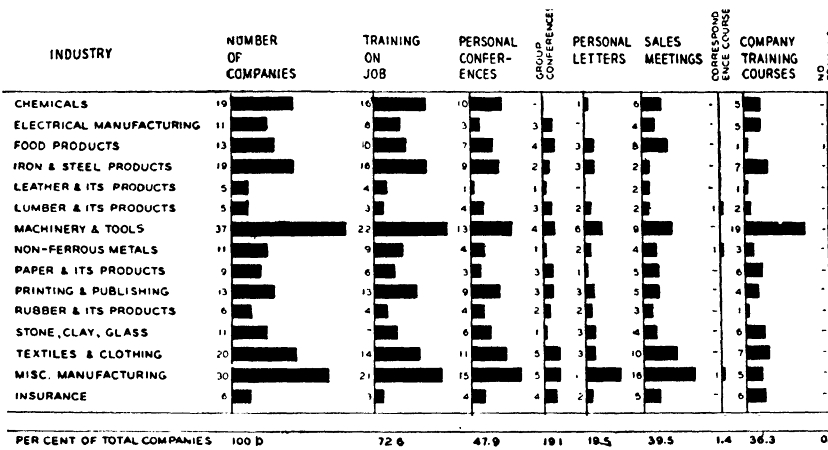

FIG. 66

knows the product well and is capable of meeting people in a pleasant way. This is particularly true in the sale of technical products.

Many firms encourage their salesmen to be on the lookout for good men in noncompeting lines. Unless the salesman has unusually keen judgment, he is inclined to introduce his good friends rather than good salesmen and then feel aggrieved if those he has recommended are not employed.

Sales Training.—Under the old system of selling, salesmanship was considered, as one cynic put it, "The art of keeping one's foot in the door." The aggressive, smooth-talking, persuasive type was much in demand and, for some types of business, that kind of salesman is still highly valued; but the more modern idea of salesmanship is to offer something of value, something that the buyer will be glad to have. The salesman is expected to approach his prospect with a feeling that he has something definite to offer, not that he is merely asking for something. He will go with the feeling that one who denies him an interview is overlooking a valuable opportunity. In other words, he has sufficient knowledge of his product, of the conditions in his particular industry, and of recent developments so that he can really make it worth while to the buyer to listen to his proposition. He does not plead to have something given him. He offers something in a forceful and intelligent way that it will be to the buyer's interest to accept. To make this an actuality and not merely a theory, salesmen must have a thorough training. This should include, in addition to a knowledge of the product and the firm that produces it, an understand-

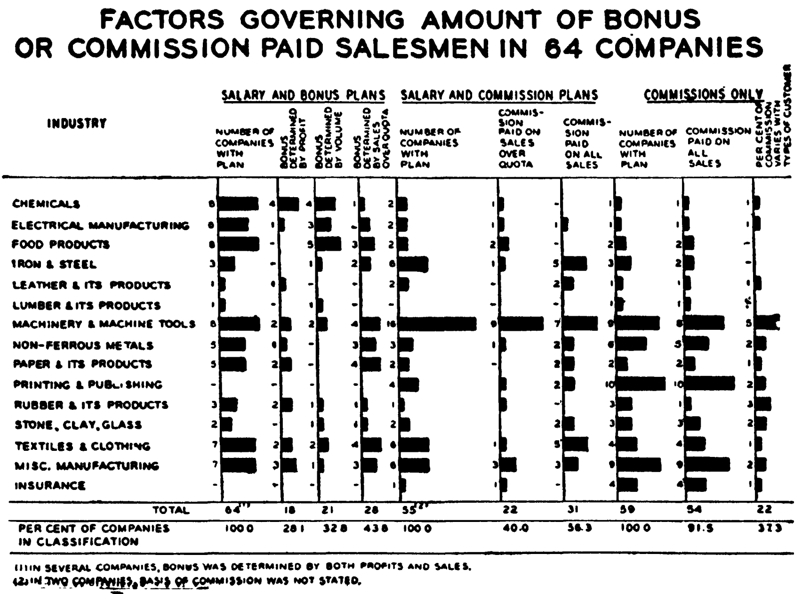

FIG. 67

ing of the buyer's needs, and a certain technique in selling that enables the salesman to present his product in the most persuasive and convincing manner possible.

Some firms depend upon their salesmen to do a great part of the training. After a new man has spent a short time in the factory and heard some talks on the aims and policies and history of the firm, he is sent out with an experienced salesman to get his road training. If the senior salesman is something of a teacher and takes an interest in developing the new man, this may work satisfactorily. But if he is not of the type that can and will impart information, if he regards himself as the possessor of some valuable secrets about the art of selling, he will probably give the newcomer very little help. Besides, any bad habits of salesmen tend to be perpetuated by the use of this plan.

A course of instruction similar to that given in a school of business, only briefer and more highly condensed, is sometimes given by specially selected instructors who cover the various subjects that will be most helpful. Sometimes these courses extend over a period of six months. This is an expensive way of training salesmen, but in the case of products that are highly technical, or in fields that are not well developed, it may be the most efficient method in the long run. John H. Patterson, of cash-register fame, was one of the first to devise and employ this method. Some of the most outstanding salesmen of the last generation were developed under his training.

Knowing the Product.—There is nothing that makes a salesman feel more helpless and afraid of showing his ignorance than to think that his prospect knows more about his product than he knows. The writer at one time sold fire-fighting apparatus for one of the large manufacturers. He had no training except in filling out the order and a few instructions as to the firm's liability in connection with their products. He did not even know what some of the products looked like. About the same time a young friend started out on the road for a dental supply house. He had no more training than the writer, and instead of a catalogue he was given a case with two or three hundred sample items. When asked for a particular supply he would have to reply, "I'm sure I have it but I don't know what it looks like. I'll go through my samples and you tell me when I come across it." Needless to say neither of us was a great success in those fields of selling.

The salesman should know so much about his product that he has the assurance he will not be asked questions that will embarrass him because he cannot answer them. This does not mean that he is to deliver a lecture before every prospect. What he particularly needs to know and emphasize is how his product is going to benefit the buyer, and he may well stop there unless asked further questions.

During the period of training, one firm with a complicated product has its salesmen work in the factory part time while the remainder of the time is devoted to assigned reading. Afterward salesmen are quizzed both on their study and on their observations. While this has been successful with a few products complicated in the manufacturing processes, it is not very practical for most items. Some firms, especially in the large cities where there is an established school of commerce, send their men to the school for training so they will at least have had a course, or courses, in selling and advertising. As an incentive, the firm pays the entire tuition if the applicant receives the highest grade but makes the applicant pay proportionately for lower grades.

With a considerable number of products extensively advertised, the chief selling point is the advantage that the consumer advertising gives the product. For example, one clothing manufacturer puts its salesmen through a very thorough course in advertising in order that they may approach dealers with a convincing story of the benefits that this advertising will give. They know the theme of the advertising and why it was chosen. They know the artist and something of his background. In many cases they know the extent of the advertising in the dealer's territory and can make suggestions as to how he may tie in with the national advertising.

There are numerous other ways of training salesmen, and training is given more attention every year. Most concerns have learned that when they pay a salesman a salary and his traveling expenses, it is very poor policy to send him out on the road without thorough preparation.

Methods of Compensating Salesmen.—The chief methods of compensating salesmen vary from a straight commission, in which the salesman pays his own expenses and selects his own territory, to salary and expense account with extremely minute supervision and control. Sometimes the commission is predicated upon a definite amount of sales as a minimum and a drawing account is allowed for that amount. This may be either with or without expenses. The stipulated salary may be regarded as a minimum compensation, with prizes and bonuses given for exceeding a certain quota. In any event, the commission system will be recognized. In order for a salesman to earn a specified salary, he must sell a predetermined amount. There is a definite limit set to the cost of selling goods. A salesman must make money for his employer before the employer will have money to pay him.

The ideal method of compensation keeps the salesman reasonably well satisfied while it permits a sufficient degree of control by the employer. It should not encourage a salesman to oversell, on the one hand, or permit him to neglect small customers, on the other. One of the chief weaknesses of the commission basis is the lack of control. If the salesman works only part time, he regards it within his rights to take time off, as the firm gives him nothing for lost time. But with a stated salary, even though it is only a minimum salary, the amount of supervision can be made adequate. The salesmen can be made to follow a list of prospects; or to confine selling efforts to a designated territory; to memorize a presentation, etc. Sales development may include distributing advertising material, giving buyers personal attention, perhaps working out definite selling problems that they have. Some manufacturers and wholesalers like to have their salesmen put in window displays or hold demonstrations in stores. It is evident that the salesman should be paid for this kind of service, which cannot very well be arranged under a strict commission form of compensation, and will not be undertaken if the salary is too low. A few firms have different credit points and arrange a scale of compensation on the credit system and not merely on sales. For distributing advertising material, a salesman would receive so much; for putting in a display window, another credit; for calling on new prospects, etc., still other credits. Finally, it might be said that the best method of compensation is one that motivates the salesman most successfully. In other words, it is one that keeps him most sympathetic with the sales policies of the house and ready to offer the most enthusiastic support to those policies.

Supervising Salesmen.—This is one of the most difficult functions of the sales manager. His salesmen may be so far from home that he will see them only once or twice a year. His only way of keeping track of their efforts is through their orders and the reports that they make out themselves. Only on rare occasions will the customer either come into the office or write to criticize a salesman. The best supervision is sympathetic rather than dictatorial. It keeps the salesman up to his best and tactfully directs his efforts. The sales manual, if well prepared, may be a general guide for the conduct of the salesman in the field, but after a new salesman has read the manual a few times and has referred to it on rare occasions, he will usually either leave it at home or forget about it. He has the feeling that he knows what is in it. Consequently, the salesman should be sent frequent letters, giving as much information as possible about his territory, and about advertising, and other sales efforts that the firm is making in his territory to supplement and help him.

Voluminous reports that take up a salesman's time are annoying, and as he is not a bookkeeper or a writer, the reports may often go unanswered. If a good customer is slipping away, the house may be able to find out why more easily than the salesman can. Some firms send an assistant sales manager out over the territory to travel with the salesman for brief intervals. The sales manager explains new policies, new products, and changes in advertising. Meanwhile, he may be adroitly checking on the salesman's efforts, discovering his weaknesses and the points wherein he needs other training and further help. Occasionally, sales conventions can be held, but they are expensive and, if condensed into two or three days, usually present a voluminous amount of material that the salesman is unable to digest. District conventions are often a much better arrangement than any plan requiring all the salesmen, or a considerable number of salesmen, to meet far away from their territory. To keep a constant stream of material going out to salesmen merely for the sake of sending something has a deadening effect. The writer at one time saw 19 unopened letters in a salesman's car. He had received them all from his firm within a period of two weeks. The salesman explained that it was "nothing but the same old dope."

To get reports on exceptionally good sales, on new accounts, on old accounts that are slipping away, on new competition that comes into the field, including advertising that competitors are doing, are a few of the items of information that legitimately may be asked of the salesman and which he will be pleased to report. Very seldom will a salesman give a definite reason for losing a sale, and bluntly asking him to do so has a discouraging rather than a helpful effect. Yet, if he can be led to analyze his failures, to discover why he did not get the order, he is sure to increase his selling ability.

Buyers Who Seek Sellers.—Marketing should not be thought of only as an effort to sell goods. There are probably more professional sellers than buyers, but the latter are an important part of the business world. Customers who visit retail stores are in the market to buy. They are looking for specific articles that will be useful or decorative. With these goods women are the predominant shoppers. It is a pleasure for them to shop, and they are often accompanied by friends. With style goods it is common practice for them to visit at least three places where goods are exhibited before deciding. That constitutes shrewd and careful buying even though many articles so purchased will be returned later for exchange.

Men, on the other hand, find shopping for themselves irksome. They go into a store rather apologetically and accept practically the first item shown them and then leave, furtively examining other shop windows to see if they could not have done better elsewhere. Men do not return as many things as women do.

The stores' most highly paid employees, aside from the executives, are the buyers. It is their business to go out into the market and locate goods that can be sold profitably. Few people in all commerce work under as high pressure as store buyers. These buyers often make trips to other cities, other states, and not infrequently to foreign countries for merchandise. Their tenure of office is often brief and almost always tenuous. If they make mistakes in selecting goods, the mistakes must be corrected by price adjustments. The advertising space cannot be used to correct bad judgment.

Buyers in the industrial market have the same problems as those in stores, particularly those who buy quantities of such items as railway ties, telegraph poles, and much material for manufacturing. Also, they have the task of finding other manufacturers who will make special parts for them cheaper than they could make these themselves.

In classified advertising of newspapers, many of the advertisements are placed by potential buyers—by people who are seeking some special item or service. These advertisements are commonly called "want ads" and are very numerous. Business publications, especially in the industrial fields, often carry a considerable amount of advertising for supplies. That again is a case of the buyer seeking the seller. This kind of buying does not add to or alter the classification of goods already given, but it shows how some of the classifications could be extended.

The term "intermediate trade" means wholesalers, commission men, industrial distributors, and others who buy and sell goods that are on their way from the producers to the retail trade. Few goods, comparatively, are bought by the purchasing agents of large institutions for the employees of their firms. Say, a man wants to buy a mechanical refrigerator. Instead of going to a retail store, he goes to the purchasing agent of his employer and asks him to buy the refrigerator. It will usually be bought from a wholesale distributor, not from a retailer. This is only one of many possibilities where the consumer buys from the intermediary trade.

Consumers buy a considerable amount of goods from farmers, or agriculturists. Roadside fruit and vegetable stands, peddling wagons, seeds bought through a catalogue, chicken and cow feed for consumers who live in small towns and buy directly from farmers are some of the other ways that account for this class of purchases from agriculturists. Some farm machinery, especially power machinery, is bought directly from the manufacturer. To a less extent that is also true of oil burners for homes. A small amount of supplies may be bought by consumers direct from the extractive industries, which primarily refers to mining. For example, in Fulton County, Ill., many of the small operators peddle the coal from their surface mines in nearby villages, in the way that vegetables are often peddled.

In similar ways, manufacturers buy from manufacturers; wholesalers from wholesalers; and miners from miners, as well as from most of the other operators mentioned. To the smelter, iron pigs are the finished product. To the steel mill, iron pigs are raw material to be processed into steel plates. To the manufacturer of automobile bodies, steel plates are raw material, and so on and on. Copper miners buy coal from coal miners. Wholesale houses buy trucks and other conveyance machinery from industrial distributors, and wholesale grocers buy fruits and vegetables from wholesale commission merchants.

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Questions and Problems

1. Mass production has induced mass distribution. Relate this fact to the emergence of salesmanship as we know it today.

2. In general, why is it true that producers of style goods do not use the wholesaler in their distribution setup?

3. Name two ways of extending the market for a given manufacturer's product.

4. List the four questions that are likely to be in the wholesaler's mind when he considers taking on merchandise.

5. In what manner is it different to sell for an industrial distributor than to sell for a traditional-type wholesaler?

6. Wholesaler's salesmen are expected to engage in a considerable amount of supplementary work. Explain this statement.

7. Outline the selling problems of a manufacturer.

8. Name some considerations involved in the organization of a sales department.

9. List five possible sources for recruiting salesmen.

10. Discuss the pros and cons of on-the-job training as against formal training for a new member of the sales force.

11. Comment upon the statement, "Knowledge of the product is a first essential to good salesmanship."

12. What is the ideal philosophy of salesmen compensation?

13. With respect to the topic "Salesmen Supervision," elaborate upon the statement, "The best supervision is sympathetic rather than dictatorial."

14. List several methods used to supervise field salesmen.

15. What is the function of a department-store buyer?

CHAPTER XV

ADVERTISING AND PUBLIC RELATIONS

The Why and How of Advertising.—In a country with a high standard of living there are available to the public countless products and services from which it can select those that best fit its needs. Not only are staples and necessities available, but specialties and luxury products are within the reach of millions of our population. It should be apparent that some method is needed to enable the consumer to discover not only what products and services are available, but what are their competitive features, special uses, and prices, and the places where they may be obtained. Likewise, the producer needs to tell people about his products. Either the consumer would have to seek out the producer of the kind of product he needs, as he now does in the classified columns of our newspapers, or the producer must keep consumers constantly informed through advertising. The prospective purchaser is well aware of the fact that advertising is up-to-the-minute news of products and aids him in making a choice. Many housekeepers, especially those with limited budgets, will turn first to the advertising pages of their favorite papers or magazines. Advertising is not merely a commercial device through the use of which business gets people to buy products; it is an informative and educational force that aids the consumer to form judgments on what to buy.

Naturally, in order to attract the consumer toward his own product and away from his numerous competitors, the businessman makes use of any and every known method of attracting attention and stimulating buying action. Much time and effort have been spent in trying to discover what are the most influential factors of the mind in making selections, but only a few fundamentals have been discovered. Many articles are bought "instinctively," to use a common word as it is commonly understood. For example, at a food counter one selects what looks good—because what *looks* good to eat usually *is* good to eat.

Many things are chosen because of their effect on personal appearance. Almost everyone likes to dress well. Although this may seem simple, it is really deeply involved. Most people have to take the price into consideration, Styles and fashions may not be ignored. One wants to appear up to date as well as carefully groomed.

Some articles are bought only after much careful consideration.

The best judgment of which one is capable is called into action in selecting investments, insurance, a place to locate an office, and, in general, in acquiring expensive articles that are expected to last a long time. The extent to which buying is guided by emotions or by intellect and reasoning differs with different people, for different articles, at different times.

Psychologists divide our conscious acts into three divisions: (1) those that perpetuate the life and health of the individual; (2) those that influence our relations with our fellow men; and (3) those that pertain to a Higher Power, which controls the mysteries of this life as well as the future life.

We are so constituted that many of our likes and dislikes are fixed by early training. Some sensations are pleasant, some unpleasant. We like ease, we like to own things. We are curious, but we also are fearful of strange people and animals. We like to play. These and many other less obvious activities pertain to ourselves as individuals. They fall under class (1) given above. Also, we like to be with people; we like to compete with them and to be admired by them. These fundamental drives lead us to want to be in style, to adorn ourselves, to sympathize with those in misfortune. We also are grateful to those who are kind to us, while we resent personal injury or disparagement. We enjoy having the affection of the opposite sex. These emotions relate to group (2) above.

Finally, we have an awe, a reverence, and sometimes fear for the forces about us that we do not understand. Our religion and church activities come from these instincts, or personal drives—as the psychologists describe them. These constitute class (3).

If what one has to sell can be so related to these emotions that the offering contributes to those sensibilities that we enjoy, it makes buying seem simple and desirable—the pleasant, expedient thing to do. Advertising, like salesmanship, is used for this purpose.

How Advertising Is Used.—There are several hundred items bought for each home every year, as has already been pointed out. It is impossible to know each of these from investigation or experience. Consequently, advertising is used to present new products, to remind the reader of the satisfactory use of known products, and to explain, over and over again, how best to use them. Not only must products on the market be understood, they must be made so familiar to consumers that they will be remembered and identified with trade-marks (marks of identification), packages, etc.

Manufacturers of branded merchandise are deeply interested in the satisfaction that their products give consumers, because no great market can be built up for an article unless people who have tried it continue week after week to use it. Furthermore, if they like a thing, they are inclined to recommend it to friends and neighbors. This also is extremely helpful in building a market.

Not only do manufacturers want consumers to know their products and regard them favorably; they want distributors, both wholesalers and retailers, to know the products so well that they honestly believe in them. It is also highly advantageous to keep distributors informed about the consumer advertising campaigns for the goods they handle. If they believe in the goods and in the advertising, it gives them (the distributors) confidence that they can sell the goods in quantities.

What Advertising Really Costs

Here are the actual advertising costs on selected items of merchandise widely advertised.

7 cents for 100 quarts of fresh milk
36 cents for 1,000 cans of canned soup
16 cents for 1,000 glasses of popular soft drink
1 cent per sheet on bed sheets
½ cent per package of tobacco
1 cent per box of apples
4 cents for a dozen oranges
25 cents per pair of shoes retailing at $10 to $15
½ cent per toothbrush
4 cents for 10 bars of soap
4 per cent of manufacturer's price of automobiles

It is to the manufacturer's advantage to have his products go into the hands of consumers at the least possible cost. The less an item costs, other things being equal, the more people will use it, and the more of it they will use. Advertising, or mass selling, is the most economical way yet discovered for stimulating and holding a market. Even with great repetition and much duplication, no better way has been found to introduce an article and to keep people familiar with it than through the use of the standard forms of advertising. It is human to prefer the known to the unknown. Well-known goods, even if they are familiar only through advertising; are selected by consumers rather than unknown merchandise, even at a lower price.

Obviously it costs both wholesalers and retailers less to sell known merchandise than to sell unknown. It requires less explaining, less demonstrating, and less persuasion. Therefore, advertising that makes goods known may so reduce the cost of selling that it more than pays its own costs.

Building a Market.—There are so many specific uses of advertising, so many things that advertising may help to accomplish, that to enumerate them all is impossible. One of the most important of these is to build up a market. This is not the same thing as merely selling something. One might have a surplus desk and dispose of it by running a small classified advertisement, but that would not help to build up a business. An example of building or establishing a market is the

TABLE 25.—HOW ADVERTISING HELPS TO LOWER COST

Goods	1926	1941	Saving, per cent
Electric refrigerator	$250.00	$115.00	54
Vacuum cleaner	65.00	52.50	19
Cameras	5.00 and up	2.00 and up	60
Hand lotion	0.50	0.25	50
Soup (per can)	0.12	0.08½	29
Silk stockings	2.00	1.00	50
Electric irons	6.00 and up	2.95 and up	51
Sanitary napkins (per dozen)	0.65	0.20	69
Shoes (women)	6.00	3.50	42
Soap (toilet size)	0.25 per bar	0.10 per bar	60
Disposable tissues (per carton)	0.65	0.12½	80
Radio (table model)	95.00	19.95 and up	79

The above figures show the effect of advertising and good merchandising. The larger the output from a factory the smaller the unit cost up to the factory's capacity. Advertising helps to keep sales at the most profitable figure. In the chart above, the change in the purchasing power of the dollar is shown before inflation set in during the war. Hence, we have kept these figures to 1941 in order to make them more representative.

Filene basement store in Boston. For a considerable time it advertised the goods that *had been sold* during the day and the prices. As these goods had already been disposed of and had been taken from the store, one might ask what was the purpose of the advertising. The purpose was to build a market and, more specifically, to establish a market place. The store was much more interested in creating the impression that it provided a good place to shop than it was in selling any specific items of merchandise. It was advertising to create the belief that it constantly gave generous values. Much national advertising that we see in magazines and hear on the radio looks forward more to the development of a permanent market than to making the sale of a particular product.

In order to build a national market, distributors must be chosen. They must be educated and made enthusiastic over the product advertised. The trade magazines which carry the manufacturer's messages to his distributors may accomplish more than the talks of many salesmen. It is also evident that advertising can be employed to increase the market territorially by the simple process of extending the advertising. The market can often be "thickened up" by securing a larger per capita consumption. This is accomplished by advertising to show new uses of the product. To build prestige for the article is an important part of creating and maintaining a market. This can be illustrated by a product that had no such prestige. W. C. Durant at-

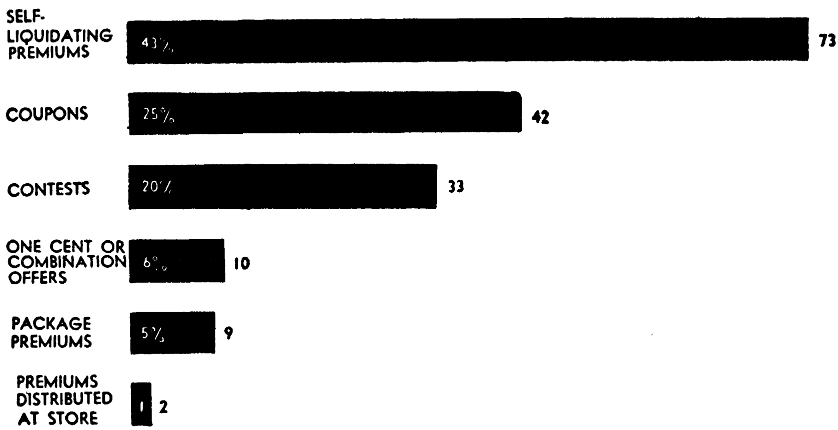

FIG. 68.—TYPES OF CONSUMER PROMOTIONAL CAMPAIGNS

tempted to sell an automobile without advertising. He was able to find distributors, but his distributors found it very difficult to get salesmen. It took so much time to explain who Durant was and why the car was not being advertised that selling was very slow, laborious, and unprofitable. Worth-while salesmen refused to work under such handicaps, and the attempt was abandoned. Both the product and the manufacturer lacked the prestige that advertising might have conferred upon them. This is the more striking because Durant was the man who organized General Motors, and at one time his name was one of the best known in the automobile industry. But by the time he had organized another company and brought out a new car, people had forgotten him.

Advertising is frequently used to encourage "trading up." This means to liberalize the minds of the buyers, to convince them of the existence of better merchandise and the desirability of quality products. To advertise a man's hat for $40, while it may not sell many at that price, may make it easier to sell a $10 hat. If $10 is the highest price mentioned, a $5 hat may seem pretty good. But when $40 hats are on display, $10 seems a very modest price. The idea is that a better hat in the long run gives greater satisfaction; something that can be readily demonstrated by asking the man who owns one.

Read the advertisements in any newspaper or magazine and, in considering each, ask, "Just what will this announcement do to help make a sale?" A long list of uses can soon be collected.

What Advertising Does for Manufacturers.—Uninformed persons sometimes think that manufacturers spend money for advertising at the expense of quality or to gain the good will of influential publica-

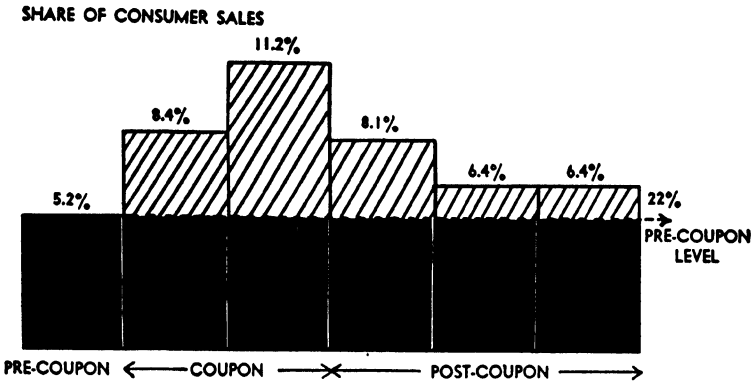

FIG. 69.—POSTWAR COUPON OPERATION NEW FOOD PRODUCT "D"

tions, for vanity, or for other reasons far removed from the actual conduct of business. Possibly such instances have occurred on rare occasions. But to the student of marketing, these charges appear so naïve, even so ridiculous, that they need not be considered. It is to the manufacturer's advantage that his product be thoroughly understood and that it reach the consumers at the lowest possible cost, for this is the only way that he can surely meet competition and build up the largest possible business. By advertising his product the manufacturer accomplishes the following results:

1. He stimulates and sustains his markets. The consumers become his customers rather than the customers of middlemen. They buy his product, not merely a product of the same class.

2. He is able to receive full credit for the good service of his product, and to enable the buyer to repurchase it with assurance as well as to recommend it to friends with confidence.

3. He profits by the building up of good will, which is the habit of repurchasing the same products without extra inducement.

4. He has the assistance of advertising in keeping production and

sales even. A factory obviously is run at the greatest economy when the seasonal variations are reduced to a minimum. Advertising is a great factor in producing this result or, as it is technically stated, in straightening out the sales curve.

5. He can keep his production on the most economical scale. This is illustrated by one of the great soap manufacturers, who guarantees his laborers 11 months of remunerative labor each year. If his sales fall off slightly, he is able to stimulate them by increasing his advertising. If the sales are running ahead of factory production, he reduces the amount of advertising. Thus he can keep his plant and production operating at the greatest efficiency, which means minimum costs.

6. He has the help that advertising gives in controlling distribution. By advertising prices, the manufacturer exerts a powerful influence to prevent the middleman from charging too much for his product. Also, by advertising the manufacturer can force the middlemen to give the proper services, such as extending his guarantees and making good on merchandise that is defective.

7. He can keep down sales costs. Some of the manufacturers who are the most extensive advertisers have the lowest sales costs. Advertising is the most economical selling method they can devise. The cost of delivering an advertising message is almost unbelievably small. This, of course, means economical selling (see Table 25).

8. He has the advantage of the honest advertiser, who can exert a powerful influence in keeping his industry on a high ethical plane. One clothing manufacturer advertised that his products were all of virgin wool. Then he explained the meaning of "virgin wool" by saying that it was wool that had never been processed before. Other manufacturers were advertising as "all-wool" products that contained "shoddy," or the pickings of old woolen garments which had been reduced to shreds and reprocessed.

9. He improves his position in the financial world. The securities of a manufacturer who has a well-known product sell readily in the financial markets. This means that he can get working capital at a low rate of interest and add to the economies of his operations.

10. His advertising helps customers to choose between different articles. Sometimes it aids them in making a selection by which they get an equally satisfactory service at a price that is lower.

Probably a careful review of the advertising of the leading firms of the country would add a considerable number of other advantages that advertising provides them. It is commonly said, for example, that laborers who participate in the manufacture of trade-marked goods take a pride in the goods they produce, which is not found in those who help to fabricate products that go on the market without a mark of identification. That is an unproved opinion and, along with other investigations concerning this great force, can be left to the studies of those who specialize in advertising.

Disadvantages in Advertising.—Besides the advantages, there are certain disadvantages to which advertising subjects manufacturers.

1. One of the striking examples is that once advertising is adopted it must be continued or there will be a serious loss of business. For instance, the inquiry is often heard, "What has happened to Pearline? I never see it advertised any more." There was a time when this product was kept before the public as prominently as is any brand of laundry or toilet soap today, but Pearline advertising was discontinued, the sales were soon restricted, and now the product is almost unknown. There may be a few exceptions to the general rule, as stated, but they are very few.

2. Advertising is a contract with the public and must be lived up to. It is set forth for the wide world to read, and that includes competitors. Now, while it is assumed that a manufacturer has every intention of living up to his advertising, it is apparent that sometimes he would find it extremely convenient to change a condition of sale to which the advertising commits him. This is due not so much to fault in the advertising as to lack of foresight in the advertiser.

3. Advertising sets standards for goods and sometimes prices that must be maintained. If the manufacturer's campaign has been founded upon a statement such as "Our suits are of all-wool material," no matter what scarcity may occur later, no matter how the price of wool may increase, the manufacturer must make a product such as he has been committed to by advertising. A striking example of this is that of a manufacturer who for years had been making baking powder on the cream-of-tartar basis. When that ingredient became very expensive, the manufacturer attempted to change over to a less expensive formula and, although he gave notice of this on the label, the Federal Trade Commission held it was an unfair trade practice to change the principal ingredient of such a well-known product without serving notice to the public as conspicuously as the former advertising.

4. Advertising makes mistakes exceedingly expensive. The manufacturer may adopt the wrong package or a wrong policy, or get his prices out of line. If he is not advertising, he may still be able to correct these mistakes without much loss, but if the package, or the

quality, or the price, is extensively advertised, then correcting the mistake becomes a serious matter.

5. Advertising costs money. If skillfully done, it may prove profitable. If not skillfully done, it may result not only in a loss of the money invested, but it may involve the advertiser in some activity that depletes his capital. A stove company, selling direct, once advertised asking readers who had trouble with their stoves to write to the factory and ask for advice. The response was so great that for the next year it took practically the full time of a man and his secretary to answer those who wrote asking advice. Seven years after the advertisement appeared, letters were still coming in, asking about defective stoves. So far as could be seen, all this tended to retard rather than stimulate the sale of new stoves.

Distributors Profit by Manufacturers' Advertising.—Although many distributors, both wholesalers and retailers, prefer to have their merchandise privately branded, many times they realize there are some striking advantages in selling well-known and well-advertised merchandise. It would be impossible for any distributor to sell an automobile with his name on it under the assumption that he was manufacturing it. The same thing would be true of a watch. Who would buy an expensive watch bearing the name of a chain store or other retailer? The market for baking powder is so pre-empted by the leading brands now available that it is practically impossible for a new baking powder to be successfully sold over a large territory. This was proved when one of the very large manufacturing chemists brought out a baking powder upon which it spent more than two million dollars in sales promotion but which never became popular and was discontinued. Inasmuch as this new baking powder was of good quality and priced at the same level as the other similar baking powders on the market, its failure could not be laid to quality or to excessive price or to lack of sales promotion.

The advantages of advertising to distributors can be summarized as follows:

1. Both wholesalers and retailers admit that it costs them less to handle advertised goods than unadvertised goods, or even products bearing their own brands, with very few exceptions.

2. Manufacturers' advertising minimizes the troubles and expense in both wholesaler and retailer buying. Goods do not have to be tested. Guarantees are known and understood. Prices are fixed and haggling over terms is obviated.

3. Standardized and advertised merchandise is subject to a smaller

loss from leftovers and misfits. This is accounted for by the fact that a manufacturer has so standardized his product and so adapted it to his clientele that by the time he becomes a national advertiser losses from poorly adapted items are practically eliminated.

4. Few middlemen are equipped to create new markets for such products as vacuum cleaners, oil burners, and air conditioners, or can afford to do so. It is true that small items, such as books, some kinds of cosmetics, and some style goods following a vogue, can be introduced by retailers. But the manufacturer not only creates a market, he maintains and sustains the market for the middleman as well as for his product. So in addition to a product, the advertising manufacturer can supply a market for it.

5. Branded merchandise relieves distributors of responsibility of quality or service of the goods. If there is dissatisfaction caused by defects or for any other reason, he can hold the manufacturer responsible and look to the manufacturer to make good not only to him but to his customer. The manufacturer of advertised merchandise regards it as his responsibility that satisfaction continues not only until each item is consumed but remains so satisfactory that a consumer is willing to repurchase it.

6. Many of the advertised goods give prestige to the middlemen who handle them. This is true of watches, men's clothing, automobiles, mechanical refrigerators, musical instruments and radios, and of a large number of other items of merchandise.

7. Advertising reduces the number of brands and often the size of stock that is necessary for a middleman to carry. There are more than 25 different brands of chewing gum now on the market. If all these were unadvertised, the demand might be equally distributed among them and every distributor and every store would need to carry one-half or more of these brands in their stocks. Advertising, however, has popularized a few brands. Then most of the others, for which there is small demand, can be eliminated from the stock. An equally striking example is tooth paste. While the greater part of the market is divided among nine leading advertised brands, there are still more than 30 that are found on sale in various parts of the country and in stores that have attempted to promote their own brands.

Middlemen's Advertising.—There are some disadvantages to middlemen in handling advertised brands.

1. The article widely advertised by the manufacturer is almost sure to replace the private brand that the wholesaler or the retailer may have had prepared for his trade, when in equal competition.

2. Prices for advertised goods are pretty generally standardized and

the large operator, whether wholesaler or retailer, has lost much of his advantage over the small competitor. This has led to price cutting, to an endless amount of criticism and contention, and to such legislation as the so-called "fair price" laws.

3. There is a smaller margin in advertised goods than in unadvertised goods. It is sometimes stated in this way: When manufacturers pay newspapers, magazines, and radio broadcast companies for selling their products, they cannot also pay the middleman for making sales. That statement is extreme and perhaps should be modified to recognize that, while the margin may be somewhat reduced, the selling effort is reduced in a like or even greater proportion.

So far, the discussion has been concerned only with advertising by the manufacturer as it affects distributors and consumers. There is much to say in regard to the effects of advertising that distributors do for themselves. The wholesaler or the retailer who has a private brand is in much the same position in regard to the articles that carry his brand as the advertising manufacturer. Both advantages and disadvantages are much the same. The wholesaler can build up a considerable business for his own brands in the district he serves. He may be able to do this by advertising only to the retail stores that are his distributors. They in turn will have to do the consumer advertising, which may result in building business for them as well as for the wholesaler. The private brand owned by the wholesaler may help him to hold the trade of retail stores, especially those that are given exclusive-agency selling privileges. A retail store having such an exclusive agency is in a position to advertise the product extensively and know that it will reap the full rewards of its sales-promotion efforts. This is true also of a store that places its own label upon the goods it advertises.

It is also true that both wholesalers and retailers can advertise to their advantage merchandise carrying manufacturers' brands. This is the case particularly where either of these distributors has an exclusive agency but, even though the goods are sold on the open market, both wholesalers and retailers find profit in calling their customers' attention to the fact that they maintain a full assortment of goods sold under popular brands. "Seven choice patterns of Arrow shirts—full assortment of sizes"; "Florsheim shoes in four colors, perforated for hot weather"—these are examples of such advertising. Both wholesalers and retailers may gain prestige by advertising well-known products.

Retail stores do exist without advertising, but very few, under present competitive conditions, grow to any magnitude if they do not advertise. Often a retailer says that he does not advertise but sells goods at a lower price than he would if he did advertise. That claim has also been made by manufacturers. One shoe manufacturer offered his shoes to the retailers on the claim that, instead of putting 25 cents a pair into advertising, he improved the material by that amount. The claim, however, was not valid, as his advertising competitors were able to operate on a larger scale and to reduce other selling expenses so that they far more than made up for the investment in advertising.

Both wholesalers and retailers who advertise their own brands are sometimes put into a false position. The common statement is, "We have it made especially for us." In the case of a large wholesaler, that may sound plausible, but for a small store to assume that it tells a manufacturer how to make a shoe or a piece of furniture, or how to blend teas and coffees into the most desirable flavors, sounds silly. Does the little storekeeper know better how to determine the tastes of consumers than the manufacturers who operate on a national scale, or the great importers who canvass the whole world to find products that their customers will like?

Consumers Are Aided by Advertising.—The commonest criticism of advertising has been that it is antisocial—that it makes people buy what they should not buy. The more accurate, more irritating criticism that advertising is not always honest or fair can be postponed for later discussion (see Chap. XVII). Here we want to consider the actual advantages and disadvantages of advertising as it affects consumers. We will take up the advantages first:

1. Advertising educates consumers as to what is on the market, how best to compare the items offered and select among them.

2. Advertising helps to keep prices reasonable. It is to the advantage of every manufacturer to have his product reach the consumer at the lowest possible price consistent with good service from the middleman. That is, the lower the prices, the greater the sales.

3. Advertising gives the advantage of the manufacturer's guarantee, and as the manufacturer has so much invested in good will, it will be to his interest to see that reasonable complaints are taken care of satisfactorily. Perhaps the most valuable outcome of advertising is not the immediate sales that result but the good will for the product and the manufacturer that follows the advertising.

4. Time and expense are saved in buying if the product is well known and the price standardized. Bickering with the sales people in stores and raising questions of quality that are open to argument have practically passed, because of the branding of merchandise by manufacturers.

5. Another advantage of advertising, which is rather a by-product than a direct advantage, is the fact that advertising provides so much high-class reading matter and radio entertainment at low cost. Magazines that sell everywhere at 10 and 15 cents cost from 20 to 35 cents to produce. The publisher's cost of a single copy of *The New York Times* is about 11 cents. The costs of other newspapers are in proportion. Because of the advertising, these publications are supplied to their readers at nominal cost. In countries where commercial programs are not permitted on the radio, entertainment is much limited in variety and quality and in the time of presentation.

6. Advertising promotes a higher standard of living. It not only makes people want to live better, but it teaches them to live better.

7. One can buy an advertised product wherever one may be. The buyer does not feel that each new purchase requires testing.

8. The advertised price frequently prevents the overreaching or misrepresentation of middlemen. Advertising, being a written record, is much more accurate and trustworthy than the sales talk which is not recorded and which will be subject to dispute in case of disagreement or litigation.

9. Advertising enables buyers everywhere to keep abreast of the times. No one need be out of style for lack of information. This is true of middlemen as well as of consumers. The most assiduous readers of the women's magazines are said to be the store buyers of women's ready-to-wear clothing.

Shortcomings of Advertising.—Some of the advantages listed above may be questioned by those who oppose all advertising. We believe, though, that in the main they are fairly stated. Also, we recognize that there are certain disadvantages to consumers in having advertised goods.

1. Advertising tends to restrict variety. It tends to standardize. Possibly this influence stifles creative instinct to a degree, yet few would insist that standardization is an evil. It may have some disadvantages, but it certainly has very many advantages.

2. Advertising makes people want to live more expensively; makes them want more things and better things, makes them want to travel, attend theaters and shows, and have other expensive luxuries.

3. Advertising undoubtedly adds to the cost of some goods. It is commonly stated, for example, that manufacturers of tooth paste invest as much as 30 per cent of their sales price in advertising to increase sales. The fact that the sale of tooth paste doubled between 1917 and 1935 may not be a full justification for this expenditure, although it shows the effectiveness of the advertising. It is a plain fact

that those who use tooth paste regularly are assessed to help educate those who do not use it. The justice of this is a subject of controversy, which the authors will not attempt to settle.

The summary of the consideration of advertising and the consumer can be briefly stated thus: If the readers of a publication do not derive some benefit or profit from the advertising, it will cease to produce results. This will mean that the manufacturer discontinues his campaign and the publication soon loses the advertising. It is a common practice in writing muckraking books—and there seems to be no end to them—to infer that the manufacturer gives the advertising to the publication as a special favor. Definite cases of this are not cited, however. Advertisers frequently place advertising in publications that they never read themselves and of which they strongly disapprove. They advertise to get business, not to favor a publication, much less to get the publication's support. On many occasions advertisers buy space in publications that have attacked them. This has been true of the Standard Oil Company, to cite a specific example. The advertisers may deplore the literary tastes of their customers, but do not refuse their business on that account. On the other hand, no worthwhile publication allows its editorial content to be influenced by the advertisers. There is a logical business reason for this. The advertiser is interested in getting business. He advertises for that purpose. The editor is interested in securing a large number of readers who, presumably, can be converted into patrons of the advertiser.

If the reader believes in the editorial part of the publication, there will be a tendency for him to believe the advertising that appears in the pages of the publication. If he does not have faith in the editorial matter, he soon discontinues reading it and that makes the advertising ineffective as far as he is concerned. So, it is sometimes necessary for an editor to oppose his advertisers in order to get the interest of the people who may become the advertisers' customers. If the editorial matter is selected with the idea of pleasing advertisers, readers soon discover this and stop buying the publication, so that the publisher loses both his readers and his advertising.

Advertising Technique.—Psychology, typography, English, and art are all essential to good advertising, but advertising is no separate one of these. Advertising is the structure that results from the skillful use of two or more of them. The advertising message consists of the story, description, or announcement, in addition to the illustration, if illustration is used. It must be adapted to the audience and speak in the language of the audience—the language in which the audience thinks. That means that the way an advertisement is written should not be of such a nature as to attract attention wholly or principally to itself. If the comic advertisement is remembered only for its humor, it sells nothing. The product is the thing that should be remembered, not the way it is presented.

The message also ought to be adapted to the media. Not only should it be different for newspapers than for magazines, but it should be different in style if it appears on the sporting pages than if it is placed on the financial pages. If a manufacturer were advertising a golf ball to sports-goods stores, he would emphasize entirely different features from those he would dwell upon if he were advertising the same ball to golfers. Also, he would select a different medium to carry his message. The appeal would be altogether different. The store would be interested in the margin, in the extent the ball was given consumer advertising, and in its wearing qualities. Would it build good will for the store that sold it? The message to the golfer would attempt to convince him that the ball would stand hard wear, that it was perfectly balanced and that it met the specifications and restrictions of the golfing code.

If the conditions require that the buyer's business judgment be appealed to, records, tests, scientific analysis, and the success of others may be presented in the copy. But if it is a matter of selling to satisfy the buyer's pleasure, comfort, or pride, an appeal to the emotions may be effective. Then it may be primarily a matter of providing him with a good reason for doing what he already wants to do.

While an illustration may be used merely as a means of attracting attention, the successful advertiser usually expects the picture to help complete the advertising message. It may represent the product, or show how it can be used, or indicate the pleasure that comes from use of it, or do any one of many things to make the product seem desirable. In addition to these valuable services, it may also help to catch the eye of any prospect who is looking through the publication.

Selecting Advertising Media.—There are several considerations that must be taken into account in preparing an advertising message. First, of course, is the appeal to be made to prospective customers, and the way it is to be presented. Is it long, so that much descriptive matter is involved? Is a picture important to the presentation? Is speed of delivery necessary? Is it part of a campaign in which this particular message is coordinated with other advertisements and a sales program? These and other similar questions must be considered, before a medium is chosen.

An advertising medium is a means of transmitting a sales message, and it should be such as will make the message most effective and at the same time avoid unnecessary expense. If it is to appeal to everyone, the newspaper advertisement, the poster, or car card will be appropriate. If it is to reach comparatively few who have similar interests, like boat enthusiasts, a magazine such as *Yachting*, which appeals to that particular group, may be employed. A magazine devoted to the interests of druggists, grocers, physicians, or architects will be read only by the group it is desired to reach.

If speed of delivery is necessary, the newspaper, or possibly the radio, will provide quick delivery. If a picture accompanied by a few words tells the story adequately, the poster may be the most economical medium.

It is the cost of reaching each prospect, not each reader, that should be considered. With most advertising, reaching a thousand definite prospects is more important than reaching a million in the hope that some one may be interested. Besides, it is much less expensive.

The prestige of the medium should also be considered. It would be a pure gamble to try to reach dentists by advertising a new drill in fiction magazines. The prospects might be fiction readers, but they would not want or expect to be given technical information through popular publications. *The Journal of the American Dental Association* would be a less expensive approach and a far more impressive one.

The thing to be presented—perhaps, a coal mine or a country estate—may be of such value and so difficult to present adequately that a booklet is the best way to advertise. The manufacturer with a large number of items may require a catalogue. Both of these last means would be classed as direct advertising.

Bases for Judging an Advertisement.—First of all, an advertisement must be seen. That means it must be of a nature to attract attention. Headline, illustration, type arrangement, all contribute to its attention value. Also, the position in the newspaper or magazine is important in arresting the eye of the reader. Good typography, with type of the right size and lines of approximately six words each, makes advertising look easy to read. The advertisement must not only be seen but it must be read. Do the headline and other display features help to get the attention of those whom it is desired to reach? Does the message convey some definite information that will be of value to the readers? One advertiser said, "I want my advertisement to repay the reader for any time or effort he may spend in reading it. If he merely gives a glance, I want it to be so pleasing that it will be worth his while. If he reads it, I want him to get sufficient information so that he will feel repaid for the effort." To create confidence, the message should be sincere. If the one who wrote it did not really believe it, there is small chance of his making other people believe it.

Does the advertisement make one want to do something, that is, to make a note of the offer, to step into a store to investigate, to look over the product, or to fill out a coupon, or otherwise request more information concerning the offering? Finally, is the message so impressive, so definite, and so concrete that it will be remembered? Psychologists have said that an advertisement must attract attention, arouse interest, create conviction, desire, and prompt action. The businessman said practically the same thing in another way: "I want my advertisement to be read, to be seen, to be believed, and to be remembered." He did not mean merely that the advertisement should be remembered but that the main points of the offering should be remembered. If an advertisement has these qualities, it will be basically correct, but to tell whether it will actually produce the results that are sought requires the experience and judgment that can be gained only by years of study and experience.

The Advertising Agency.—As advertising has become more complex, it has acquired a well-defined technique. This in turn, to be most efficient, requires professional handling. Even progressive retail stores often employ a professional advertising writer to prepare the store announcements. The manufacturer who advertises to the whole country and invests as much as $15,000 for a single page of a magazine employs an advertising agent to prepare the advertising message.

An advertising agency is made up of a group of men who are skilled in advertising and selling. They not only prepare the advertising but select the media and supervise the typesetting and the making of engravings for reproducing pictures. If radio is employed, the agent usually arranges the program and employs the talent. In addition to all this, the agent makes market investigations, advises on the best channels of distribution, and even assists at sales conventions. In fact, a manufacturer goes to his advertising agent for advice on selling in the same way that he goes to his attorney on legal matters, or to his engineer for help in mechanical problems. More than 98 per cent of advertising in general magazines is prepared by advertising agents.

The agency is usually divided into departments. The research department provides for investigating markets and making market analyses; the copy department, as the name implies, writes the copy; the radio department is sometimes part of the copy department and writes scripts. Sometimes it is a separate department operating as a coordinate department with copy. The art department secures the best possible illustrations and provides means for having them reproduced, and it also provides layouts for advertising pages. The production department provides engravings, printing, and reproduction of pictures, sends out electrotypes or mats to newspapers and magazines, and prepares booklets or other items in the direct-mail campaign. The space or media department selects the newspapers, magazines, radio stations, and other advertising media to be used and checks on the various media to see that deliveries are in accordance with contracts. The accounting department and the treasurer perform the usual functions. The new business department is the sales department. Its chief business is to sell the agency's service to advertisers.

The principal difference between the advertising agent and the other professional men with whom the manufacturer does business is not in the character of the service so much as in the way the agent is compensated. A check is drawn directly payable to the attorney, the architect, or the engineer, but for the advertising agent the remuneration comes primarily from the publications and other media that carry the advertising. Most of these allow a commission or discount of approximately 15 per cent. This commission frequently is the only compensation the agency receives for handling the account. The owners of the different media look upon it as a commission, which each of them pays the agent for selling his particular medium. The agent, on the other hand, regards it as a trade discount.

Statistics for Advertising Media.—There seems to be widespread interest in the amount of money spent for advertising. It is a vast amount—nobody knows just how much—and it is of general interest only. In fact, the experts are not agreed as to just what advertising involves; hence the impossibility of evaluating it. Some would put the cost of sampling in with advertising. Some stores charge up part of the rent to advertising, the idea being that the windows provide a means of displaying goods and that the more valuable they are for this purpose the higher the rent will be. Another moot question concerns labels and packages. If these are produced with lavish expenditure to make them more attractive they have advertising value, but since a label on a package might be required in any case, how much, if any, of the cost should be charged to advertising?

Statistics concerning advertising media are not accurate. There are, for example, about 1,850 evening newspapers and 650 morning papers, but nearly every month sees changes. Some are discontinued, some are combined with other papers, and sometimes a new publication appears. There are, according to the newspaper directory, between 11,000 and 12,000 so-called "county papers." These are usually published weekly and they originate in between 9,000 and 10,000 different cities and villages. These also are subject to considerable variation. The same can be said of magazines. Perhaps they vary even more than newspapers if the business and professional magazines are considered.

Newspaper advertising in 1949 cost $1,763,000,000. This figure is an estimate and not an accurate computation. In 1949, consumer magazines carried about $492,000,000 worth of advertising. The amount spent for space in business and professional magazines was $227,800,000. Radio advertising totaled $612,800,000. Outdoor advertising was estimated at $130,800,000.[1] The amount spent for car-card advertising is not announced. Probably it is about $1,000,000 a month including the amount paid for advertising in busses. It may be estimated at as much as $15,000,000 a year.

To advertisers these figures are of no importance. The advertiser should know how much his competitors are spending and about where he stands in the list.

The basis upon which the advertising media make rates is important. These vary so much and have so little in common that there is no uniformity. In metropolitan newspapers the unit of space is the agate line, that is, a space $\frac{1}{14}$ inch high across a column. The name "agate line" at one time referred to a size of type but now there is no type cast of such a size. Newspaper rates differ widely for the same circulation. A rate that is somewhat common is 1 cent for an agate line for each 5,000 circulation. A newspaper with half a million circulation would probably charge advertisers $1 a line. As a rule, the larger the circulation the lower the cost per thousand readers. Conversely, the smaller the newspaper the higher the rate. With small-town circulation the rate is fixed by the column inch, 10 to 15 cents per column inch being the usual rate, even though the circulation varies from a few hundred to two thousand.

General magazines charge from $3 to $5 a thousand circulation. As with newspapers, the larger the magazine the lower the rate per thousand. That also has exceptions, for *Life*, with one of the largest circulations, charges $3 a page per thousand. Color usually adds about 25 per cent. Women's magazines having a homogeneous circulation vary from $2 to $3 a page per thousand. Other magazines that have a

[1] These figures are preliminary estimates of advertising expenditures for 1949 made by Dr. Zeisel of the McCann-Erickson advertising agency. In addition to these figures, direct mail was estimated at $632,000,000, farm magazines at $19,700,000 and miscellaneous (premiums, etc.) at $1,030,700,000, with television at $67,300,000. The total 1949 advertising expenditure figure was estimated at $4,975,800,000.

more restricted reading audience, that is, few people in each thousand, such as the magazines on travel, have a considerably higher rate as few people are sufficiently interested to subscribe for such magazines. The business and technical magazines have a still higher rate as their readers are all supposed to be interested in the narrow field from which the editorial contents are drawn.

The broadcasting companies charge by the hour. The large stations charge from $1,000 to $1,200 for an hour's time during the evening programs from six to eleven o'clock. Television runs even higher. These rates at the time this is written are about $1,500 an hour for the New York district with approximately half a million receiving sets.

Outdoor advertising bases most of its rates on what is called the 24-sheet poster. Including the frame it is roughly 10 by 25 feet. A common rate is 60 cents a day, the advertiser supplying the poster.

Streetcar advertising is based upon the number of passengers carried in each car. For a single card the rate would be about $1 a month. If the traffic is very heavy the charge would be more, and on less frequented lines it would be somewhat less. It figures out from 8 to 10 cents for each card for each thousand passengers carried.

These figures are all approximate. They are illustrative rather than definite, but at the same time they are so close to actual charges that they may be regarded as authentic. The advertiser is interested in knowing how much it costs to reach each possible buyer—not reader—and he will compare rates on that basis if he is a good space buyer.

Public Relations.—A new type of activity has been taken up by a large number of corporations which has resulted in the creation of a new profession, namely, that of the director of public relations. This officer has superseded another who went under the name of "director of publicity" and whose duties were quite different from those of the director of public relations. The old director of publicity, or press agent, was supposed to inveigle editors into giving his client a considerable amount of space that would otherwise be used for news. For example, one publicity director for a movie star had her bathe in champagne. He sent the story with accompanying photographs to the newspapers. The resulting publicity was supposed to create an interest in the actress and presumably to increase attendance where she had a part in the show. It was thought that a good publicity manager could get a great amount of space for less money than could be provided by the advertising department. This kind of made-news originated largely with the circus and was taken over by Hollywood. It is still used to a painful degree but is gradually dying out. Most of it was never really profitable.

The director of public relations is not interested in seeking publicity by bizarre methods. It is his business to print what his employer is trying to do and why he cannot do more, if such is the case. Every corporation has more than one public to deal with. It has its stockholders, and, while they are given details of the business in stockholders' meetings, many, if not most, of the stockholders do not attend. The real owners of the corporation often do not understand its policies. It is one of the duties of the director of public relations to give the whys and wherefores of such policies—for instance, why the company is calling in common stock to be replaced by bonds; why the company is changing its rate of dividend, perhaps because of unusual expenses in the business; and many, many other items. The president's annual report is often written by the director of public relations because he is an expert in explaining complicated conditions simply.

There is always more or less friction between the employer and the employees if the latter are numerous. Instead of sending out arbitrary rules from the head office, it is now regarded as good practice to have the director of public relations explain the rules to the employees, telling them why such rules are necessary and how they may benefit by them.

Sometimes in dealing with municipalities, financial influence is brought to bear on village officials. A case in point was that of a paving committee that refused to accept an offer on some block paving. The company was so sure of its product that it offered to lay one block of paving on any busy street that the city might designate and do it without cost. Then, if this proved satisfactory, the company in the future would be allowed to bid on general paving contracts. When the offer was refused, the director of public relations took the matter to the newspapers and, as might be expected, the city officials changed their minds.

Finally, the corporation has many customers whose patronage must be maintained if the company is to continue in business. If items must necessarily be discontinued, prices increased, or other changes made which might not be understood by customers, it is the business of the director of public relations to provide the necessary explanations. Sometimes they do this through the editorial columns of the company organ and through the local newspaper.

This type of work has become so extensive and often so difficult that there are now numerous agencies which act as directors of public relations for their clients. These new organizations are somewhat similar to advertising agencies but, unlike advertising agencies, they work altogether on a fee basis.

Courtesy: an Asset.—The counselor or director of public relations is not an Emily Post in the business office, but it is his duty to see that lack of courtesy on the part of any employee of the company does not create ill will. This insistence on courtesy should extend to the officers and their contacts with the general public and with customers as well as with all employees. A snippy girl in the reception office can frequently break down all the good will that a salesman has been building up over a long period; and an indiscreet letter may turn a customer away from the company. It is the business of a counselor of public relations to keep his firm out of trouble as well as to conduct a program that will be conducive to good will.

A difficult part of his program is to make the employees understand that courtesy is to their advantage as well as to that of the business house. The importance of making this clear is as well understood by the large retailers as by anyone else in commerce. A short time ago Marshall Field spent about $50,000 on a movie "By Jupiter" for its employees, which without being preachy drove home this idea that courtesy pays the employee as well as the company. Another similar movie developed at great expense was "More Power To You." It is believed that this was originated by Bloomingdale Brothers, the second largest department store in New York City and perhaps the fastest growing one. Again, courtesy was the theme of the story. In both this and "By Jupiter," high-class talent was employed to present the picture. As Frank Radford, head of the Bon Marché in Seattle, said, "We are weakest at the point of contact with the public; that is where we should be strongest." It is to overcome that weakness that stores are making such a great effort to build good will.

However, it is not only the retailers that appreciate the fact that courtesy is an asset; some of our leading corporations in other fields go to great lengths to avoid doing and saying the irritating things which might annoy their customers or the public in general. U.S. Steel, Bell Telephone, General Motors, and Standard Oil are a few of the large companies that have established an extensive program to instill the spirit of courtesy in all their personnel. The aviation companies have a keen appreciation of how the railroads had created a vast amount of ill will through brusqueness and discourtesy on the part of their employees. They started from the very beginning to make their service so courteous that the difference would be noticed and remembered.

Courtesy Akin to Confidence.—Any record of sales of securities on the New York Stock Exchange reveals some very striking contrasts. For example, U.S. Steel's preferred stock (7 per cent) sells for about

$140. The Corn Products preferred stock paying the same dividend sells at $185, a difference of $45 per share. Why this difference? Brokers explain it on the record of these companies in the way they have handled their dividends. In one company investors received all that they had ever hoped for; in the other there was a disappointment that should have been avoided. A similar explanation is to be made with many others. Four companies paying from 3½ to 4 per cent on preferred stock enjoy the very liberal prices of $95 to $100. The Diamond Ranch Company, which pays only 1½ per cent, receives $45 a share for its preferred stock. All of these high prices mean that the company is getting capital with which to operate at a very small cost. This is the result of confidence in the company—something that cannot be built up overnight or merely by soft words, but is the result of fair treatment and strict adherence even to implied promises on the part of the companies.

It is the business of the counselor of public relations not only to do what can be done in a positive way to create good will for his company, but to be constantly on the alert to prevent the company from doing the things that will be unnecessarily annoying to its employees, its stockholders, its customers, and even to the public in general.

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Questions and Problems

1. Explain the statement, "Advertising is not merely a commercial device through the use of which business gets people to buy products; it is an informative and educational force that aids the consumer to form judgments on what to buy."

2. What are the three main divisions under which psychologists divide our conscious acts?

3. Why is it that a manufacturer of a branded article is deeply interested in the satisfaction his product gives consumers?

4. Why is it advisable that a manufacturer of a product keep his wholesalers and retailers informed as to the kind and extent of his advertising?

5. Explain the statement, "Advertising, or mass selling, is the most economical way yet discovered for stimulating and holding a market."

6. In selecting a medium for the placement of an advertisement, what are some of the considerations that should be examined?

7. State at least five questions that should be taken into consideration when judging an advertisement.

8. How would you proceed to justify the statement, "Advertising that makes goods known may so reduce the cost of selling that it more than pays its own costs."

9. Refer to the chart, "The Ice-cream Expense Dollar" (Fig. 62). What per cent of selling costs are represented by advertising? Why is it likely that if advertising were withdrawn, the 11.15 per cent selling expense would have to be increased?

10. In what way may advertising be used in the building of a market for a branded product?

11. Name *seven* advantages and *three* disadvantages of advertising as it is viewed by the manufacturer of a branded product.

12. Write an article on the topic, "Wholesalers and retailers profit materially by manufacturers' advertising."

13. Name the three principal disadvantages accruing to retailers and wholesalers who handle advertised brands.

14. Write a short article upon *two* of any of the nine general advantages that advertising gives to the consumer of advertised products.

15. Explain the statement, "Advertising tends to restrict variety."

16. How is the advertising agency compensated?

17. About how many (*a*) evening, (*b*) morning, (*c*) county newspapers are there?

18. What is the size of the agate line? In general, what is the cost per line of reaching half a million circulation in newspapers? What is the approximate cost of reaching one thousand circulation in general magazines? Upon what basis do broadcasting companies make advertising charges?

19. Why is it difficult to buy advertising space in publications on the basis of possible buyers instead of on the basis of likely readers?

20. What is the essential difference in activities and techniques between the old director of publicity and the modern director of public relations?

CHAPTER XVI

MERCHANDISING AND SALES PROMOTION

A Babel of Terminology.—To attempt to make clear to beginning students of marketing any exact distinction between the activities of sales promotion and merchandising is tackling a Herculean task. While personal salesmanship and advertising are everyday terms and generally well-understood marketing activities, the two activities presented in this chapter are still evolving. This is true both in actual business practices and in the minds of marketing teachers. Apparently, your authors are stepping in "where angels fear to tread." Even postwar texts fail to give either activity separate treatment.[1] Yet, neither is new; the problem is one of definition. Professor Clark, in the revised edition of his *Principles of Marketing*, 1932, called attention to "what is coming to be called 'merchandising.'"[2] Professor Copeland had defined this term in 1930 to include "problems of determining what to add to a line, what to discard, and what to revamp."[3] Stated as a recently recognized function, he went on: "The function of dealing with these problems relating to the determination of what to make is merchandising."[3] But Clark noted no general acceptance of this meaning, for some confined it to the activities of merchants, while others applied it to the performance of all the marketing functions. Similarly, sales promotion has been, and still is, considered a broad term by many. In the middle thirties, two marketing texts used almost identical words to describe their chapters on sales promotion, covering all activities engaged in by the seller to make known the product and to induce purchasing. Between them they included

[1] Cf. Charles F. Phillips, ed., *Marketing by Manufacturers*, Richard D. Irwin, Inc., 1946, p. 198. Considered as a problem of distribution channels, classifying dealer helps as "(1) those relating to improvements in the operating and *merchandising* methods of wholesalers and retailers; (2) those having to do with advertising and *related forms of sales promotion* . . . ," (italics ours); and Paul D. Converse and H. W. Huegy, *The Elements of Marketing*, Prentice-Hall, Inc., 1946, 3d rev. ed. Sales Promotion mentioned only in connection with trade-association advertising of the products of their members, pp. 657–58. Merchandising used broadly, as including accounting, research, the other marketing activities, and policies.

[2] Fred E. Clark, *Principles of Marketing*, p. 19.

[3] *Harvard Business Reports*, Vol. 9 (1930), p. 15.

personal selling, mail solicitation, advertising, publicity, identifying the establishment, packaging, and use of brands, trade-marks, and slogans.[4] It is significant to note that nowhere in the titles of articles in the *Journal of Marketing*, or its predecessor, back to 1935, does the term "sales promotion" appear; and only twice is "merchandising" used, one of the articles referring to "merchandising the advertising campaign," and the other to retail tire-dealers' activities.

Sales Promotion as a Separate Activity.—The 1947 edition of the *Sales Manager's Handbook* calls the sales-promotion department ". . . relatively a new division and correlation of a phase of the work of the advertising manager and the sales manager. The manager of such a department," it says, "may be called 'assistant sales manager.' "[5] This, in the authors' opinion, does not give the activity its proper significance. Under modern conditions, with distribution of the enormous output of business *the* problem, if our economy is to maintain its high potential, sales promotion should be placed on the same level as the other specific marketing activities. The new definition of the Committee on Definitions of the American Marketing Association (see Glossary) to some extent recognizes this, even though it contains also the "general sense" use to include most selling activities. The significant phrases in this definition are: "in a specific sense," "supplement," "coordinate them and help to make them effective." These imply a definite department organization and coequal status in order to secure the most effective sales results. Professor James C. Drury likewise feels that this activity requires coordinate and separate status: "Sales promotion—the nonpersonal presentation of ideas about goods or services through media owned or controlled by the advertiser."[6] Drury separates these marketing activities by stressing the "personal presentation" in a face-to-face meeting with a prospect by the salesman, the "nonpersonal" presentation in advertising through outside media—space or time bought by the advertiser—and the nonpersonal or group activities conducted by the seller through his own sales-promotion department, in working with dealers and otherwise adding to the salesmanship and advertising efforts.

While recognizing the wide and confused use of the term "sales promotion" by business men, from including the entire advertising and

[4] Cf. Henry F. Holtzclaw, *The Principles of Marketing*, Thomas Y. Crowell Company, New York, 1935, p. 332; John F. Pyle, *Marketing Principles*, McGraw-Hill Book Company, Inc., New York, 1936, rev. ed., p. 575.

[5] John C. Aspley, ed., *The Sales Manager's Handbook*, The Dartnell Corporation, Chicago, 1947, 5th ed., p. 372.

[6] Drury, Defining the Tools of Marketing, *Printers' Ink*, Mar. 7, 1947, p. 92.

selling function to relegating it to but a minor activity in connection with either, *The Marketing Handbook* states: "The sales-promotion unit has *a major task* and its organizational setup should be in conformity therewith."[7] Necessarily, the organization and management of the promotional activity will differ with the size of the business firm; the important thing is to realize that it is a separate activity. In the *Handbook,* ". . . sales promotion includes those activities, other than merchandising, which are calculated to make mass advertising and personal selling more effective in bringing about transfers in ownership and in moving goods expeditiously from manufacturer to consumer."[8] (Here, too, it is recognized that merchandising is a separate activity as well, requiring its own department and budget.) Some sixty specific duties of the sales-promotion department are listed in the *Printers' Ink* Chart (Vol. 184, No. 5) plus twenty-four borderline duties between advertising and sales promotion. To implement these duties, the *Handbook* cites seven methods:[9]

1. Point-of-purchase advertising.
2. Direct advertising.
3. Premiums and advertising specialties.
4. Sampling and demonstrations.
5. The activities necessary to secure the cooperation of sales force and dealers.
6. The activities necessary to secure goodwill of the purchaser.
7. The planning of merchandising to secure coordination with all other sales activities.

Unfortunately, this list but tends to confound confusion! It contains methods called "advertising," and thus conforms to all-too-common usage in business, as well as in many marketing and advertising books. Also, it may seem to place merchandising planning in sales promotion, thus making merchandising a minor activity; instead, it needs separate organizational status. Coordination properly belongs upon a higher organizational level; it should be the duty of a top executive such as the director of marketing or the vice-president in charge of marketing, or a marketing planning committee composed of top executives. If nothing else, it is hoped that this chapter's discussion will help place the problem before students, the future business men, and marketing teachers and writers.

Merchandising as a Separate Activity.—Inevitably, the close relationship of the two activities, sales promotion and merchandising, ne-

[7] Paul H. Nystrom, ed., *The Marketing Handbook*, New York, 1948, p. 486.

[8] *Ibid.*, p. 483.

[9] *Ibid*, p. 486.

cessitated the mention of merchandising in the preceding section. Here, something of the evolution in use of the term "merchandising" is given. The original definition by the American Marketing Association Committee on Definitions was: "The adjustment of merchandise produced or offered for sale to consumer demand. It involves the coordination of selling with production or buying for resale."[10] The Committee noted the close resemblance of their definition to that of the Harvard group (Copeland *et al.*) and implemented their definition by this list of activities: ". . . selecting the product to be produced or stocked and deciding such details as the size, appearance, form, dressing of the product (packaging, etc.), quantities to be bought or made, time of purchase or production, price lines to be carried or made, etc."[11] (Note the quaintness of the language—"dressing of the product," with "packaging" in parentheses. Marketing is indeed a young field of study and its language very much unstandardized, when this wording is used in a definition published in 1935!) It is clear that the Committee recognized two specific areas of business where merchandising had a place: manufacturing and retailing, or perhaps better, manufacturing and middleman activities.

In 1948, a revised definition was issued. It reads: "The planning involved in marketing the right merchandise or service at the right place, at the right time, in the right quantities, and at the right price."[12] Is this an improvement? It seems to place merchandising upon an exalted, policy-making level, rather than as one of the operating activities. True, in their comment upon the definition, they refer to it as an activity, pointing out that it ". . . might also be called merchandise, or product, planning." The detailed list of activities is identical with that given in the paragraph above in connection with their first definition, even to the quaint phrase, "dressing of the product (packaging, etc.)."

The Marketing Handbook reflects current practice accurately in its statement: "The term 'merchandising' is probably subject to more interpretations than any other in the field of marketing."[13] It is pointed out that increasing acceptance is accorded the definition given by Copeland and Learned in their book, *Merchandising of Cotton Textiles,* as follows:

"Merchandising is *product planning.* The job of merchandising is to ascertain the characteristics of the merchandise for which there is a potentially

[10] *Journal of Marketing,* Vol. I, No. 2 (Fall, 1935), p. 158.

[11] *Ibid.*

[12] *Ibid.,* Vol. XIII, No. 2 (October, 1948), p. 211.

[13] *Op. cit.,* p. 9.

profitable demand, to prepare instructions for the manufacturing plant in order that it may be able to produce goods for which a demand exists, to aid in developing plans for promoting the sales, and to supervise various routine operations in connection with these activities. It includes the determination of what to make, how much, at what time, and at what price."[14]

The *Handbook* notes, however, the confusion between the terms "merchandising" and "sales promotion," that to many they are synonyms.[15] Although these activities are separated in their definition of sales promotion, already quoted (see page 363), and although a section is devoted to sales promotion, there is no section for merchandising. Instead, separate sections are devoted to product policies and to packaging policies, as well as to price policies.

In the section on product policies, the *Handbook* cites *Top Management Organization and Control* by Holden, Fish, and Smith of Stanford University for the following quotations, which are helpful in making specific the various phases of control over the line of products. They point out that there are three major parts:

> Product planning, or the analytical function of determining what products will constitute the most profitable line.
>
> Product development, embracing the technical functions of product research and design.
>
> Product authorization, involving the final determination and approval of the product line and any changes therein.[16]

They augment these three as follows:

> Product planning is the process of determining just what the line of products should be to secure maximum net realization from the intended market. Its aim is to insure that the line is confined to logical, well-designed, and individually justified items which will place the company in the strongest competitive position. . . .
>
> While closely related to the field of product planning, product development is logically a separable function. It embraces the technical functions of product research and design which are logical assignments of a product-engineering department. It is concerned with the creation of new products and the improvement of existing products arising either out of its own activity or in response to requests from other agencies. The product-planning function, on the other hand, is concerned with appraisal of market, cost, and profit potentialities as a basis for deciding, first, what product developments are worth undertaking, and, second, whether completed developments or other changes should be incorporated in the line.

[14] *Ibid.*, pp. 9–10.
[15] *Ibid.*, p. 10.
[16] *Ibid.*, p. 149.

Product planning and product development, important as they are, merely crystallize facts and formulate proposals for final consideration and decision. The determining voice in what products the company is to make and sell invariably rests with management.[17]

Careful study of this long quotation will show the student something of the difficulty of precise separation of marketing activities, and the close cooperation needed between production and marketing.

Only one more general definition will be noted, together with a comparison from the field of advertising-agency practice. Professor James C. Drury includes this for merchandising in his definitions of marketing techniques: "The expediting activity through which a wide range of impediments to the free flow of goods are discovered and removed."[18] While this is in terms different from his definitions of the other techniques (see under Sales Promotion above) it has merit in two ideas, "expediting activity" and "impediment discovery and removal." As Drury sees the marketing activities, salesmanship is personal effort with prospects; advertising uses outside media nonpersonally; sales promotion works with media or facilities of the seller to back up and make more effective both salesmanship and advertising; merchandising is the "trouble shooting" activity, concerned with having the product "right" in all of its phases, and investigating difficulties wherever they may occur along the marketing path. Closely akin to this conception, although broader, is the merchandising division work as set up in one of the large advertising agencies, McCann-Erickson, Inc. It "has to do with the determining and implementing of marketing strategy. . . . the Merchandising Division advises on such matters as might affect the product, the package, sales-force stimulation, point-of-sale material, contests, premiums, pricing, distribution, sampling, publicity, and cooperative advertising."[19] Here is revealed the close correlation between the various marketing activities: the merchandising division "advises" with the other departments.

Duties of the Sales-promotion Department.—While it is recognized that, in small concerns, departmental organization often is impossible, if the various marketing activities are to receive their proper emphasis coequal departmental status is desirable. Yet, it still is far from the practice, even of our largest businesses. A study of 200 leading companies found that most have the sales-promotion manager reporting

[17] *Ibid.*

[18] *Op. cit.*

[19] S. H. Britt, Research and Merchandising in a Modern Advertising Agency, *The Journal of Marketing*, Vol. XIII, No. 4 (April, 1949), p. 507.

to either the advertising manager or the sales manager.[20] The return of the "buyer's market" situation in business, well under way in 1949, requires that every possible means be used to market efficiently the vast output of our various industries.

It is doubtful that a satisfactory definition of sales promotion is possible, considering the wide variety of practice still found in business. But increasing recognition that salesmanship and advertising are not enough for the accomplishment of the marketing task is focusing more attention upon both promotion and merchandising as separate activities. A much more clear-cut conception of sales promotion is possible if it is considered as dealing with ideas about goods and services, in much the same way as do salesmanship and advertising, and as an extension of those two activities, on a coequal level. Specifically, three areas stand out, among the maze of conflicting practices and writings, as forming a workable field of responsibility for the sales-promotion manager.[21]

1. Working with middlemen on ideas to increase sales.
2. Working with ideas to stimulate consumer interest, other than advertising and merchandising.
3. Working with sales, advertising, and merchandising departments to increase their effectiveness.

Working with Middlemen.—Probably this is the most universally recognized concept of the work of sales promotion. To be acceptable to the wholesale and retail outlets carrying the product, it must be premised upon benefits to them—specifically, to increase their profits. The manufacturer is concerned with his own product but must recognize that his outlets are not his employees nor his agents—unless under some form of exclusive agency contract. Even in the latter case, most dealers will be stocking other products, although not directly competitive. In short, sales-promotion activities with middlemen must secure greater cooperation with the manufacturer's advertising, better display of the product, better knowledge of it by wholesale salesmen and retail salespeople, etc., *on the basis* of more profit to the middleman. The manufacturer may "fall in love with his product"[22] because it is his, he made it, but the dealer handles many products and will push the one most profitable to him. This may mean the one with fastest turnover resulting from wide consumer acceptance rather than the one

[20] Original research by Professors Dale Houghton and Alfred Gross, New York University, for their book, *Sales Promotion,* to be published by The Ronald Press Company.

[21] These concepts are very close to those proposed by Gross and Houghton.

[22] Don't Fall in Love with Your Product, *Fortune,* October, 1949, pp. 80–81.

METHODS OF STIMULATING SALES ACTIVITY

METHODS OF STIMULATING THE DEALER ORGANIZATION

- ☐ **1** Changes in Sales Policies: (e.g., Extension of Credit Policy; Selling Dealers direct instead of through Jobbers; or vice versa; appointing exclusive dealerships instead of open market selling, or vice versa.)
- ☐ **2** "Detail Work" with Dealers.
- ☐ **3** Modernization of Packages.
- ☐ **4** New Merchandising Ideas for Dealers—on Stock Arrangement, Open Display, Accounting, etc.
- ☐ **5** Co-Ordination of Point-of-Sale Advertising with Space and Radio Advertising.
- ☐ **6** "Missionary Work" with, for, and through Dealers.
- ☐ **7** Counter and Floor Merchandisers.
- ☐ **8** "Other Product" (or "Altruistic") Show Cards and Hangers.
- ☐ **9** Window Displays and Cutouts.
- ☐ **10** Premium Plans—designed for Dealer Co-Operation.
- ☐ **11** Counter and Window Tie-Ups for Premium Plans.
- ☐ **12** Store Demonstrations.
- ☐ **13** Sampling Plans—built around Dealer "Zones of Influence."
- ☐ **14** Color-Illustrated Catalogs.
- ☐ **15** Special "Combination Deals" for Retailers.
- ☐ **16** Sales Portfolios for Visual Presentations.
- ☐ **17** Color-Illustrated Direct Mail for Dealer Use.
- ☐ **18** "Spiffs" or "PM's" for Dealers and Clerks.
- ☐ **19** Information Material for Dealers and Clerks.
- ☐ **20** Contests for Distributors, Retailers, and Clerks.
- ☐ **21** Three-Sheet Posters near Retail Outlets.
- ☐ **22** Radio Tie-Ups.
- ☐ **23** "Movie" or "Talkie" Dramatizations of the Sales Story.
- ☐ **24** Co-Operative Advertising.

METHODS OF STIMULATING INTERNAL ORGANIZATION

- ☐ 1 Change in plan of selecting Salesmen.
- ☐ 2 Development of Sales Training Plan.
- ☐ 3 District Sales Conferences.
- ☐ 4 Executive Sales Direction.
- ☐ 5 Revision of Salesmen's Compensation Plan.
- ☐ 6 Re-Districting of Salesmen's Territories.
- ☐ 7 Re-Dramatization of old Sales Ideas.
- ☐ 8 Addition of New Items to Line.
- ☐ 9 Modernization of Packaging Plan.
- ☐ 10 Merchandising the Packages to the Sales Force.
- ☐ 11 Training Salesmen to the Right Use of Dealer Helps and Display Materials.
- ☐ 12 Merchandising the Advertising to the Sales Force.
- ☐ 13 Presentation Portfolios for Salesmen.
- ☐ 14 Demonstration Portfolios of Dealer Helps.
- ☐ 15 Salesmen's Contests.
- ☐ 16 Vocationalized Selling Literature.

METHODS OF STIMULATING CONSUMER DEMAND . . . .

- ☐ 1 Sampling Campaigns in Selected Neighborhoods.
- ☐ 2 Store Demonstrations.
- ☐ 3 New Packages.
- ☐ 4 Utility Packages.
- ☐ 5 Radio Programs.
- ☐ 6 Radio Tie-Ups for Store Display.
- ☐ 7 Window Displays.
- ☐ 8 Package Inserts.
- ☐ 9 Recipe Booklets.
- ☐ 10 Premium Plans.
- ☐ 11 Prize Contests—Slogans, Names, Letters, etc.
- ☐ 12 Educational Material—on the History and Uses of the Product.
- ☐ 13 Direct Mail—to Prospects.
- ☐ 14 Combination Package—New Product with Old.
- ☐ 15 Poster Campaigns—for Special Zones or for National Coverage.
- ☐ 16 "Open Display"—Counter and Floor Merchandisers.
- ☐ 17 New Copy Slant in the National Advertising.

FIG. 70.—U.S. PRINTING AND LITHOGRAPHING COMPANY CHECK CHART

with the most margin per unit. Here in brief are the types of coordination necessary between the various activities: salesmanship convinces the dealer of the salability of the product and gets him to stock it; advertising aids the wide consumer acceptance of the product; merchandising gets the product "right" for satisfying consumer wants and price ideas; sales promotion secures dealer understanding of both the advertising and product merits, gets him "behind" the product; and public relations helps maintain favorable conditions both within and without the company. Assisting them all with needed facts is research.

Typical of the sales-promotion work with middlemen are the following:

1. Dealer Management and Operating Aid—advice on store layout, equipment, accounting, etc.

2. Dealer Selling Aids—window, counter, or floor display matter; pamphlets or circulars for dealer mail use or store giveaway; signs—in short, point-of-sale materials.

3. Direct Mail—catalogues, booklets, letters, reprints of advertisements, house organs sent to dealers.

4. Dealer Meetings—conducting meetings of dealers and dealer salesmen to explain new products, advertising, contests, to "get them behind the product."

5. Advertising Assistance—supplying advice and materials (mats, cuts, etc.) for dealer's own advertising or in connection with a cooperative advertising plan.

6. Store Traffic Stimulation—for retail outlets, supplying demonstrators, showings, tie-ins with radio programs, giveaways, or contest-entry blanks through the dealer.

Generally, the work of the so-called "missionary sales force" is primarily sales promotion. They aid in many of the above activities and even when they "take orders" from retailers upon whom they call, these are generally turned over to the wholesaler designated by the dealer.

Consumer Stimulation.—Let it be clearly understood that the continuous work of consumer and dealer stimulation in outside media such as publications, radio, and outdoor display, is *advertising*—and the responsibility of the advertising department. The phase of consumer stimulation that is the duty of the sales-promotion department is generally less continuous, less regular, of limited duration. Direct mail might be an exception if the product lends itself to regular and continuous circularizing, but few of the convenience goods fall into this class.

Typical consumer-stimulation methods include:

1. Sampling—to promote wider knowledge among consumers of the product and to induce earlier use than advertising and dealer effort might secure.

2. Contests—Even though most large contests are actually handled by specialists, as Reuben H. Donnelley Corporation, much planning and supervision or liaison work is involved.

3. Coupon Deals—planning and preparing, or supervising, and handling returned coupons.

4. Consumer Education—demonstrations and talks before consumer groups, school aids, informative labeling, package inserts, direct-mail material for consumers explaining the product and the uses to which it can be put.

Aid to Other Departments.—This is the coordination phase of sales promotion found in some definitions. Because the practice of the art of salesmanship and the management of salesmen require different abilities in sales-department personnel, and because the securing of orders stacks up as a major operation in itself, the sales department frequently confines itself largely to this latter activity. Similarly, since the major mass-advertising campaign involves outside media and working with an advertising agency, and involves large appropriations, it becomes a specialized task. To the sales-promotion department, then, are delegated related phases such as preparation of sales-training manuals, conducting sales-training courses, preparing and "selling" to salesmen advertising portfolios for use in sales presentations, preparing and issuing catalogues, passing on leads to salesmen from direct-mail or inquiry sources, preparing materials for shows and expositions. Because of its work both with dealers and consumers, the sales-promotion department may secure reactions from both as to product points, both good and bad, and can work with the merchandising department to correct faults. Its support work for the other departments places it in a strategic position to do liaison duty.

Duties of the Merchandising Department.—Even more than with sales promotion, merchandising offers definition difficulties. Yet, one central point is noted in the many uses and definitions: merchandising is directly concerned with the product. All the other marketing activities are dealing primarily with ideas, reaching consumers or dealers with ideas about the goods, to secure or influence purchases. (Research, as the fact-finding activity, may be judged an exception; it is all-pervasive, seeking the data to aid all the other activities.) Merchandising should be, as a separate department, coequal with the sales, advertising, sales-promotion, public-relations departments, responsible for having the product "right." The product must be right from the beginning, as to materials, design, and manufacturing costs.

This involves close cooperation with the factory production men and the engineers. The product must be right for the market. This involves working with the research department to find out consumer attitudes and desires as to quality, service expected, size or shape, color, price. The product must be right for the middlemen. This involves profit margins, handling ease in cartons or other containers, shelving ease for proper stacking and display. Packaging must be right, for both consumer and middlemen and for economical production. This means convenience in handling or in use; preservation whether in transit, in storage, on display, or awaiting use in the home; identification value; and selling value, through eye-catching qualities, and satisfactory use by the consumer.

The merchandising department has not finished its job when it has the product right at the start. It must keep it right; the merchandising duty is a continuous policing task. The department must keep its finger on the pulse of market demand. Is a new model desirable? Are unit sizes right, or should there be large, economy sizes, or small, single-portion or use sizes? Are there enough varieties? Can other items be added to make a "family" of products? How does the product stack up against competition—are new materials coming into use, new uses being found and exploited, or are substitutes entering because of improper pricing? Is style a factor; if so, how much? Are there trends in retailing affecting the product? Outstanding in its effects upon packaging, for example, has been the growth of self-service in food retailing. The super market puts a premium upon the product and package which "sells itself," as well as upon proper identification and advertising to help make the product and package familiar. Because the television camera tends to distort in certain ways, television already is bringing new impetus to package changes, in color, design, promotional messages placed upon the package, shape, etc. The advent of color in television will further stimulate merchandising activity along similar lines.

Other merchandising activities are sales-stimulating "deals" directly involving the product. Illustrations are: one-cent sales; combination sales of two or more products in one package; coupon offers cutting the product price temporarily; introductory offers of one product with purchase of another; premiums directly related to the product or to use with the product, as a plastic case to hold a package of cigarettes, or a cookie cutter with a package of ready-mix flour. Such merchandising schemes are legion. Dispenser fixtures, such as the Coca-Cola fountain dispenser, display cards permitting easy removal of one package of the product, and frozen-food cabinets are other types of merchandising devices.

Importance of Sales Promotion and Merchandising.—Elevation of the two activities of sales promotion and merchandising to departmental status, coequal with the other activities comprising a full marketing effort, has been stressed upon two basic grounds: (1) the size of the present-day marketing task, and (2) the return of a buyer's market, which is considered the normal state of business. With a national production well in excess of $200,000,000,000 and predictions freely made of raising this to $300,000,000,000, with manufacturing and agricultural "know-how" sharply raised by the Second World War, our productive capacity and output place a staggering burden upon the marketing side of business. Adequate and continuing research, and full use of all the marketing techniques are required to move our products. The rapidity with which American business reconverted to peace-time production and eliminated or reduced pentup demands due to wartime shortages made the seller's market comparatively short-lived. A further factor sharpening the need for full use of every marketing technique is the rise of socialist and communist ideas—the welfare state and government encroachment farther and farther upon private enterprise—making it imperative that business show its ability to handle the job.

The importance of these two activities is shown also in terms of dollars, even though the figures are incomplete or estimates only. "A conservative estimate would say that not less than $1,000,000,000 annually is spent in the United States to carry on these activities [sales promotion]. Actually the figure is more likely $1,500,000,000. For some concerns it may be only 10 per cent of the advertising budget; for others, however, it may even be well over 90 per cent."[23] "More than 192 exhibitors are showing some 250 product lines aimed at a share of the $1,000,000,000 estimated volume expected to be spent on premiums by manufacturers next year."[24] And premiums are but one phase of these activities. "*Printers' Ink* reports that national consumer premium offers on all classes of goods increased two and one-half times since 1941. Our own compilation of national or strong sectional consumer promotions for the first six months of 1948 resulted in a total of 169 such offers in the grocery field alone. . . ."[25] These quotations are but samples indicative of the size of the activities discussed here. When compared with the total of advertising in 1948, $4,830,700,000,[26] and when it is realized that these are but parts of

[23] *The Marketing Handbook*, p. 523.

[24] Record Turnout at Premium Show, *The New York Times*, Sept. 27, 1949.

[25] J. O. Peckham, One Billion Box Tops! The Midas Touch? *The Nielsen Researcher*, A. C. Nielsen Company, Chicago, September, 1948, p. 9.

[26] *Printers' Ink*, June 17, 1949, p. 27. Cf. annual estimate prepared by Dr. Hans Zeisel, footnote, p. 353.

the whole of sales-promotion and merchandising expenditures, one appreciates that these two marketing activities are not indeed insignificant.

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Questions and Problems

1. After reviewing carefully the definitions of the other marketing functions and the evolution of definitions of sales promotion and merchandising, try to formulate your own definition for these two activities.

2. Has the conception of merchandising narrowed or expanded from that of Professor Copeland and the "Harvard group"?

3. What several factors in today's economic situation make desirable the separation of sales promotion and merchandising (*a*) from the other marketing activities, and (*b*) from each other?

4. What specifically distinguishes sales promotion from advertising?

5. Set up a check sheet with a column for each of the marketing activities. Then place each of the 57 methods of stimulating sales, in the U.S. Printing and Lithographing Company Check Chart (pages 368–369), in its proper column on your chart of marketing activities.

6. Show specifically for each of the marketing activities its part in helping to increase sales.

7. What three areas of responsibility stand out as forming the core for a sales-promotion department?

8. List ten specific tasks properly belonging to the sales-promotion department.

9. Try to find out about one or more premium offers currently being used, and give your reasons as to whether each is an illustration of sales promotion or of merchandising.

10. What are the factors to be considered in planning the package?

CHAPTER XVII

TRADE REGULATIONS

Common Law.—Viewed from the legal standpoint, there are three basic ways of selling goods: by inspection, by sample, and by description. Some goods, especially those of high unit value, need to be inspected before a purchase can be made. Others are so difficult to describe and impossible to sample that inspection is the only means of getting an evaluation. This is true of a great deal of livestock raised on farms. It is also true of clothing, furniture, and real estate. The method of sampling, when practical, is much less expensive and much more commonly used. Not only are samples provided for industrial buyers, but also an immense number of samples are provided for consumers' goods. It is assumed, of course, that the sample is a fair representation of the goods from which it is taken. The term "random sample" is sometimes used. In selling to the Federal government and sometimes to city and state institutions, the bidder, in addition to meeting the description of the goods he proposes to furnish, is required to supply a sample as well. This sample may often be returned if it is valuable in itself.

Selling by description is extensively employed, especially in the exchanges and in industrial marketing where there are accepted standards. It is the method employed by mail-order houses and other catalogue publishers. It is assumed that the description will be optimistic and will state the utmost, yet it must be fair and above all things accurate and truthful. There is no one institution of civilization that is more important than the sanctity of the contract. Our present form of government could not exist without it, much less could business as we know it and as it is transacted from day to day. The failure to present a fair sample or an accurate and honest description of merchandise offered for sale is a social as well as a legal offense. To supply something different from the article described or sampled is a serious breach of contract.

Most of our transactions in buying and selling are governed by the old common law. This is too inclusive and involves too wide a study of court decisions to be discussed here. The law of contracts itself is so broad as to constitute a separate field of study. The most that the authors hope to do is to review briefly a few of the specific laws and enactments that have a bearing on many transactions, but which are often misunderstood.

The Federal Trade Commission.—Since 1887, when the first Interstate Commerce Act was passed creating the Interstate Commerce Commission, there has been a series of enactments each of which tends to perpetuate and regulate competition. The general attitude of business toward these enactments is that they are most effective and the results produced are most satisfactory when they lay down the rules rather than when they attempt to supervise. For example, the Sherman Anti-trust Act, which became a law in 1890, had for its purpose the prevention of any combinations, contracts, or understandings between firms that would stifle or tend to stifle competition. Under this law, competitors could not continue to divide up territories with the understanding that those making the contracts would not encroach upon each other's sales districts. This was forbidden because it created or tended to create, a monopoly in the affected territories, not because it was specifically harmful. The enactment made monopolies unlawful and left the courts to determine what constituted a monopoly.

In 1914, the Federal Trade Commission was established and the Clayton Act was passed. The purpose of the Clayton Act can be pretty well stated by rephrasing Section 2. To put this in everyday language, free from legal phraseology, it shall be unlawful for any person engaged in commerce to discriminate in price between different purchasers of commodities "where the effect of such discrimination may be to substantially lessen competition or would tend to create a monopoly." But discrimination of purchases on account of the differences of grade or quality of the commodities sold, and which makes due allowance for the cost of selling and transportation, or the discrimination in price for the same or different commodities made in good faith to meet competition, shall not be considered unfair trade practices. The law also states that "nothing herein contained shall prevent a person engaged in commerce from selecting his own customers."

The Clayton Act also made unlawful any sale, lease, or contract a condition of which prevented the buyer from using or selling competing products, where such restrictions substantially injured competition. That did not prevent exclusive agencies from refusing to handle a competitive product where there were other sources from which it could be obtained on a competitive basis. That is, one store might be restricted by contract from selling competing hats if those hats could be bought at other stores in the same town. This Act also prevented one firm from buying the stock of another where competition would be restricted. It prevented members of a board of directors from serving on two boards where the firms were competitors and were capitalized for a million dollars or more. These provisions have not been changed by more recent enactments.

The Federal Trade Commission can act informally on a complaint of any responsible individual, or, if it believes some wrong exists, it need not wait for a complaint to start action. In general, it is the purpose of this commission to prevent unfair trade practices.

The Lea-Wheeler Act.—In 1938 a new statute was enacted to extend further the authority of the Federal Trade Commission over interstate trade. The Commission was given the power to bring action against all acts and transactions in business which it considers "unfair or deceptive." This extends the jurisdiction of the F.T.C. to protect the general public as well as to prevent unfair or dishonest competition. When the F.T.C. discovers an unfair practice it may issue a "cease and desist" order. If this order is not followed, the F.T.C. can appeal to the courts for enforcement and punishment on failure of compliance.

An attempt to enumerate all the acts and practices that are forbidden because they constitute unfair competition or are inimical to the public would require a large volume, but mention of some of those that are typical will give an understanding of their nature and extent. Most of these things are not really unlawful under the common law or other Federal statutes.

"Knocking" a competitor, by implying that he is not financially responsible, that he does not live up to his advertising or contracts, or even by representing that his products are unadvertised because they are inferior—even where they were not named—has been held to be an offensive practice. So also is hiring skilled men away from competitors.

The F.T.C. carefully scrutinizes advertising to see that it is not false or deceptive in any material statements. Anything advertised as free must be absolutely *free.* Even asking for the name of a dealer in return prohibits the offer from being presented as free. Medicines and remedies may not be advertised as *cures,* and all statements and claims must be subject to proof. If the advertiser claims to be a manufacturer, he must actually have a plant and process materials. Merely bottling or packaging does not constitute manufacturing. Padded prices, representing values beyond what they actually are, is prohibited. "Formerly sold at $7, now $2.75" must be subject to proof.

Renovated or renewed products must not be sold as new, and if fabrics have been rewoven, they must be so labeled. Representing a product made in this country as imported is a violation, as well as offering an article made in another country as a home product. All other labeling must be accurate, and positive statements be subject to proof.

The F.T.C. is frequently confronted by fraudulent practices of people in other countries. For example, a little town in Japan was named U.S.A. In shipping goods to this country the labels would bear the mark "Made in U.S.A." While the statement was literally true, it was a fraud and a deception, and the F.T.C. was successful in having the practice discontinued.

The Robinson-Patman Act.—This law was enacted shortly after a revelation amounting to a scandal came out in 1935. A Federal investigation revealed that chain stores were soliciting and receiving millions of dollars as bonuses for large orders given to manufacturers. Inasmuch as competing manufacturers contributed to the same chain with the hope that such a donation would secure each of them favored treatment in the stores of the chain, the plan was a stupid one. Especially was that true because the chains used each such donation, or "allowance," as a pry to force a competitor to contribute. Such allowances permitted drastic price cutting, which most of the contributing manufacturers did not favor. The whole scheme worked out to the detriment of the independent, who was unable to secure proportionate favors, and was unprofitable for the manufacturers, besides.

The Robinson-Patman Act is crudely drawn, which makes it difficult in many cases to know just what a manufacturer may, or may not, do. We believe the following to be an accurate summary of what may and may not be done under this and related acts. It is probable that there may be a number of exceptions to the general provisions considered.

1. Price discriminations are outlawed between purchasers of the same grade and same quantities of goods. Such discriminations, to be illegal, must be in interstate trade, so local stores are not affected by them. It is assumed that the differences in quantity or quality must be sufficiently great, where a discrimination is made, so that competition will not be affected. That one buyer's order was for $2,000, while that of another was for $2,250, presumably would not make a sufficient difference to justify a price discrimination.

2. The F.T.C. has been given the authority to review the fairness of quantity discounts. Such discounts are required to be at least roughly in proportion to the savings made possible by larger sales, as

stated above. But if any discounts are given to buyers which constitute a preferred class, they are liable to fall under the ban of the F.T.C. For example, if quantity discounts are graded from 2 per cent on $1,000 up to 10 per cent on $10,000, then are jumped to 25 per cent on $100,000, the latter would probably be regarded as discriminatory, especially if there were only three or four who could buy in such quantity, while the great majority of customers could buy only $10,000 or less.

3. Brokerage and commissions are prohibited unless they are actually earned by a specific activity deserving remuneration. If a third party is claiming such commission, he must be able to show that he was not acting under the direct or indirect control of the purchaser. This is regarded as the weakest clause of the Robinson-Patman Act, but it was upheld by the Court of Appeals. The A. & P. stores attempted to collect an allowance in which its buying agents turned their commissions or discounts back to the company. That was held to be illegal.

4. Giving of presents, or favors, or anything of value to a buyer is forbidden, unless every buyer gets a proportionate gift or concession. This should put a stop to buyers' holding up sources of supply for free merchandise for personal use, which has been common in the past.

5. Criminal prosecution is provided in one clause of the Act, with a fine of $5,000 or imprisonment for price discrimination. But this clause is so restricted that attorneys regard it as unenforceable.

In general, quantity discounts are legal but are restricted to savings made possible by quantity purchase. In selling to buyers not in competition, the restrictions do not apply. Private-brand merchandise may be given treatment different from that for regular brands without infringement. Advertising allowances are permitted to all, but must be proportional to amounts purchased, and the money given must be used to advertise the specific merchandise for which the allowance was made. Business is not restricted from the legitimate things it always has done, but the Act does prohibit discrimination that will be injurious to competition.

Laws on Price Cutting.—For many years there were pending before Congress bills which, if enacted into law, would prevent price cutting; but none of them ever became law. Finally, the state of California took up the matter and enacted the first of the so-called "fair trade" laws. This provided for a legal contract between buyer and seller for fixing resale prices. In other words, it legalized a price-maintenance contract, which had always theretofore been unlawful. In 1936 the United States Supreme Court held this law to be constitutional, on the ground that a state could enact legislation protecting the private property of its citizens. The Court held, in effect, that where price cutting injured good will, through loss of prestige for a branded product, the state could pass legislation to protect against such loss.

Not only does the California statute make a price-maintenance contract legal, it provides a simple, but somewhat drastic, way of enforcing it. A manufacturer who wants to maintain prices can make a contract with some distributors for that purpose. By his giving notice to others who handle his products that he is selling under price-cutting restrictions and has made such contracts, all other dealers are automatically made parties to that contract, and are bound by it to the same extent as if they had signed it.

That, however, was true at first only within a state that had a law similar to the California statute. In order to legalize the price-maintenance law in interstate trade, Congress passed the Miller-Tydings Act. That enactment has the effect of extending the California law to all other states having similar statutes. So a contract to maintain price is made effective in all states that have the "fair trade" law by giving dealers due notice, as stated. Every state except Missouri, Texas and Vermont, and the District of Columbia has a "fair trade" law. Although much pressure has been brought upon Congress to include the District of Columbia with the majority, no such action has yet been taken. A contract to maintain price in the four states named is still illegal.

Another price-restriction law has been enacted in numerous states—26, at the time this is written. The new state laws make it unlawful to sell merchandise at less than a certain percentage, usually 6 per cent, above invoiced price, with some exceptions, such as sale of damaged goods, closing out stock, or sales to meet competition. These laws, unlike most of the "fair trade" laws, are not uniform. They have given rise to much litigation, some of which has resulted in a decision that a particular form of the law is unconstitutional. Other states have upheld the Act.

There are different specifications as to just what "cost" is. Transportation charges are included. Replacement cost is commonly accepted as cost, and this takes care of fluctuation in prices up or down.

Some states make the provision apply to practically all business; some restrict it to retailers. Some states, like Connecticut, tie up the restriction with price maintenance, making it unlawful to sell at retail prices below those advertised by the manufacturer.

The first type of law, the "fair trade" law, leaves the enforcement of the contract to the manufacturer or the wholesaler who makes the contract. At first it was thought that any retailer who felt himself injured by a price cutter could bring suit for damages. But the courts have held that there are no contractual relations between the retailers, so no damage can be collected except by the one who made the contract.

The New York Fair Trade Law.—The Fair Trade Law of New York, which is similar to those in a number of other states, is condensed here to show the general nature of these enactments. It provides as follows:

1. No sales contract is voided because it requires

a. That the buyer will resell a commodity at a price stipulated by the vendor.

b. That the producer require any wholesaler to whom he may sell to resell at a stipulated price, and to establish a resale price for his customers.

2. Exceptions are made to the above clause in the case of stock being sold out or of goods being damaged or of action by an officer of a court.

3. This provision regarding fixed prices shall not apply to goods that are sold to the State of New York or to public institutions of the state such as libraries, hospitals, and penal institutions.

4. Willingly and knowingly advertising any commodity at a lesser price than that stipulated in a contract to maintain price is unfair competition and is actionable to the extent that damages may be claimed and collected.

5. Persons in the same business as two wholesalers or two retailers may not make a lawful contract between themselves to maintain a price.

This law, like the enactments of other states, has been upheld by the courts generally, even though all price-fixing laws have been attacked as class legislation in the interest of a few businessmen and not of consumers at large.

Uniform Sales Act.—Many states have passed laws regarding some particular phase of business that is so common to all as to make uniform laws highly desirable. Among them are the Uniform Sales Act, the Uniform Warehouse Receipt Law, the Uniform Bill of Lading Act, the Bulk Sales Law, *Printers' Ink* Model Statute, Uniform Stock Transfer Act, the Negotiable Instrument Law, and several others. These cover transactions wholly within the state and presumably not subject to Federal jurisdiction. The Federal government has also passed a number of laws that pertain to the buying, selling, and transporting of goods, which will be considered in another paragraph.

According to the Uniform Sales Act,[1] "Positive statements of fact as to quality are regarded as affirmations of fact and therefore warranties." That means that under this act a salesman's statements concerning a product that is being offered for sale becomes an authoritative part of the bargain, and the salesman or his principal must make good the salesman's representations, but it must appear that the buyer relied, and had the right to rely, on the skill of the seller. This is held to be true when the manufacturer is the seller of the goods and is in a position to know all about them. Obvious defects were previously held not to be taken into consideration. If the buyer was given an opportunity to inspect the merchandise and by inspecting it failed to discover defects, he was held to be without recourse. Under the Uniform Sales Act, however, where the defect is not obvious but would be disclosed if a close inspection were made, the buyer is nevertheless protected by the warranty whatever form it takes.[2] The manufacturer is not relieved from a verbal guarantee by a written one, which was the case under the old common law. For example, a new window stripping was commonly sold on the guarantee that it would save from 10 to 15 per cent of the fuel that had previously been required to heat the building. The written contract gave no guarantee of this kind and, like so many such contracts, it contained a clause which stated that this was the complete contract and that any changes must be added in writing. However, a court held that the buyer had the right to rely on the word of the salesman and that his guarantee was also the guarantee of the company regardless of the written contract. This ruling has protected a great many people who might otherwise be defrauded by unscrupulous salesmen and equally unscrupulous employers.

Regulation of Advertising.—One often hears complaints that advertising is undependable and that it should be more strictly regulated. Repeatedly, bills have been introduced into the Federal Congress and even into state legislatures which would virtually restrict the publishing of all advertising until it had some governmental authority's approval, but such drastic measures would interfere with business to such an extent that it is doubtful if a legal censorship will ever be permitted. If anyone who wanted to rent a house or to engage a room or to hire a servant was required to wait until some governmental body passed on the legality of the advertising copy, it would be a serious handicap to all concerned. In much business, advertising delay might be even more costly.

There is a very effective degree of protection against false advertis-

[1] Sommer, Walsh, and Webb, *Commercial Law,* Alexander Hamilton Institute.
[2] *Ibid.*

ing at the present time. First of all, there are the postal restrictions against using the mails to defraud. False, deceptive, and misleading advertising comes under that category. Then the Federal statutes provide penalties for misbranding food and drug products. Third, there is a statute referred to in a paragraph above as the *Printers' Ink* Model Statute. This has been enacted by nearly two-thirds of the separate states and makes the publishing of an advertisement that is "false, deceptive, or misleading" a misdemeanor. Those are three very strong words, and it is not difficult to secure conviction under this law if the advertiser is guilty. Strangely, few prosecuting officials are familiar with this statute. Many better-business bureaus have been organized throughout the country to help enforce it. Fourth, the Federal Trade Commission, as was shown earlier in this chapter, also has general jurisdiction and can issue cease and desist orders against firms that are using advertising illegitimately. Failure to obey the orders, after they have become effective, is punishable by a fine up to $5,000 for each offense.

In addition to these laws regarding advertising, there are many statutes and ordinances providing inspection of weights (scales) and measures, the guarding against the sale of impure or diluted milk, the regulation of the labeling and sale of liquors, and investigation of the conditions under which food is manufactured and sold.

The professional agitator often implies, if he does not directly make the accusation, that businessmen fail to live up to their advertising, and that they generally do not regard such failure as reprehensible. Exactly the reverse is true. Almost every chamber of commerce maintains a better business bureau. The chief duty of such a bureau is to make advertisers live up to the terms of their advertising. This is a business safeguard. Every time that a shopper is deceived or disappointed by an advertisement, he loses confidence in advertising; he particularly loses all confidence in the advertising of the firm that misrepresented. So, for the protection of their own sales promotion material, these business organizations spend money freely to make other advertisers live up to their public offers, made in advertising. The Better Business Bureau of New York City handled 13,975 inquiries and complaints in a recent year without any expense to the one making the complaint. About 75 per cent required corrective action. The Bureau was aided by newspapers and broadcasting companies, which insisted upon changes of copy; by the District Attorney's office, which prosecuted the worst cases; and by the F.T.C., which acted on interstate cases. Other better business bureaus have similar records.

It would seem that, under some one or all of these statutes and regulatory bodies, the public would be fairly well protected against false advertising. The trouble is that so few attempt to enforce these laws. Advertising is attacked as a doctrine or philosophy, like communism. It is not a dogma, a religion, or a political platform. It is merely a tool of business, which can be a powerful instrument if fairly and honestly used. Of course, it can be misused by dishonest business. It is not advertising that needs to be corrected but the ones who misuse it. Surely no one would question either the right or the ethics of a man out of employment to advertise for a job; of the rooming-house keeper to advertise for boarders; of the farmer to advertise an auction sale of livestock; of a college to announce new courses or the opening date of registration. Yet all of these are advertising and all are included in the sweeping condemnation of advertising by its critics.

Some Other Little-known Laws.—There are a number of other enactments so seldom brought to the notice of the public that to a large majority they are not known to exist. For example, there is a law commonly known as the Bulk Sales Law.[3] This is effective in nearly all the states. It requires that an individual or a corporation that is about to buy out a firm in business must notify all creditors of that firm, giving five or more days notice of the impending transfer of the business. In most states, the notice must be made in person or by registered mail. Failure to give this notice makes the buyers largely responsible for the debts of their predecessors. At least, if such notice is not given, the creditors may levy against the goods and secure a lien against them, just as if the transfer had not taken place. The fairness of this law is apparent. Were it not for this protection, a merchant could sell his stock of goods to a buyer, take the money, and abscond, refusing to pay his honest debts. He might even sell to a dummy purchaser and soon regain control of the stock and thereby defraud his creditors.

The old statement that there is "no sale without a delivery" is true in its general implications. Perhaps the principal exceptions occur when goods are not to be delivered or payment is not to be made immediately, but when the goods are definitely set aside from other stock and held subject to delivery as provided in the contract. Possibly that constitutes a form of delivery, as it has been held to constitute legal delivery. A contract to make a sale in the future is not a sale but merely an agreement to make a sale. The sale is completed at the time that the owner of the goods releases control to the buyer.

[3] A. F. Chapin, *Credit and Collections, Principles and Practice*, Prentice-Hall, Inc.

This statement is oversimplified and will have many exceptions, but the very essence of making a sale consists in a transfer of control to the buyer from seller. If this is kept in mind, there will be little difficulty in observing the legal recognition of the completion or closing of a sale.

Consumer Criticisms.—Trade regulations are obviously of great interest to consumers, for they pay the prices that are brought about by such regulations. It may be of interest here to examine some consumer attitudes and to review some of the general criticisms frequently made. Buyers almost universally believe that prices are too high, that service is poor, or that sellers get the best of them. Sellers quite commonly think that the reverse is true. Numerically, there are very many more buyers than sellers; hence, the criticism of high prices is always in the ascendancy. At the time Adam Smith wrote his *Wealth of Nations,* more than a century and a half ago, the British Parliament had appointed a commission to inquire into the rising cost of living. How many legislatures, congresses, and parliaments have since investigated the same subject? How frequently do we hear that marketing costs are continually increasing? In other words, consumers think they do not get much for their money. No adequate study has yet been made to determine to just what extent marketing costs are changing. Surely there was never a time when a pound of sugar was taken from the refinery into the home of the consumer at so low a cost as now.[4] The same thing is certainly true of silverware, of tinware, of tea, of coffee, and of spices, to mention a few staples. To be sure, it costs more now to take a pair of shoes from Brockton, Mass., to Nashville, Tenn., and sell them through a well-equipped store than it did years ago to go to the shoemaker and leave the order. It costs much less to make a pair of shoes now; it costs more to sell them.

The shoes now made at Brockton are very much more serviceable, as well as better looking, than the local shoemaker ever could make. Many men contribute now to making each pair of shoes. Each of the workers becomes highly expert in the particular process in which he excels. Their combined efforts result in a superior article. The consumer has little concern as to how the amount that he pays for a pair of shoes is divided between the distributors and the manufacturers, provided that the final price is satisfactory. When he bought from the local shoemaker, the whole cost was for labor and material. There was no expense incidental to distribution, but the price paid reduced a buyer's wages for the week more drastically than does the present cost. That is only a part of the problem involved.

[4] This is in terms of labor, minutes, hours, etc.

When a woman went to the shoemaker, she had no choice, no samples, no illustrations, no chance to try on, no color selection, and only one or two styles. Now the woman who goes to the shoe store has the privilege of inspecting samples of shoes. She may even try on as many as 15 pairs and leave the store without buying. She regards this as a privilege to which she is entitled. It is her privilege to spend her money for style service as well as for service in wear. Both cost money; and the consumer pays.

Fifty years ago most foods were prepared on the farm. In place of the luxuries now provided under such trade names as Beech-Nut, Del Monte, 57 Varieties, Libby's 100 Food Products, the housewife had to dry her fruits and many of the vegetables, such as sweet corn. The costs of marketing were certainly less on these items, but who would now make the sacrifice of either doing without or of preparing one's own? A quart of canned peaches may be had for about 40 cents. In the era of the neighborhood shoemakers, it could not be had at any price. The nearest substitute was dried peaches, which had been prepared at great labor and much risk, for they spoiled easily. These items are only illustrative of the hundreds of articles that enter into our daily lives.

Are Marketing Costs Rising?—Another phase of marketing costs—one seldom considered by the critics of our present system—is that 50 years ago nearly one-sixth of the farmer's time was taken up with marketing, and as 70 per cent or 80 per cent of the population was at that time engaged in agriculture, it meant that approximately $16\frac{2}{3}$ per cent of their productive time was spent in securing supplies or, in other words, in marketing. Now all this buying and selling is done by telephone or by a quick trip now and then in an automobile to a nearby town, thus reducing the part of the buyer's time actually spent to a fraction of what was formerly required.

We are frequently told that there are too many salesmen and that there is too much advertising. The answer to these criticisms is that there are practically no goods on the market, sold through salesmen and advertising, but what can be bought direct from producers without employing either. The trouble and expense that the consumer undergoes in seeking his source of supply are so much greater than the amount involved in the ordinary process of marketing that few consumers are able to save even a small amount by seeking out their own source of supply, thus avoiding both salesmen and advertising. At the time the pack peddler brought linen and other fabrics to the house, it was not possible to get any standards of quality. Each buyer had to rely on his own judgment and, if he bought a fabric as being all wool and fast colors, he had to assume the risk incident to his judgment. As soon as the transaction was closed and the peddler had the money, he disappeared, perhaps never to be seen again. Now the risk not only of quality, but of satisfactory performance, has to be assumed by either the merchant or the manufacturer. No figures are available to show comparative costs, but may it not be assumed that the pack peddler had a very much wider margin on his goods than there is on the same articles now sold through stores?

It is easy to charge, as many do, that there are immense wastes in marketing, that there is too great a spread between what the consumer pays and what the producer receives, but to point out specific instances is extremely difficult. Indeed, some of the highest salaries today go to those men who are most skillful in reducing marketing costs. If present-day critics, especially the professional critics, could really point out more efficient marketing methods, they could make far more money and serve a more useful purpose than can be accomplished by writing general criticisms.

In the last few years both states and municipalities have enacted laws and ordinances placing a sales tax[5] on goods sold within their boundaries. These are strictly revenue acts and, of course, add to the cost of goods. Buyers frequently do not know the exact amount of the sales tax and feel grieved that the price is so high. There is little evidence to show that enacted legislation has helped to reduce prices, but all business has been put on a higher ethical plane by the new legislation.

Government Agencies That Influence Marketing.—A considerable number of commissions, administrations, authorities, boards, corporations, advisers, and others function under the Federal government.

These agents of the government are all additional to the various departments, each of which is under the direction of a member of the President's cabinet. Some of them, like the Federal Trade Commission and the Interstate Commerce Commission, are wholly independent of the administration, and supposedly free from political interference. They have broad powers, especially the Commerce Commission, which dictates rates that the railroads may charge, and supervises the issuance of stocks and bonds by common carriers. Others directly or indirectly are under the supervision of some of the departments. Some, like the President's adviser on foreign trade, have no authority outside their own activities in fact finding.

Space does not permit a listing of all these agents. The following,

[5] Corporation taxes also add to the price of goods. Those taxes are mostly passed on in the price that the consumer pays.

grouped according to the general nature of their activities, are typical and perhaps represent the most important at the time this was written. They indicate the wide extent to which the government employs special agents to supervise and regulate business.[6]

1. Banking, finance, credit—indirectly influencing marketing.
   a. Federal Reserve Board.
   b. Reconstruction Finance Corporation.
   Commodity Credit Corporation.
   c. Farm Credit Administration.
   Federal Farm Corporation.
   d. Federal Deposit Insurance Corporation.
   e. Federal Home Loan Bank Board.
      (1) Home Owners' Loan Corporation.
      (2) Federal Savings and Loan Insurance Corporation.
   f. Securities and Exchange Commission.
   g. Export-Import Bank of Washington, D.C.
   Second Export-Import Bank of Washington, D.C.
   h. Federal Emergency Administration of Public Works.
   Public Works Emergency Housing Corporation.
2. Information—other indirect influences.
   a. Central Statistical Board.
   b. Board of Surveys and Maps of the Federal Government.
   c. National Advisory Committee on Aeronautics.
   d. Special Adviser to the President on Foreign Trade.
3. Directing trade and commerce.
   a. Federal Trade Commission.
   b. United States Tariff Commission.
   c. International Fisheries Commission, United States and Canada.
   d. Federal Alcohol Control Adviser.
   e. Foreign Trade Zone Board.
   Interdepartmental Committee on Foreign Trade Zones.
   f. Tennessee Valley Authority.
      (1) Electric Home and Farm Authority, Incorporated.
      (2) Tennessee Valley Associated Cooperatives, Incorporated.
4. Transportation.
   a. Interstate Commerce Commission.
   b. Federal Communications Commission.
   c. Federal Coordinator of Transportation.
   d. Federal Aviation Commission.

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[6] These do not include any of the specially created commissions for wartime activities.

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Questions and Problems

1. From the legal point of view what are the three basic ways of selling goods?

2. By what act of Congress and in what year was the Federal Trade Commission created?

3. What is the purpose of the Clayton Act?

4. What act of Congress protects the general public from unfair and dishonest competition, and which executive agency of the government has jurisdiction in making the act effective?

5. What is the Robinson-Patman Act; when was it passed; growing out of what practices on the part of chain stores was it passed; and which agency is charged with making its intent operative?

6. What is meant by the statement, "In general, under the Robinson-Patman Act quantity discounts are legal but are restricted to savings made possible by quantity purchase"?

7. What are the so-called "fair trade" laws?

8. What is the connection between the "fair trade" laws and the Miller-Tydings Act?

9. What are the general provisions of the New York State Fair Trade Law?

10. To what extent can it be argued that the price-fixing laws are class legislation in the interest of a few businessmen and not of consumers at large?

11. What is the intent of the Uniform Sales Act? Illustrate how it can operate to the benefit of the consumer of nationally advertised products.

12. To what extent is there an effective degree of protection against false advertising at the present time?

13. Costs are relative to what other considerations? Are marketing costs relative to production costs? Are marketing costs relative to the total cost which the consumer pays for a product? If production costs are reduced, will marketing costs increase?

14. Name *four* of the six United States government agencies which have some jurisdiction over trade and commerce.

CHAPTER XVIII

TRENDS IN MARKETING

Many Changes Affect Marketing.—At the close of the Civil War practically all homes were heated by fireplaces. These were not the type that we usually see in the tiny apartments of the tall apartment buildings, but each would hold a log 2 feet in diameter and 4 feet long. Wide ovens were built in them for baking and a bar inserted on which to hang kettles for boiling foods. About 1870 these began to give place to the cook stove, which consisted of an oven and a fire box supported on high legs. When in use it would warm the kitchen, but the remaining rooms of the house continued to rely on the fireplace. In the early seventies came heating stoves with grates. These were called Round Oaks and many of them are still in use. During the decade that followed, the furnace was introduced, and although it was originally used in large buildings, by the middle eighties new residences of the better class were installing central-heating plants. It was only a short time later that a steam radiator was produced, and almost simultaneously with this came the hot-water heating system. After the First World War, oil heaters became common, and within the next 20 years, the gas-supply systems were so improved that gas was being furnished for heating purposes in some residences. By 1935, pipe lines were carrying natural gas hundreds of miles to heat other houses.

Each one of these changes made a profound difference in the markets. In the early days, fireplaces were built on the premises; some of the early stoves were sold direct to users. Next the hardware dealers took over the sale of stoves and, later, of furnaces. In order to install a furnace it was necessary to have a plumber, and by the time the oil heater had been introduced, there were special firms which made a business of installing heating plants in dwelling houses and other buildings.

What has been true of heating plants has been paralleled by many other household appliances and machinery for the farm and barn. The automobile first became a common sight about 1905. The motion picture business was begun about the same time. Aviation was commenced on a small scale in the last years of the first decade of the century. Color printing was adopted by the magazines about 1900, almost contemporaneously with the installation of electric lights for the home and gas stoves for cooking. The first radio broadcast was in 1920.

These developments have been recorded to call attention to the rapid changes that we have seen in a lifetime. Each one of them has involved one or more inventions, and a steady stream of new inventions is still being recorded in the Patent Office. We may expect even more momentous developments in the future, all of which will be reflected in marketing. While the authors do not pose as prophets, they may point out trends to which every marketing man must be alert if he is to be successful.

Alfred P. Sloan, chairman of the board of General Motors Corporation, recently predicted that the time of attic inventions has passed, that the great laboratories now maintained by industries will methodically work out the new improvements in their various fields. In a general sense, probably Mr. Sloan is right, yet in some of the most strikingly original inventions, individual ingenuity will probably persist. Putting a rubber on the end of a lead pencil and a point on a screw might have been worked out in laboratories in the course of time, but we doubt it. The zipper did not come that way, nor the variable-speed motor, nor vulcanized rubber—although that might have been developed by laboratories in which it would have been studied as a project. The most notable of Edison's inventions—the incandescent light and the talking machine—were achieved before he had established a modern laboratory. It is the authors' belief that human genius will continue to function whether under the direction of organized research or pursuing its way as individual skill.

Sociological Trends.—Higher standards of living, more years spent in school, and other influences have tended to increase the average age of marriage. This has brought about a decrease in the birth rate and smaller families, which in the long run may mean a declining population; but, at the present time, it means a growing population and one that is of much greater average age. Improved sanitation and more intelligent feeding and care of babies have very greatly reduced infant mortality. These influences have also affected the adult life until the average span is nearly 38 per cent greater than in the age when tallow candles lighted the homes. In 1900, the average life span of the people of the country was 48.2 years; in 1949, it had increased to 67.9 years. This change has had profound effects on marketing. Old people do not want and will not buy many of the things for which young people spend lavishly. These things need to be observed and catalogued, and preparations should be made long in advance to meet the changes that will be brought about.

For a time, the number of children decreased so much that many elementary schools were closed. However, during and following the war, the number of births steadily mounted until they surpassed any previous records. Whether this increased birth rate will continue, we

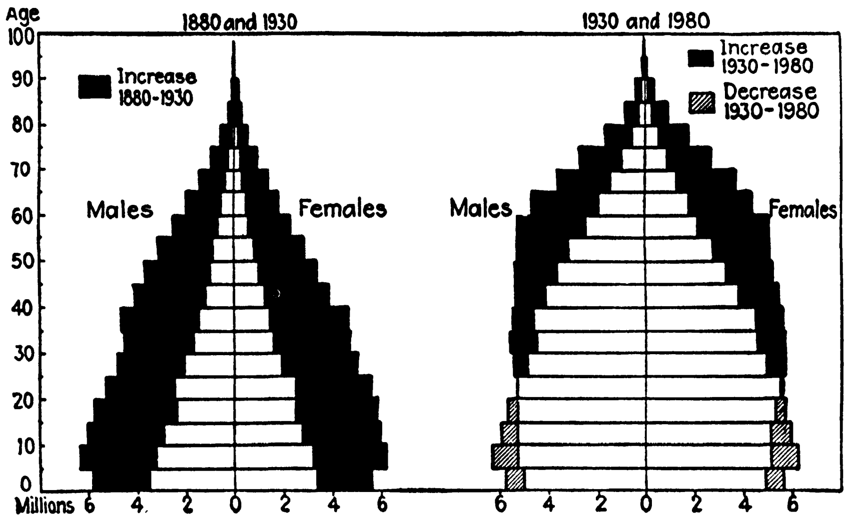

FIG. 71.—TOWARD AN OLDER POPULATION

In the graph at the right America's population in 1930 is indicated by the white pyramid. The probable increases by 1980 are indicated by the black blocks and the decreases by the hatched blocks. It is seen that the population will probably be "older"—that is, the number of people in the upper age groups will be larger in 1980 than in 1930, while the number of the lower age groups will be smaller. On the left is shown, for comparative purposes, how America's population changed in the preceding fifty years, from 1880 to 1930; the growth, as the chart indicates, was spread through all age groups.

Some observers predict vast social and economic consequences will follow the decline, and eventual stoppage, of the nation's growth. (*From Thompson and Whelpton, "Population Trends in the United States."*)

have no way of knowing; it is one of the unpredictables. But any change in the rate of population growth produces problems for the manufacturer and distributor of goods. Not only does the rate of growth change; physiques change. Both boys and girls are from 1 inch to 1½ inches taller than their parents. Their feet and hands both tend to be larger. This requires a new scale of measurements for all clothing, glove, and shoe manufacturers. The style influence seems to grow more forceful year by year. Not only does it positively dominate women's outer wear, including hats, but it is exerting a powerful influence in the design of automobiles. This tendency might be conducive toward creating a new demand each year.

Better Housing.—Our first houses in this country were made of hewn logs, some examples of which are still standing. With the improvement in the equipment for sawmills, nearly all buildings, especially houses, were soon made of sawed timber. For a time the lumber supply was being depleted so rapidly that it was thought there would soon be no more wooden buildings. However, with the reforestation of much of the cutover land and the establishment of millions of acres of forest reserves, lumber supplies now promise to be adequate to fulfill all demands. Also, other materials are taking the place of lumber. Even the window glass in the coming houses may be very greatly

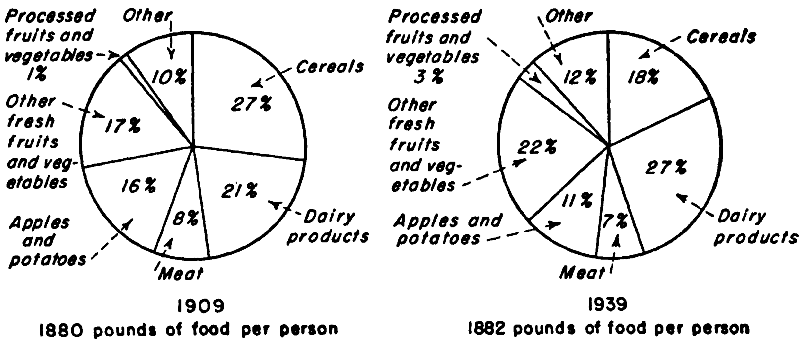

Fig. 72.—Our Changing Diet

restricted. Light will come through glass walls. Basements may disappear; the modern heating apparatus, with the new-developing air conditioning, no longer requires one. This again indicates a radical change in the markets of building materials and perhaps also in real-estate values.

Financing for home building has been greatly improved, so that bonuses for loans, under whatever guise, are being eliminated. This also includes much of the work of the abstract offices for useless "title searches."

The growing habit of going to hotels and clubs for formal entertainment is removing the necessity for a large dining room, and even people of considerable wealth are building smaller and more simple homes.

The household equipment is made more efficient each year, so that fewer and fewer servants are employed. This in itself may add to unemployment and to the number of ineligibles who are not fitted for other work. The frozen-foods industry and the improved canning and preserving methods in factories still further reduce the need for servants. Delicatessen stores and the rotisserie also have furnished a reason for less home cooking in the last few years, and, as their business continues to increase in volume, they probably will still further reduce work in the home. This applies, of course, to the larger centers of population rather than to small towns and rural districts, although they too, are affected by the increase of refrigerated transportation and better refrigeration systems in stores. Frozen foods promise to become immensely important. The method of extending a market for these foods is to develop markets for them in one city at a time, as expensive equipment must be installed before they can be delivered satisfactorily; but each year sees the number of cities increased.

These combined influences, if there were no others, would of themselves make the food manufacturer and the advertising media, which depend so largely on food advertising for support, scan further new developments with the greatest care. Also, the alert manufacturer and shopkeeper will be quick to make the most of the opportunities that these changing conditions and new markets provide.

Air conditioning and new methods of heating are making houses very much more livable. This good fortune in the way of improvements is not restricted to apartment houses or to dwellings in the larger cities. Small towns and even rural districts, especially those that are supplied with electric current, will find all these advantages available for them. Water pumping and carrying and long hours of exhausting labor over washtubs are rapidly disappearing from the lives of farm women. They are being relieved of a very large part of the drudgery that has made their lot hard for generations. City laundries have extended their services to country districts. At the same time, power laundry equipment is available for the farm home as well as for the city, wherever electricity is available.

Even where there is no utility supplying current, many farms have their own equipment and are able to modernize their homes with their own power plants.

Trends in Manufacturing.—As we have seen, when the consumer is in need of supplies she goes to the retail store. The retailer usually goes to the wholesaler and less often to the manufacturer. The industrial distributor and the wholesaler naturally go direct to the manufacturer in most cases. There are about 250,000 manufacturing plants in the United States in which the normal output of each is more than $5,000 a year. The total number employed is between nine and ten million. That is a little less than one-sixth of the whole number that the Bureau of the Census reported as being gainfully employed in 1949.

For many years, there was a very definite trend in most industries to larger manufacturing units. From 1914 to 1929, the number of manufacturing plants was reduced by more than one-fourth, but in the meantime there was an increase in the number of employees of more than 20 per cent. Some of the most striking figures were in the manufacture of chemicals and allied products, which were reduced from 11,461 to 8,228; stone, clay, and glass-producing factories went from 14,790 to 8,515; forest products dropped from 43,466 to 26,912. For rubber products, the number had increased by about 50 per cent. In iron and steel there was practically no change.

Automobiles were first offered to the public at the turn of the century. By 1922 the number of manufacturers in the United States had increased to 166. Eleven years later there were only 32, and by January of 1949, a scant dozen survived. Thousands of other products have had a similar history: A new device is brought out. After a struggle for recognition, it frequently ruins its promoters. That is the first stage. But by the time the original promoters have been exhausted, the article has secured attention. Other manufacturers take it up. There is a rush to get in on the new idea. Many undertake to produce it. That is the second stage. The strongest, most efficient survive; others withdraw. That is the final stage. This was true of breakfast foods, of vacuum cleaners, of oil burners, of automobiles and tires, of radios and many other products. Of course, some of the inventors and originators survive, but many do not.

In the last few years, there has been a slight change in the tendency toward concentration. Electric power and the different sizes of efficient motors have tended to break up many manufacturing units. Instead of a huge power plant surrounded by the various processing activities all requiring power, the unit plant, especially in what is known as light manufacturing industries, is a loft. Just how far this trend will go cannot be foretold. In the case of articles that lend themselves to mass selling and advertising, the same owner may be in control of many plants. In such industries as the manufacturing of garments the ownership may be highly diversified. In large units, requiring assembling, the parts are often made in separate factories, frequently in different cities. All these conditions influence marketing and marketing policies.

New Types of Communication.—Since 1925, the radio has become a common household appliance. According to latest reports, 40,000,000 families in the United States have the advantage of this modern luxury. At one time, it was thought that it might interfere with the circulation of newspapers and magazines, or detract from the attendance in motion-picture theaters. So far, that has not happened. We believe the news items that come over the radio tend to increase interest in newspaper reading rather than to diminish it; and this seems true in spite of the fact that there is now a scheduled trans-Atlantic news service for all who have radios. The number of telephones has increased more rapidly since 1945 than at any previous time in the history of the country. At one time it was reported that the telephone companies were 2,000,000 installations behind their orders. They have been placing new telephones at a rate which has run as high as 300,000 a month.

Newspapers and magazines are enjoying an ever-increasing circulation, and the motion-picture theaters are crowded. Radio is credited with diminishing attendance at the churches, but for many years that has been on the decrease. One statistician, after a study of the subject, reported that 70,000,000 Americans do not attend religious service. This number is probably growing more rapidly than population grows. Rural telephones, greater ease in getting about to see neighbors and friends, as well as a general lessening of the influence of the church have tended to reduce the number who are affiliated with the various denominations or who attend regularly. The one church that has increased its attendance faster than the growth of population is the Christian Science Church, which draws its members from all denominations and from some who have not been in regular attendance.

Transoceanic telephone service has recently been established and promises to be a strong competitor of the cables. Television is increasing in efficiency, and in a few years it may be as common as telephones are today. What the effect of this may be on the newspapers and magazines and on all kinds of theaters cannot be foretold. It will certainly be a great influence. Book publishers so far have not felt the ill effects of competition from radio, magazines, and newspapers. The more people read, the more they find time to read. Perhaps the influences enumerated in the paragraphs above that have released the woman of the house from drudgery have also given her leisure that has made possible more reading.

The new telephoto service enables newspapers to receive photographs by wire; an achievement which may or may not be affected by television.

Transportation.—One of the most notable changes, especially since the end of the First World War, is the increased tempo to which all industry and a large part of society have responded. Automobile travel has been rapidly stepped up to 25, 30, 40, 50, and 60 miles an hour, which is no longer regarded as more than a normal speed. The trailer, after a short period of popularity, is used little for shelter while traveling, but supplies thousands with temporary abodes in the trailer camps. Clipper planes make regular trips across the Atlantic and regular air-passenger service on a 16-hour schedule is maintained across the continent. Pipe lines have been extended for transporting liquids and they may play an even more important part. Fast freight, express, and even faster motor-truck deliveries are all significant. New types of passenger trains provide the comforts of an air-conditioned home in addition to providing for a much reduced time in crossing the continent or even in making shorter trips. The most recent speed vehicle is the rocket plane. It is anticipated by those who are interested in developing it that it can be made to outdistance the speed of sound. Everywhere it is the same. Speed seems to have become a mania. Just what the ultimate outcome will be no one can say. Possibly, for one thing, the more congested city districts will be spread over greater territory, and the commuting distances increased in proportion. All these changes affect marketing in one way or another—not only by ensuring the more speedy delivery of goods with the possibility of bringing perishables from longer distances, but also by making more universal the consumption of highly perishable food products.

A manifestation of the quickened tempo is a lessening in the period of time elapsing between the arrival of material at the factory and the shipment of finished products. This makes for a reduced inventory. It also results in a more definite dispatch of supplies to the factory and a reduction of tolerance in delivery dates. This reduction of inventory applies, as well, to both wholesale and retail stores. Neither employ warehouses to the same extent that they used them 15 or 20 years ago. Again, sources of supply are called upon to make deliveries in less time and with greater frequency. This tends to shift the warehousing expense onto the manufacturer. The whole shifting of burdens is commonly referred to as "hand-to-mouth" buying. There is no indication that this policy will be reversed. This eases the pressure on the stock rooms of the large stores, which is always a problem, but it puts much greater pressure on our transportation system and still further crowds the already heavily traveled highways.

Other changes in the modes of transportation are notable. For short-distance travel, the railways have come and gone within a lifetime. Very few of the old "local" trains, which made the traveling salesmen's business possible for a quarter of a century, have survived, owing to competition by busses and automobiles. Interurban electric service, which came into general vogue early in this century, is passing out, owing to the same competition. Electric surface cars are following the horse-drawn cars into oblivion, while motor-powered busses render more efficient service.

Recreation.—Increase in leisure has made a greater demand for recreation. Baseball and other professional sports are enjoying a larger patronage than at any time in the past. Golf has been so generally adopted that every small city has its links and many municipalities have provided courses at public expense. Swimming pools have also been installed in great numbers and the attendance at beaches has multiplied many times over in the last few years. One might say that the attendance at the beaches has been in inverse proportion to the coverage of the bathing suit. But the bathing suit is not the only item of sportswear that has changed radically. Golf suits and plus fours have all but disappeared. Sports shoes and other sportswear, especially at the beaches and summer resorts, are taken for granted. Perhaps enough has been said about motion-picture theaters and radio entertainment. They are a part of everyday life. Card playing has become a business for a large number of people and a sort of avocation for many more, while thousands and thousands of both men and women indulge in this pastime almost daily.

Ice-skating rinks have multiplied rapidly, until now ice skating outdoors in midsummer is advertised in cities as far south as Los Angeles.

J. A. Krug, Secretary of the Interior, estimated that the tourist expenditure in the United States would be upwards of $18,000,000,000 for 1949 and perhaps more than that for 1950. His estimates were based primarily on extensive correspondence between the parks, over which he has general supervision, and prospective tourists. The chief spots of interest remain Yellowstone, Yosemite, and the Grand Canyon, although more than one-half million people will visit Mount Rainier and the favored tourist spots of Colorado and Washington, D.C. Other places of interest will also draw tourists by the hundred thousands but not to quite the same extent as those mentioned. These travelers will spend their money largely within the United States, although nearly 26 per cent will visit Canada, Mexico, and Europe, and it is estimated that travelers out of the country will spend about $2,000,000,000. The other 74 per cent will confine their travels to the United States. They will travel mostly by automobile; at least Secretary Krug's estimate is that 63 per cent will. Of the others, 18 per cent will go by railroads, 10 per cent by bus, 7 per cent by airplane, and 2 per cent by boat. He further estimates that 60,000,000 tourists will use 20,000,000 automobiles journeying about the country and Canada. This constitutes more than ten times the travel of 30 years ago and probably twenty times the amount of money that was then spent on summer vacations.

Changes in Marketing.—More definite valuable data have been collected concerning markets in the last 20 years than in the previous half century. Most important among these data are the *Census of Distribution* and the succeeding censuses. These, together with the *Biennial Census of Manufactures,* are providing sources of information that will greatly improve not only marketing methods but manufacturing practices. It is to be hoped that the next 10 years will see this good work carried much further, for it is primarily by means of the accumulation of information that the marketing processes can be made more efficient.

Elsewhere, the increase in marketing research has been mentioned. The indications are now that not only will this practice continue, but it may be placed on a more logical basis. Instead of the practice of having each firm independently pursue an expensive trade investigation, which at best may be limited, there seems to be a slight trend in the direction of research by trade associations. That procedure is much more logical, as a whole industry should share in information that tends to make that industry more efficient. At the present time, an advertising agency regards as unethical the use of information secured through the market investigation for one firm to help in solving problems for another firm that is even a remote competitor. If the same or similar information is needed for the second firm, a new research is inaugurated. Meanwhile, another advertising agency may be making a similiar survey for still another firm, which will also be treated confidentially and may be used only for that one occasion.

On the other hand, if a trade association makes an investigation, then the information will be available for all its members and the whole industry will benefit at once instead of waiting to learn through competition what the leaders have discovered at much expense through advance investigation. It is not merely the data that are being collected; it is the development of more scientific methods of investigation, research, and forecasting that are making the new information more valuable and providing means for reducing the costs of distributing goods.

We hope that the time will come and come speedily when choice fruit will not decay in the orchards for lack of markets while thousands of people in cities are deprived of the very fruit they need because it is not available in quality or at prices they can afford. This is only one phase of distribution that must be greatly improved. It now costs as much to get a bushel of potatoes from Hoboken across the Hudson River into the homes of the consumers of New York as it costs to raise that bushel of potatoes in Michigan and transport it all the way to Hoboken. The same is true of many other foods in many other cities. This is not merely a matter of transportation costs or of inefficiency in wholesale and retail methods. It is, rather, a lack of method. A new system will have to be provided. This is one of the important changes that we predict is going to occur.

Department stores continue to establish branches in suburban towns and in resort cities. For example, R. H. Macy and Company of New York City have their main store at Herald Square, doing as much as $1,000,000 worth of business a day. Branches are located at Parkchester in the Bronx, Flatbush in Brooklyn, and Jamaica in Queens. Macy's also owns subsidiaries as follows: L. Bamberger & Company, Newark, N.J., with a branch in Morristown; Davison Paxon, Atlanta, with branches at Macon, Augusta, and Columbus, Ga., and Columbia, S.C.; La Salle & Koch, Toledo, Ohio, with branches at Bowling Green and Tiffin; Macy's, San Francisco, formerly O'Connor Moffatt; and The John Taylor Dry Goods Company, Kansas City, Mo.

This establishment of chains of department stores has become common throughout the country. Many of the large stores such as Marshall Field, Gimbel's, and May's have bought up stores in other cities. The purpose of this was discussed when department stores were under consideration in Chapter V. The constant changes that are occurring in wholesale and retail cooperation and the changes in method that result in meeting the competition of chain stores are the most striking of our recent developments.

Training Employees.—For many years industrialists and business men in general were suspicious of classroom training for clerical positions. The schools of commerce at first met with skepticism and ridicule, but as they continued and made their work more practical from year to year they overcame a good deal of the skepticism that had prevailed. Now it is common practice for a large number of firms to send their minor executives to business schools and to pay their tuition provided they do the work with credit to themselves. This training has come to cover a large field: accounting, finance, all branches of marketing, commercial law, and management.

Where there is no school of commerce available, instructors in the various departments from schools in other cities are engaged to come to the plant and hold classes. Many firms—and again retailers are leaders in this branch of training—have established regular training departments, which are staffed by competent instructors, to give new employees a thorough training in the work for which they have been engaged. This contrasts very sharply with the long-established custom of having the new employee watch someone else, or of talking to him half an hour about the barest fundamentals of his job. This talking was usually done by a busy executive who begrudged giving up so much time to a beginner and who was not a teacher himself.

With clerks, this training comes jointly from the buyer and from the training department. The buyer periodically meets with his clerks and explains the new merchandise and why he made the various selections. Then, the member of the training department spends a considerable amount of time with new clerks giving the commonly accepted principles and practices of salesmanship, especially those that have been emphasized by the institution. Salesmen have been trained in various ways for a long time but it is only recently that the training has taken on a systematic form, and it is by no means uniform as yet. However, each year sees a better course of training for new employees in business. This helps to reduce the turnover, to reduce the number of mistakes, and to improve customer relations.

The Consumer Movement.—During the depression there was a widespread agitation for an improvement in labeling and classifying manufactured goods. Women's clubs were particularly active in the discussion. In this they were abetted by a few organizations that constituted themselves as authorities on all types of merchandise; for a small fee they would advise what were the best purchases on a very large number of items. Most of their information came from the government and could have been had by anyone on request merely for writing. However, these defenders of the public advertised that they had laboratories and skilled personnel who tested all and sundry goods from simple laxatives to high-powered automobiles. Some of the large department stores, one mail-order house, and the American Standards Association all contributed something to a study in cooperation with a committee from one of the large organizations of women.

Three objectives were finally selected for study:

1. Standardized grading.
2. More informative labeling.
3. A greater degree of consumer education.

While nothing has been done that could by any means be regarded as accomplishing any of these aims, there has been some progress. A Federal statute was enacted that requires the definite labeling of woolen fabrics, giving the percentage of virgin wool, etc. Also, the government is making available a great deal of information about consumers' goods. Much of this is reprinted by firms that make a business of advising on the quality of consumer products and selling their advice to the public. But the problem of labeling is so intricate and so many technical terms are required for accuracy that the improvement is far from what was hoped by those agitating for reform.

Standardized grading has made some progress. Some of the largest chains adopted a first-, second-, and third-quality grading for a limited line of products, but, at the time this was written, they were meeting with an indifferent acceptance by consumers. This was due in part to the failures of the stores to make satisfactory explanations either to the sales force or to customers. On the surface, such grading looks simple, but standards are difficult, and comparisons run into difficulties for which no solutions have been found. For example, there are three kinds of baking powder: cream of tartar, alum, and phosphate. In manufacture, cream-of-tartar baking powder is the most expensive, alum the least expensive. But to grade them comparatively is not possible. Who would undertake to give comparative grades to women's hats? "Good" coffee is the kind that one likes. In reality, each one must do his own grading. So it is with all tastes.

Consumer education involves a huge program. Women's magazines, schools of home economics, women's columns in newspapers, and many food manufacturers are doing much to educate buyers; but such education is a lifetime job, not something that can be accomplished at the women's club in an afternoon.

Manufacturers like to have their products understood and correctly used. That is the way business is built. But to use all the advertising space for consumer education simply does not sell goods. That is another way of saying that many buyers are looking for something that satisfies vanity rather than for real quality. The one who has the money has the right to dictate how it shall be spent, and the wise merchants and manufacturers are those who provide what the customer wants, not what they or anyone else thinks that he ought to have.

The Government Takes an Active Part.—The Federal government continues to take an active part in regulating and supervising much of the business of the country. With the exigencies of the recent war it became necessary to limit trading in many ways. The armed forces and their needs were the first consideration, and consumers' wants and conveniences were relegated to a secondary place. After hostilities ceased, the government was loath to relinquish many of the powers it had exercised. Through successive sessions of Congress, there have been many altercations over just how much authority the government should be given over business. Fixing minimum prices for the main agricultural products continues, that is, the government will lend farmers up to a certain amount on their crops. This may be below the price when the loan is made, but naturally prices will not drop below the loan limits.

The Federal Trade Commission has been delegated many new powers and seeks others. The allocation of many products, including steel and other metals, remains in force. The Federal Communications Commission retains what may be called plenary powers over broadcasting. It can revoke the license of any broadcasting company when it sees fit, and for them that is a power of life and death. The FTC in 1948 issued a ruling that upset the long-established practice of steel manufacturers in quoting a base price for steel, that is, all the buyers within a district would receive the same price including the freight charges. That this interfered with competition seemed evident to the FTC. Their ruling was taken to court and sustained by the Supreme Court. The ruling was, of course, not on the wisdom or justice of the FTC order but merely on its legality. As this is written, Congress is attempting to straighten out the multiple difficulties that this ruling has brought up in the steel industry.

These things are mentioned to indicate trends, not to argue as to whether they are good or bad. So many times the social effect of legislation depends upon the way it is administered that judgment may well be withheld.

State Regulation of Interstate Trade.—The Constitution of the United States specifically forbids the imposition of impost duties between states and, presumably, any tax on goods passing from one state to another. In spite of this, in the last few years means of evading or avoiding that provision of the Constitution have been found by a number of states. These restrictions to the free and unmolested movement of goods have taken three forms:

1. Restrictions in the use of highway trucks.
2. Taxing with a direct levy goods coming into the state.
3. Prohibiting the importation of some products because of health measures.

As a reason for the first measure, heavy trucks have frequently damaged highways not built to carry such weights as the huge loads impose. This is clearly a police regulation. The second plan, that of exacting the payment of a tax, is more or less of a subterfuge based on the rights of states to regulate their own taxing systems. If the law is purely and simply for the purpose of raising revenues, it is one thing; if it raises practically no revenue, but keeps out products that compete with home production, that is quite another matter. Yet, laws permitting both remain in force. The third provision again comes under police regulations regarding public health. It is invoked most often in the matter of milk and fruit. Where the purpose is honestly to safeguard health, it may be enthusiastically endorsed. Where it degenerates into a graft or a racket, it is to be vigorously condemned. The restriction of imported milk, except from dairies inspected by a local board of health, with no provision to force the board to make such inspection, may be highly prejudicial to the public interest. Again, the honest purpose of administration may determine whether the laws are beneficial or not. Our intention here is to raise the question of the trend. These restrictions have passed the crest and are declining, but judicial decisions continue to uphold the legality of most of the cases that get into court.

The Cooperative Movement.—As indicated in the section entitled Changes in Marketing, a new approach for many commodities seems necessary. The vast productive facilities of the United States cannot be completely utilized until sufficient purchasing power finds its way into the hands of all the people to enable them to buy and use the goods produced. This is the key problem—the problem that must be solved before production can be stepped up, employment increased, and many of the resulting social problems brought a little closer to solution. The recent rapid expansion of consumers' cooperation in the United States may point the direction of this new approach. The U.S. Department of Agriculture has taken an active interest in cooperative marketing. It has distributed many books and pamphlets on the subject and is equipped to make loans to cooperative societies. Some of these loans are made on very liberal terms.

In a consumers' cooperative organization the profits go back to the purchasers of goods in proportion to their purchases and make it possible for them to purchase additional goods without any increase in wages or lowering of prices. This cooperative principle offers a possible solution to the problem of how to distribute the plenty we are able to produce.

Of course, there are many problems of organization and operation yet to be solved before cooperation can play the important role in this country that it plays in the economic life of such countries as England, Sweden, and Finland.

Ninety years of actual testing, sometimes under the most unfavorable conditions, has proved that it is a practical and workable economic technique. Its remarkable rise in this country from a place of insignificance to an important position in some lines, such as farm supplies and gasoline, marks it as a trend that justifies careful consideration.

Cooperative marketing in disposing of farmers' crops has become an important and apparently a permanent factor. However, it is not so extensively employed now as it was 10 or 12 years ago. Possibly its superiority as a method may be limited to a few crops, sectional in nature. Perhaps its development was much too swift a few years ago. It may have been promoted too vigorously, so that organizing units proceeded more rapidly than managers and methods could be developed. The authors believe that the system not only will survive but will increase in importance. The cooperative provides farmers with a means of developing their markets which is not possible without pooling efforts.

* * * * *

The above are only suggestions and some of the authors' opinions. Many of the subjects mentioned are of first importance. Whether our guesses are right or wrong is not significant. That there are vast changes imminent is of the greatest importance. That the marketer must carefully chart his course by the omens and portents that day-to-day changes provide is the lesson taught by marketing history. This thought is expanded further in the following paragraph.

United States Markets of the Future.—The following section written for the *World Telegram* of Oct. 19, 1949, by a recognized student of economics and marketing, Thomas R. Carskadon, Chief of the Education Department of the Twentieth Century Fund, are reproduced here because they succinctly state what our future markets may be.

We Americans are a growing nation. Our birth rate, which dropped during the depression years of the 1930's, bounded upward during and after the war.

The best authorities now believe we shall continue to grow right through the coming decades. More of us will live here, work here, spend here. We ourselves offer a constantly expanding market for our expanding production.

Our average length of life is increasing. A baby born in 1901 could expect to live 50 years. Our babies today look forward to an average life of 69 years. As more of us live longer, the proportion of persons over 60 is rising. But as a nation we are by no means headed for the old-folks' home. The estimates show that the proportion of our people in the most productive age years of 20 to 60 probably will be greater throughout the 20th century than it was in the 19th.

These figures show that, as a long-term trend, our population is rising and so is our income. The whole tendency of our economic system is to bring up consumers from lower to higher income ranges. Over the years fewer families are left in the lower-income brackets and more get enough money to live comfortably.

Our yearly income per household in 1960 is likely to average at least $1,000 more than we received in 1940.

As a potential market for goods we Americans offer some inviting prospects. By 1960 we may fairly look forward to providing a total purchasing power

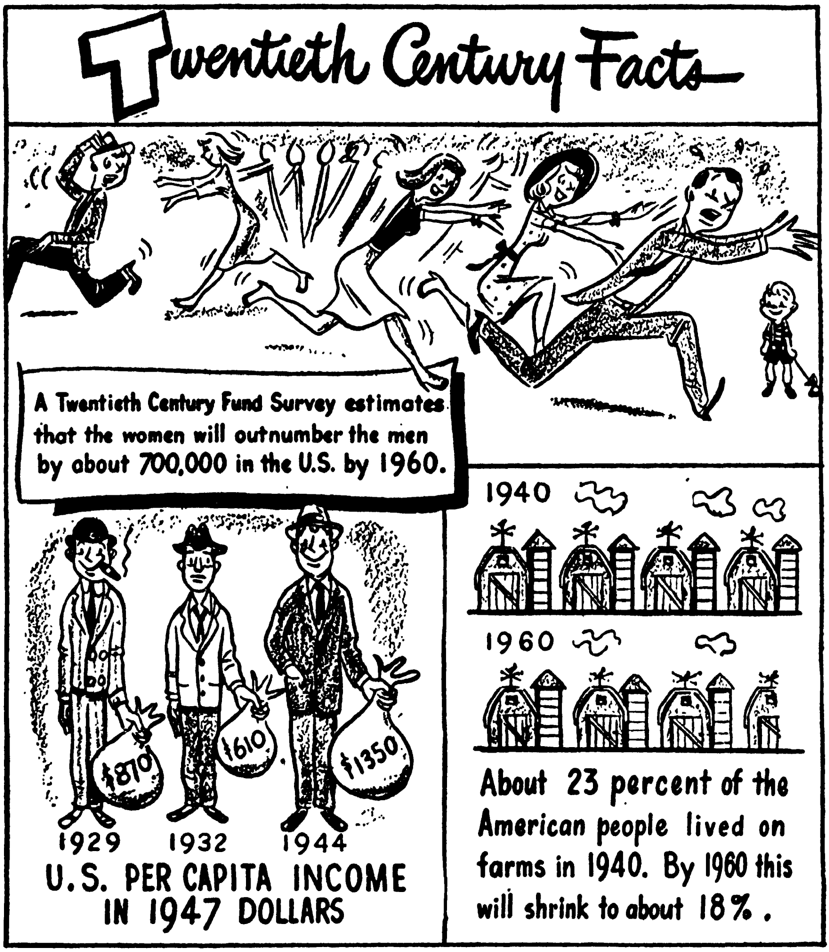

FIG. 73.—THE COMING SOCIAL CHANGES

two and a half times what it was in the worst year of the depression, about 75 per cent bigger than in the "boom" year of 1929, and nearly half again as large as 1941.

That is the kind of money which, taken together, we shall have to spend; and that is the kind of market that we ourselves offer for future American business.

After we get our income what do we spend it for? Taking all of us put together, nearly one quarter of all we spend as consumers goes for food and nonalcoholic beverages. In 1940 we spent about $16,400,000,000 for food. In addition we spent $3,600,000,000 for alcoholic beverages and $1,900,000,000 for tobacco.

The food industry is our country's largest. Before the war one out of every four workers worked in it—on the farm, in factories, in stores.

Americans today have a much better food supply for a healthful diet than our grandparents had.

Despite all our progress we haven't reached the goal of providing a properly balanced diet for all Americans. Some of our people simply haven't enough money to buy the proper kinds of food. Others can't or won't choose properly.

With our present knowledge we could have had a balanced diet in 1940 for every living American by spending just about 2 cents more per person per day.

We estimate that one-seventh of American families in 1950 and one-eighth in 1960 still will need improved diets. If every person in the country were to get an adequate diet for balanced nutrition, it would cost well above 38 billion dollars in 1950 and more than 41 billion dollars in 1960. Such is the outlook in the United States, one of the few countries where the supply of food is enough for every inhabitant.

We spend more for clothing, jewelry, and personal care than for anything else save food and shelter.

About 14 cents out of the average dollar we spend goes for clothes and personal care. Some 31,000 factories with more than 2,000,000 workers supply us with the clothing, cosmetics, and other adornments. In the trade are more than 20,000 wholesale firms, more than 200,000 retail stores, and more than 350,000 cleaning, repair, and service stores, beauty and barber shops.

One result is that in the main, we undoubtedly are one of the best-groomed and best-dressed peoples on earth. We take full advantage of the low-priced, mass-produced clothes that our economic system makes available to us. At the same time some of us haven't enough clothes to meet simple standards of health and decent appearance.

Looking toward the next ten years or so we are likely to continue to spend about 14 cents of our average dollar for clothes and personal care, just as we did in the years immediately before World War II. This would mean total expenditures of considerably more than 22 million dollars in 1960.

Our capacity to produce clothes is more than enough to supply every person in this country. If we can keep up high enough levels of production and jobs it should be possible to provide minimum standards of clothing or better for every last one of us.

A primary need is a home for all. Here we have our difficulties as well as our achievements. We are generally regarded as the best housed people in the world. We have, of course, millions upon millions of neat and comfortable homes. But we also have millions of miserable hovels, rural shacks, and city slums.

Bringing every American up to a decent minimum or above would require building 20 million new houses and apartments and repairing about 5½ million others by 1960.

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Questions and Problems

1. Show, by one or two illustrations, how the fact that our population is growing older affects our marketing economics?
2. To what extent has improved housing changed marketing economics?
3. Describe the three stages in the survival chronology of the manufacturers of a new product such as the automobile.
4. How has central-station electric service brought about a change in the size of manufacturing plants?
5. On the basis of the experience we have had with the radio, what is your feeling concerning the likelihood that television will ultimately replace the movies?
6. What are some of the factors that have contributed to an increased tempo of life since the First World War?
7. About how much money is spent in the United States by tourists each year? What are some of the business enterprises that benefit by the tourist trade?
8. Write a short article developing the statement, "It is primarily by means of the accumulation of information that the marketing processes can be made more efficient."
9. List as many changes as you can think of that must be made in the marketing operations of a large department store when such a store establishes branches.
10. What is the consumer movement?
11. What are three objectives of the Consumer Movement as outlined in the text?
12. Argue the position that the continued and increased assumption of regulative power by the Federal government may ultimately deny the businessman and the consumer alike their freedom in a democratic society.
13. Argue the reverse of the position stated in question 12.
14. List three ways of inhibiting the free and unmolested movement of goods between the states.
15. What is the central idea of the cooperative movement?

GLOSSARY

The teachers of marketing were the first to attempt to get a series of definitions for marketing terms that would be generally accepted. This work was done through the National Association of Marketing Teachers and was commenced in the early thirties. When this association combined with the American Marketing Society to form the American Marketing Association, the Committee was continued and enlarged. Professors R. S. Alexander of Columbia, and John Wingate and G. Rowland Collins of New York University completed most of the work for a long period of time. The Committee was again enlarged and its personnel has been changed a number of times. They have furnished reports at various intervals, which have been published.

In the October, 1948, issue of the *American Marketing Journal*, an extensive glossary was published by the Committee. In the following we have presented the majority of the definitions that were included but have omitted practically all the comments. It is the belief of the authors that if a definition is worth while it does not need to be commented on. If it is inadequate, the definition should be revised and perhaps made to include the information that might otherwise have gone into the comment. There are exceptions to this, but they should be treated as exceptions.

The authors have also included many terms which were published in the earlier edition of *Outlines of Marketing* but which were overlooked by the Committee. They have also excluded a few definitions that the Committee made and have submitted their own—these are indicated by an asterisk. This mark is also used to distinguish the authors' definitions in the former volume from those proposed by the Committee.

Accessory Equipment. See Equipment.

Advertising. Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.

It involves the use of such media as the following:

Magazine and newspaper space
Motion pictures
Outdoor (posters, signs, skywriting, etc.)
Direct mail
Store signs

Novelties (calendars, blotters, etc.)
Radio
Cards (car, bus, etc.)
Catalogues
Directories and references
Programs and menus
Circulars

This list is intended to be illustrative, not inclusive.

Comment. See Publicity for a definition of a kindred activity. It should be noted that retailers often do not regard display as a part of advertising but as a separate activity.

Advertising Research. See Marketing Research.

Agent. A middleman who negotiates purchases or sales or both but who does not take title to goods.

Comment. He usually performs fewer marketing functions than does the merchant middleman. He commonly receives his remuneration in the form of a commission or fee. He commonly does not represent both buyer and seller in the same transaction.

Examples are: broker, commission merchant, manufacturers' agent, selling agent, and resident buyer.

Assembling. The marketing function of concentrating goods or their control to facilitate sale or purchase.

Comment. The concentration involved here may affect a quantity of like goods or a variety of goods. It includes the assembling of adequate and representative stocks by wholesalers and retailers.

Auction. A public sale of goods to the highest bidder. The sale may be of the actual product, from sample, or printed description. The simplest form is the sale of household furniture and farm stock and implements. The organized auction refers to the incorporated exchanges or terminal markets. (See Commodity Exchange.)*

Audit Bureau of Circulations. An incorporation whose members are newspaper and magazine publishers, advertising agents, and advertisers. The one activity of the "A.B.C.," as the Audit Bureau is commonly called, is to audit the circulation of its publisher members and supply copies of audits to all members.*

Branch House. An establishment maintained by a manufacturer or a wholesaler, detached from the headquarters establishment and used primarily for the purpose of carrying stocks of, selling, and delivering his product.

Branch Office. An establishment maintained by a seller, detached from the headquarters establishment and used for the purpose of selling his product or service.

Comment. The characteristic of the branch house that distinguishes it from the branch office is the fact that it is used in the physical storage, handling, and delivery of merchandise. Otherwise the two are identical.

Branch Store. A subsidiary retail business owned and operated by an established store and smaller than, or carrying a much less extensive line of merchandise than, the Parent Store.

Comment. See Parent Store for a kindred term.

Brand. A name, term, symbol, or design, or a combination of them which identifies the goods or services of one seller or group of sellers and distinguishes them from those of competitors.

Comment. A brand may include a brand name, a trade-mark, or both. The term brand is sufficiently comprehensive to include practically all means of identification except perhaps the package and the shape of the product. All brand names and all trade-marks are brands or parts of brands but not all brands are either brand names or trade-marks. Brand is the inclusive, general term. The others are more particularized.

Brand Name. A brand or part of a brand consisting of a word, letter, group of words or letters comprising a name which identifies the goods or services of a seller or group of sellers and distinguishes them from those of competitors.

Comment. The brand name is that part of a brand which can be vocalized—the utterable quality resident in it. To illustrate, the brand under which the Buick car is sold is the name "Buick" printed in script and set in the familiar rectangle design which usually appears somewhere on this make of car. This combination also happens to conform to the legal requirements of a trade-mark.

Broker. An agent who does not have direct physical control of the goods in which he deals but represents either buyer or seller and does business for his principal.

His powers as to prices and terms of sale are usually limited by his principal.

Budget. A designated sum set apart for some particular purpose, as an advertising budget, sales budget, research budget, etc. Budget differs from appropriation in that the former is more of a program, while the latter is a specific grant.*

Business or Industrial Goods. Goods which are used in producing consumers' goods, other business or industrial goods, and services or in facilitating the operation of an enterprise. They include land and buildings for business purposes, equipment (installation and accessory), operating supplies, raw materials, fabricated materials.*

Buyers. In addition to the common usage, this term designates those professionally engaged in making purchases for others, such as resident buyers.*

Buying Power. See Purchasing Power. Purchasing Power is preferred.

Canvasser. See House-to-House Salesman.

Cash-and-Carry Wholesaler. See Wholesaler.

Chain Store. A group of retail stores of essentially the same type, centrally owned and with some degree of centralized control of operation.

Channel of Distribution. The route which a product follows in passing from one marketing agent to another in going from producer to consumer. The marketing agents who pass the product along are commonly called "middlemen."*

Cold Storage. A refrigerated warehouse.*

Collective Bargaining. An arrangement whereby a representative or representatives are chosen to bargain, buy, or sell for a group. The term is used primarily in marketing labor, but it may also relate to buying agricultural supplies and equipment through an association. Collective bargaining is limited by legislation to labor, agriculture, and certain types of consumers' cooperatives.*

Commercial Credit Co. An incorporation organized to relieve retailers, sales agencies, etc., of the financial burden involved in selling goods on installment. An automobile sold on the installment plan does not become the property of the buyer until the last payment is made. The credit company which advances to the seller the cash to pay for the automobile accepts an assignment of ownership subject to a sales contract which is signed by the buyer. The credit company collects the payments or, if they are not paid, repossesses the automobile. The large credit company is often owned by the manufacturer, or a group of manufacturers, the sale of whose product it finances.*

Commissary Store. A retail store owned and operated by a company or governmental unit to sell primarily to its employees.

Nongovernmental establishments of this type are often referred to as "Company Stores" or "Industrial Stores."

Commission Merchant, Commission House. An agent, transacting business in his own name, who usually exercises physical control over the goods consigned to him and negotiates their sale.

The commission merchant usually enjoys broader powers as to prices, methods, and terms of sale than does the broker although he must obey instructions issued by his principal. He generally arranges delivery, extends necessary credit, collects, deducts his fees, and remits the balance to his principal.

Commodity Exchange. An organized trading center where members buy and sell commodities to members. The sales may be "spot" or "futures," depending upon whether delivery is to be immediate or at a future date. Sales are made by sample or description, and delivery is usually through warehouse receipts.*

Company Store. See Commissary Store.

Consumer. A comprehensive term used to designate one who consumes, buys, or employs goods or services. Those who buy for resale obviously are not consumers and *goods bought for resale are not consumers' goods to them.**

Consumer Movement. A more or less organized movement by women's clubs and other similar organizations to secure more instructive labeling by manufacturers, the adoption of uniform standards, and a common designation of grades which have been standardized.*

Consumer Research. See Marketing Research.

Consumers' Cooperative. An association of ultimate consumers organized to purchase goods and services primarily for use by or resale to the membership.

Consumers' Goods. Goods destined for use by the ultimate household consumer and in such form that they can be used by him without further commercial processing.

Comment. Certain articles, for example, typewriters, may be either consumers' goods or industrial goods depending upon whether they are destined for use by the ultimate household consumer or by an industrial, business, or institutional user.

Convenience Goods. Those consumers' goods which the customer usually purchases frequently, immediately, and with the minimum of effort.

Cooperative Advertising. "The common effort of competitors to increase their sales, improve market conditions, combat a common enemy, or in other ways to improve the industry in which they have a mutual interest by advertising." (Hugh E. Agnew, *Cooperative Advertising by Competitors.*) The term is variously used to indicate the combined advertising campaigns of manufacturer and distributor, or the joint effort of two merchants or manufacturers not directly competing to advertise their products jointly.*

Cooperative Marketing. The process by which groups composed of producers, middlemen, consumers, or combinations of them act collectively in buying or selling or both.

Cooperative Store. See Consumers' Cooperative Store.

Dealer's Brand. See Private Brands.

Demonstrating. A more comprehensive term than sampling. It comprises not only showing the product but showing how to use it to the best advantage.*

Department Store. A retail store which handles a wide variety of lines of goods, such as women's ready-to-wear and accessories, men's and boys' wear, piece goods, small wares, and house furnishings, and which is organized into separate departments for purposes of promotion, service, and control.

Examples of department stores are: R. H. Macy and Company in New York, Marshall Field and Company in Chicago, J. L. Hudson and Company in Detroit, Jordan Marsh Company in Boston, Rich and Company in Atlanta, The Emporium in San Francisco, Garver Brothers in Strasburg, Ohio, and A. B. Wyckoff in Stroudsburg, Pennsylvania.

Direct Selling. The process whereby the producer sells to the user, ultimate consumer, or retailer without intervening middlemen.

Distribution. The Committee recommends that the term "distribution" be regarded and used as synonymous with "marketing."

For a specialized sense in which it is sometimes used in this field see Physical Distribution.

Comment. In using this term, marketing men should clearly distinguish it from the sense in which it is employed in economic theory, that is, the process of dividing the fund of value produced by industry among the several factors engaged in economic production.

Distribution Cost Analysis. The study and evaluation of the relative profitability or costs of different marketing operations in terms of customers, marketing units, commodities, territories, or services.

Drop Shipment Wholesaler. See Wholesaler.

Exclusive Agency Selling. That form of selective selling whereby sales of an article or service or brand of an article to any one type of buyer are confined to one dealer or distributor in each area, usually on a contractual basis.

Facilitating Marketing Agencies. Those agencies which perform or assist in the performance of any one or a number of the marketing functions but which neither take title to goods nor negotiate purchases and sales. Common types are banks, railroads, storage warehouses, commodity exchanges and markets, stockyards, insurance companies, graders, inspectors, advertising agencies, market counselors, cattle loan companies, furniture markets, packers, and shippers.*

Factor. (1) A type of commission merchant who often advances funds to the consignor, identified chiefly with the raw cotton and naval stores trades. (2) A specialized commercial banker, performing the function of financing for producers of and dealers in many varieties of products and occasionally combining this function with that of selling.

Federal Trade Commission. A board of five men appointed by the President to eliminate unfair trade practices—particularly to prevent trade abuses prohibited by the Clayton and Robinson-Patman Acts. The Trade Commission, as it is usually called, can act upon informal complaints, or it can initiate proceedings on its own authority. It prosecutes the complaint before one of its members who acts as judge, and, sitting together as a jury, brings in a verdict, after examining the evidence produced. It cannot inflict punishment, except to issue a "cease and desist" order. If this order is not obeyed, or if there is an appeal, a Federal court will inflict punishment, or review the case, but no new evidence may be offered.*

Forecasting. The effort to deduce from market study, past records, and appropriate indexes a reasonably accurate estimate of sales possibilities for a definite future period.*

Functional Middleman or Agent. A middleman who negotiates purchases or sales but who does not take title to goods. He usually performs a somewhat more limited number of marketing functions than does the merchant middleman. He commonly receives his remuneration in the form of a commission or fee. Examples are the broker and the commission merchant.*

General Store. A retail store which carries a variety of nonrelated items of merchandise, usually including groceries, hard goods, and soft goods, and which is not departmentized.

Comment. The type is most generally and most typically found in country districts. However, the term is not confined to stores serving the country and village trade but includes retail establishments in cities as well.

Grading. Grading is the process of sorting individual units of a product according to predetermined standards or classes.

Gross Margin, Gross Profit (For purposes of marketing). Sales less cost of goods sold (adjusted for inventory depreciation and merchandise shortages).

Hedging. Buying and selling at the same time with different dates of delivery. A common purpose is to protect an operator from loss owing to a change in price. It is one of the forms of future trading.*

House-to-House Salesman. A salesman who is primarily engaged in making sales direct to ultimate consumers in their homes.

Comment. The term "canvasser" is often employed as synonymous with house-to-house salesman. Because of its extensive use in fields other than marketing, this usage is not recommended.

Independent Store. A retail store which is controlled by its own individual ownership or management rather than from without, except in so far as its management is limited by voluntary group arrangements.

Comment. This definition includes a member of a voluntary group organization.

Industrial Distributor. A merchant who operates on a large scale in providing supplies, other than raw materials, to manufacturers and transportation companies.*

Industrial Goods. Goods which are destined for use in producing other goods or rendering services as contrasted with goods destined to be sold to the ultimate consumer.

They include land and buildings for business purposes, equipment (installation and accessory), maintenance, repair and operating supplies, raw materials, fabricated materials.

Industrial Store. See Commissary Store.

Installment Selling. A transaction which gives the buyer possession of a product under a contract which provides for future payment. Usually ownership is withheld until the payments are all made. It is the same as partial-payment or deferred-payment selling.*

Jobber. This term is now widely used as a synonym of "wholesaler."

Limited Function Wholesaler. See Wholesaler.

Limited Price Variety Store. See Variety Store.

Mail-order House (Retail). A retail establishment that receives its orders and makes its sales by mail.

Comment. Other types of retail stores often conduct a mail-order business, usually through departments set up for that purpose, although this fact does not make them mail-order houses.

Mail-order Wholesaler. See Wholesaler.

Manufacturer's Agent. An agent who generally operates on an extended contractual basis; sells within an exclusive territory; handles noncompeting but related lines of goods; and possesses limited authority with regard to prices and terms of sale.

He may be authorized to sell a definite portion of his principal's output.

Manufacturer's Brand. See National Brand.

Manufacturer's Store. A retail store owned and operated by a manufacturer.

Such stores may serve as a channel for the distribution of the manufacturer's products; in other cases they may be used for experimental or publicity purposes.

Market. (1) An aggregate composed of a prospective buyer (or buyers), and a seller (or sellers), that brings to focus the conditions and forces which determine prices. (2) The aggregate demand of the potential buyers of a commodity or service. (3) The place or area in which buyers and sellers function. (4) (As a verb) To perform business activities that direct the flow of goods and services from producer to consumer or user.

Market Analysis. A subdivision of marketing research which involves the measurement of the extent of a market and the determination of its characteristics.

Market Financing. That part of the general business function of providing and managing funds and credit which is directly related to the transactions involved in the flow of goods and services from producer to consumer or industrial user.

Comment. This definition includes the provision and management of funds needed to finance the carrying of stocks and the granting of mercantile and retail credit, including installment credit.

Market Index. An indicator of the activity of a special industry or of the actual or potential capacity of a given district to absorb an article or service offered for sale.*

Market Potential. The expected sales of a commodity, a group of commodities, or a service for an entire industry in a market during a stated period.

Marketing. The performance of business activities that direct the flow of goods and services from producer to consumer or user.

The task of defining Marketing may be approached from at least three points of view. (1) The "legalistic," of which the following is a good example: "Marketing includes all activities having to do with effecting changes in the ownership and possession of goods and services." (2) The "economic," examples of which are:

"That part of economics which deals with the creation of time, place, and possession utilities."

"That phase of business activity through which human wants are satisfied by the exchange of goods and services for some valuable consideration."

Such definitions are apt to assume somewhat more understanding of economic concepts than is ordinarily found in the market place. (3) The "factual or descriptive" of which the definition suggested by the Committee is an example. This type of definition merely seeks to describe its subject in terms likely to be understood by both professional economists and businessmen without reference to legal or economic implications.

Marketing-facilitating Agencies. Those agencies which perform or assist in the performance of one or a number of the marketing functions but which neither take title to goods nor negotiate purchases or sales.

Common types are banks, railroads, storage warehouses, commodity exchanges and markets, stockyards, insurance companies, graders and inspectors, advertising agencies, firms engaged in marketing research, cattle loan companies, furniture marts, and packers and shippers.

Marketing Function. A major specialized activity performed in marketing.

There is no generally accepted list of marketing functions. Probably those most generally recognized are transportation or traffic management, storage, market financing, risk management, selling, grading, assembling, standardization, and buying.

Marketing Plan. A program covering all methods and procedures for marketing the product or products of a company.

Marketing Policy. A course of action established to secure consistency of marketing procedure under recurring and essentially similar circumstances.

Marketing Research. The gathering, recording, and analyzing of all facts about problems relating to the transfer and sale of goods and services from producer to consumer.

Among other things it involves the study of the relationships and adjustments between production and consumption, preparation of commodities for sale, their physical distribution, wholesale and retail merchandising, and financial problems concerned. Such research may be undertaken by impartial agencies or by specific concerns or their agents for the solution of their marketing problems.

Merchandising. The planning involved in marketing the right merchandise or service at the right place, at the right time, in the right quantities, and at the right price.

Comment. This term has been used in a great variety of meanings, most of them confusing. The usage recommended by the Committee has the advantage that it adheres closely to the natural and essential meaning of the word.

Merchandising Control. The collection and analysis of statistical data of sales, stocks, and pricing practices as a guide to the profitable purchase and sale of merchandise.

Merchant. A middleman who takes title to the goods he stocks and sells.

Such middlemen usually perform most or all of the distributive functions.

Middleman. A business concern that specializes in performing functions or rendering services immediately involved in the purchase and sale of goods in the process of their flow from producer to consumer.

Middlemen are of two types: merchants, and agents.

Missionary Salesman. A salesman employed by a manufacturer to make contact with and work with the customers of his distributors, usually for the purpose of developing good will and stimulating demand, helping or inducing them to promote the sale of his employer's goods, helping them train their salesmen to do so, and often taking orders for delivery by such distributors.

National Brand. A manufacturer's or producer's brand usually enjoying wide territorial distribution.

Natural Products. Those goods that come directly from, or are "produced" by, nature without the aid of man. The major divisions of this group are products such as land, minerals, forest products, and the wild-animal life of both land and water. (Pyle, *Marketing Principles.*)

Net Profit, Net Gain, Net Income. Final income available for proprietary accounts (either before or after deduction of Federal and State income taxes as specifically indicated).

It includes operating profit together with other net income.

Net Sales. Total sales less returns, allowances, and discounts granted customers. (Pyle, *Marketing Principles.*)

Normal Price. The price which over a long period of time attracts just enough merchandise so that the price remains nearly constant.*

Operating Profit (For purposes of marketing). Gross margin (gross profit), less operating expenses (including salaries of managers, whether proprietors or employees), fixed plant and equipment cost, and sometimes interest on invested capital.

Organized Market. A group of traders, operating under recognized rules for the purpose of buying and selling a single commodity or a small number of related commodities.

Comment. Examples are the Chicago Board of Trade, the New York Cotton Exchange, and the New York Produce Exchange.

Parent Store. A retail store that owns and operates a Branch Store or a group of Branch Stores.

Peddler. A person who carries his goods or wares, soliciting and selling customers wherever they may be found.

Personal Selling. Oral presentation in a conversation with one or more prospective customers for the purpose of making sales.

Physical Distribution. The movement and handling of goods from the point of production to the point of consumption or use.

Policy Formation. The establishment of a course of action to be followed by a firm's executives under existing conditions.*

Predatory Price Cutting. The competitive device of selling merchandise or a service below purchase price or cost of production. This term does not include the sale at below-cost prices of unseasonal or perishable merchandise.

Comment. This term is frequently used to include the two ideas of selling below cost and of selling at such levels with the motive of injuring a competitor.

Price Cutting. Offering merchandise or a service for sale at a price below that recognized as usual or standard by the buyers and sellers in a market.

Price Maintenance. The exercise of control over the resale price of branded merchandise sold for distribution.*

***Printers' Ink* Model Statute.** A uniform law enacted in about 30 states to prevent false advertising. It provides that "offering an advertisement that is false, deceptive, or misleading" is a misdemeanor. It gets its name from *Printers' Ink,* the publication that first promulgated it as a proposed enactment for each state.*

Private Brand. Commonly and loosely used to designate a middleman's (or distributor's) brand as distinguished from a manufacturer's or producer's brand.*

The Committee recommends that this use be discouraged and that the synonymous terms "middleman's brand" and "distributor's brand" be substituted for "private brand."

Producer's Brand. See National Brand.

Publicity. Any form of commercially significant news about a product, an institution, a service, or a person published in space or radio time that is not paid for by the sponsor.

Purchasing Power, Buying Power. The capacity to purchase possessed by an individual buyer, a group of buyers, or the aggregate of the buyers in an area or a market.

Raw Materials. Those industrial goods which in part or in whole become a portion of the physical product but which have undergone no more processing than is required for convenience, protection, or economy in storage, transportation, or handling.

Retail Cooperative. A group of independent retailers organized to buy cooperatively either through a jointly owned warehouse or through a buying club.

Their cooperative activities usually include operating under a group name, joint advertising, and cooperative managerial supervision.

Retailer. A merchant or business establishment that sells mainly to the ultimate consumer.

Comment. The retailer is to be distinguished by the conditions surrounding the sale rather than the procurement of the goods in which he deals. His essential distinguishing mark is the fact that his typical sale is made to the ultimate consumer.

Retailer's Brand. See Private Brand.

Retailing. The activities incident to selling to the ultimate consumer. The goods sold may be produced, bought, or carried in stock by the seller.

Rochdale Store. A consumers' cooperative retail store, operated generally on the principles laid down by the originators of the consumer cooperative movement in Rochdale, England, in 1844. The original store was known as the "Toad Lane Stores," and was organized by 28 weavers with a capital of $140.*

Sales Budget. An estimate of the probable dollar sales and probable selling costs for a specified period.

Comment. In general this phrase is used to designate the amount of money that the sales manager requires for conducting his department. The use of the term to mean "estimated future sales" is rare and unjustified.*

Sales Control. A system of supervision involving the use of such devices as records, statistical analyses, correspondence, and personal contact for the purpose of carrying out or adjusting marketing policies and plans.

Sales Forecast. An estimate of dollar or unit sales for a specified future period under a proposed marketing plan or program.

The forecast may be for a specified item of merchandise or for an entire line; it may be for a market as a whole or for any portion thereof.

Sales Management. The planning, direction, and control of personal selling, including recruiting, selecting, training, equipping, assigning, routing, supervising, paying, and motivating as these tasks apply to the personal sales force.

Sales Manager. The executive who plans, directs, and controls the activities of salesmen.

Comment. This executive may and often does perform broader functions in the marketing work of his company but the essential nature of his position lies in his relation to the personal selling work of the firm.

Salesmanship. Any paid form of personal presentation of goods, services, or ideas to an individual or a group to persuade him or them to buy the goods, services, or to act upon an idea which has commercial significance to the seller.*

Sales Planning. The work of setting up objectives for marketing activity and of determining and scheduling the steps necessary to achieve such objectives.

Comment. This term includes not only the work of deciding upon the goals or results to be attained through marketing activity but also the determination in detail of exactly how they are to be accomplished.

Sales Potential. An estimate of the volume of sales that can be made in a given territory. It may be either for one firm or for the industry.*

Sales Promotion. In a specific sense, those sales activities that supplement both personal selling and advertising and coordinate them and help to make them effective, such as displays, shows and expositions, demonstrations, and other nonrecurrent selling efforts not in the ordinary routine. In a general sense, sales promotion includes personal selling, advertising, and supplementary selling activities.

Sales Quota. A sales goal assigned to a marketing unit for use in the management of sales efforts.

It applies to a specified period and may be expressed in dollars or in physical units.

Comment. The quota may be used in checking the efficiency, stimulating the efforts, or in fixing the payment of individual salesmen or groups of salesmen or other personnel engaged in sales work.

A quota may be for a salesman, a territory, a branch house, or for the company as a whole.

Sales Research. See Marketing Research.

Selective Selling. The policy of selling only to dealers and distributors who meet the seller's requirements, such as size of orders, volume of purchases, profitability, or area or type of operations.

Selling. The personal or impersonal process of assisting and/or persuading a prospective customer to buy a commodity or a service or to act upon an idea *which has commercial significance to the seller.**

Selling Agent. An agent who operates on an extended contractual basis; sells all of a specified line of merchandise or the entire output of his principal, and usually has full authority with regard to prices, terms, and other conditions of sale. He occasionally renders financial aid to his principal.

Service Wholesaler. See Wholesaler.

Services. Intangible or personal activities or anticipated satisfactions which are offered for sale.* (Sometimes also the lending or renting of goods or equipment.)

Shopping Goods. Those consumers' goods which the customer in the process of selection and purchase characteristically compares on such bases as suitability, quality, price, and style.

Examples of goods that most consumers probably buy as shopping goods are: millinery, furniture, dress goods, men's and women's ready-to-wear, shoes, jewelry, and residential real estate (not bought for purposes of speculation).

Simplification. The process of reducing the varieties of goods within a line offered for sale. It involves reducing the number of articles, parts, materials, models, styles, grades, colors, sizes, price lines, brands, designs, etc.

Specialty Goods. Those consumers' goods on which a significant group of buyers characteristically insists and for which they are willing to make a special purchasing effort.

Examples of articles that are usually bought as specialty goods are: specific brands of fancy groceries, watches, men's shoes, and possibly automobiles.

Specialty Salesman. A salesman, other than retail, who specializes in the sale of one product or a few products of a seller's line.

Specialty Shop. See Specialty Store.

Specialty Store. A retail store that makes its appeal on the basis of a restricted class of shopping goods.

Large specialty stores, if organized into departments, are called "departmentized specialty stores." Small specialty stores in certain trades are sometimes called "specialty shops."

Standardization. The determination of basic limits or grades in the form of specifications to which manufactured goods must conform and classes into which the products of agriculture and the extractive industries may be sorted.

Storage. The marketing function that involves holding goods between the time of their production and their final sale.

Store Unit. A single retail establishment of a chain store system or other group, such as a voluntary, cooperative, or ownership group.

Super Market. A large self-help food store, usually, but not always, located outside the main shopping center of the city and supplying parking space for customers. Self-help and size are its most distinguishing features. It usually handles foods and household supplies.*

Supplies. Those industrial goods which do not become a part of the physical product or which are continually exhausted in facilitating the operation of an enterprise.

Examples are fuel, lubricants, stationery, typewriter ribbons, cleaning materials, etc.

Trade Barriers. Restrictions placed upon the free movement of goods from one state to another. They are of three kinds: hygienic restrictions, licenses (for trucks, etc.), and use taxes imposed by states into which goods are taken for sale.*

Trade-mark. A brand that is given legal protection because it is capable of exclusive appropriation; because it is used in a manner sufficiently fanciful, distinctive, and arbitrary; because it is affixed to the product when sold; or because it otherwise satisfies the requirements set up by law.

Trade-mark is essentially a legal term and includes only those brands or parts of brands which the law designates as trade-marks.

Trade Name. The word or words by which the public recognizes a product. "Irish lace," "Castile soap," and "Pennsylvania oils" are names of origin that have come to be associated with certain qualities. Some trade names like "Sunkist," "Gold Dust," and "Ivory" are also trade-marks. (Agnew and Hotchkiss, *Advertising Principles.*)

Trading Area. A district whose boundaries are usually determined by the economical buying or selling range for a commodity or group of related commodities from a center of distribution.

Traffic Management. The planning, selection, and direction of all means of transportation involved in the movement of goods in the marketing process.

Truck Wholesaler. See Wholesaler.

Ultimate Consumer. One who buys or uses goods or services to satisfy personal or household wants rather than for resale or use in business, institutional, or industrial operations.

Comment. There seems to be a growing tendency to drop the word "ultimate" from this term. The Committee recommends that this tendency be encouraged.

Unit Store. (1) Sometimes used as synonymous with independent store when applied to concerns handling a limited line of goods, (2) sometimes used to indicate a retail store handling an assortment of one line or several closely related lines of merchandise, (3) sometimes used to mean an individual unit of a chain-store system, (4) any store in a single location.*

Variety Store. A retail store that handles a wide assortment of goods usually of a low or limited price.

Examples are the almost extinct five-and-ten-cent store and the up-to-a-dollar store.

Voluntary Group. A group of retailers each of whom owns and operates his own store and is associated with a wholesaler to carry on joint merchandising activities and who are characterized by some degree of group identity and uniformity of operation.

Such joint activities have been largely of two kinds; cooperative advertising and group control of store operation. Also frequently called a "voluntary chain."

Wholesaler. A merchant middleman who sells to retailers and other merchants and to industrial, institutional, and commercial users but who does not sell in significant amounts to ultimate consumers.

In the basic materials, semifinished goods, and tool and machinery trades merchants of this type are commonly known as industrial "distributors," or "supply houses."

Wholesaler's Brand. See Private Brand.

INDEX