MARKETING

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Delivered before Army Industrial College
January 25, 1929

The subject that I am privileged to speak to you on is indeed a big one. It is almost impossible to do justice to it in the time that is mine, but it is my hope at this time, rather than to attempt explanations of any phenomena that we may come in contact with, to set before you the nature of the problem and thus probably to stimulate your interest and, as you are undoubtedly well informed, our libraries are replete with sources of information to which you might apply to seek the answers to questions that I may be able to raise in your minds.

Thinking the matter over last night, I thought I might at this time do two things. The first would be to place within the entire scope of economic activity the subject of marketing, to show it in its relation to other phases of economic or business life, and secondly, to indicate the breadth of the problem and perhaps show briefly some of the methods used by great industries.

As you well know, all economic activity begins within the individual himself and we will find the answer to many of the great underlying economic principles within ourselves, because it is within us that the problems are created. The motive and incentive to all economic effort comes from within us. It is the economic demands which we possess, the desire for the consumption of economic goods, first of all for the necessities, and incidentally for the comforts, of life that compel us to economic efforts. I do not believe that

any of us work simply for the joy that we get out of work. With most of us it is the only method we may adopt to satisfy our wants. We find in economics that we first center all the wants that are inherent in man, we find stimulation to economic endeavor, and we find in the field of economic consumption the manner in which the wants of man are satisfied.

Having a conception of fundamental merchandizing, the economist then studies how these wants may be satisfied, and does it thru what he calls economic production. "Economic production" is a full interpretation of the term and we can wholly appreciate the distinction subsequently made by the economist.

This production does not involve the creation of material because man is not equipped to create material. There is no material, no more substance than there is at the present time, so that, to the economist, economic production does not involve the creation of matter but rather the rearrangement of what he calls utilities, and by utilities he can satisfy his wants. The economist therefore considers the wants. When the house-wife assembles yeast, flour, water and salt and permits the process of fermentation to take place, she has a loaf of bread. That, to the economist, is wheat rearranged in a new form. We find that by changing the substance it has a greater capacity to satisfy our desires than it possessed in its original form.

So, by rearranging existing matter the economist gives to it form utility,- one phase of economic production, but not the only one. There are others For instance, when the tree is cut down in the virgin forest and brought from the forest to the lumber mill it has greater usefulness to man, so it is apparent that by simply

moving existing matter from one place to another we increase its value for civilization. It is no more essential that shoes be created from the sources from which they are made, it is simply the transportation of a commodity from one place to another, so we must come to the conclusion that those who assist in the process of transportation, and thus create utilities, play an important part in economic production.

It is sometimes necessary, because of the nature of the process of production,to keep the fruits of production over a period of time in which the demand for that product is less than at a later period of time when the demand necessitates it. Perhaps the best example, at this time of the season, is ice. The lakes of New England will very soon be the scene of activity in the cutting of ice. It has some value now, but in July and August it will be much increased. Then the system of marketing will begin.

The aim of our production is to create a utility want situation. Therefore, steps must be taken before consumption ends and the process of production begins, to bring the goods to the immediate possession of the ultimate consumer. So the utilities of bread, the shoe, and the ice are brought to you and to me for our use. Production is a limitation upon consumption. We obviously cannot consume more than we produce, and although we are sometimes prone to believe that production has ended, in reality it has not ended until we, the ultimate consumers, obtain the physical possession of the products of industry and employ them for the purpose for which they were originally created.

Perhaps it is better to refer to this problem as "marketing" rather than to give it the term "distribution" because there is a difference between the two. To the business man in the term distribution is embraced the physical apportionment of the product, but to the economist it is the sum total of distribution apportioned or divided among labor, capital, profits, etc. The economist means the economy of planning among those who were participants in the creation of utilities, and upon analysis we find certain well-defined factors that are responsible for human production First, labor, second, natural resources, and third, the factor called business enterprise or working ability.

That is the nature of the problem of the economist. His problem is twofold. He has to distribute wages to labor and the profits to the business enterprise. The survey of business to which he concerns himself first of all is--why does labor receive, in the principles of distribution, the amount that it does? Distribution means the physical distribution of the product of the industry, but the term "marketing" is employed both by the business man and the economist. It means the same process to the economist that it means to the business man. It is the process where the utility is carried to the point of ultimate consumption.

There are a number of problems suggested by the term "marketing". The problem is made complicated, first of all, by the nature of the market itself. If you take a bird's-eye-view of this country of ours with its millions of people and millions of square miles of territory, you will find, first of all, that for geographical reasons the problem of marketing is a most intricate one.

There are 81 cities in the United States having a population of 100,000 or over, and of these 81 cities, 60 or more are east of the Mississippi River. This is one problem of distribution.

Another problem rises out of the fact that nearly 60% of our people live in the country. Therefore, before you can analyze completely the process of marketing, you must have a full appreciation of where the market is and how it would affect the system according to which all distribution takes place. Having analyzed fully the whole situation, the problem would not yet be completed. Economic and social conditions would have to be studied to find the proper method of physically distributing to our people and it would be necessary, not only to consider where the people are located, but also to conform to the particular type of commodity. Not only would we find differences in the economic and social conditions of the people, but we would find a vast difference in their economic demands. This is an explanation of the difference that exists in marketing methods--the difference that exists by reason of the differences in the economic demands of the people.

This is illustrated, in a more or less homely way, by an attempt made by an underwear manufacturer in New York City to obtain from the people their idea of what was wanted by the general public. The company found the following statistics to be true, showing the difference, in demand, between men:

23% of those who were interviewed preferred a middle-weight, two-piece wool suit, 22% preferred a middle-weight one-piece

union suit, 15% preferred a nainsook cotton union suit, 9%, a heavy wool union suit, 8% a balbriggan cotton union suit, 7% preferred a heavy two-piece union suit, and from 5% to 11% had scattered and different views. The analysis went further. They were questioned with regard to color and whether they preferred the weight to the fit, and some were concerned with weight and some with fit, and some with both. All indicating the difference that exists among people in the demand for a commodity that we think is apparently stabilized.

If we were to analyze the demands of the house-wives, we would find a similar situation. We would find the woman who prefers the Cash and Carry System, the woman who prefers to stay at home and order by telephone from a person in whom she has confidence, and the woman who goes to a specialty store to make her purchases.

Obviously, there are different methods that can be employed in the process of marketing, and I am going to consider, very briefly, two or three specific cases to show the different methods that may possibly be employed.

The shoe industry is interesting for a number of reasons. Everyone, of course, must have shoes. It is a highly specialized type of industry and furnishes a typical illustration of conditions that might exist in stable commodities. We can make no general statement, another type of commodity should be marketed in some other way. Not only are commodities marketed in different ways, but identical commodities are marketed in different ways. Even at the present time, there is no complete statistical survey of the subject upon which we might predicate a contention that one type of marketing is superior

to another. If we had such a statistical survey we could get from it the cost of distribution--the actual expense of marketing.

We might eliminate certain phases of our marketing factors, perhaps, but the question that remains is whether or not we have eliminated their expense. That is something that we shall see shortly.

In production the manufacturer may sell his product, first, only at wholesale, second, only to retailers, and third, he may divide his production,- a portion to wholesale and part to retail. Then he has four possible selections for the type of retailer to whom he would sell his product. First, to the individual specialist shop, second, to the large department stores, third, to the chain stores, and fourth, to the mail order house.

We learn from the notices in the press that there is being contemplated, at the present time, the establishment of a branch of one of the large mail order houses in the District of Columbia. This is causing a lot of discussion among local merchants. I asked one the other night what the introduction of the Sears-Roebuck plant would mean to his particular type of business and he was of the opinion that it would only abolish the bargain basement, the idea being that the competition would only affect the buyers who patronize the bargain basements.

The opening of the Sears-Roebuck plant in Boston has caused a great merger, and I think no different situation would avail here than elsewhere. If two of us were in Boston and one of us paid $22.50 for a suit and the other paid $15.00 for one of practically the

same quality, it would not be on an equal basis. Naturally,we are going to go where we will get the most for our money.

We have been of the opinion, in the last few years, that the unit retail store is losing its importance, that the department store is increasing in its functions, that the chain stores have increased in number, and that the mail-order house has been surpassing all the others. However, the last two years would indicate that 75% of the merchandizing is still done by the unit stores, including stores located all over the United States which specialize in a limited number of commodities. So the mail-order house and the chain store are responsible for only about 10% of the entire amount of retail buying and the department stores are responsible for about a similar amount,- 10%. The mail-order business seems to be declining in importance, which may be the reason for Sears-Roebuck opening a larger number of stores than they have in the past. In explanation of this it is said that the automobile is responsible for the decrease in sales in the mail-order house. The farmer can go to the city now in a short period of time in his automobile and purchase by personal selection, rather than thru the mail-order catalogue.

There are innumerable facilities open to the shoe manufacturer. Upon analysis, we find that the Dover Shoe Company in Boston sells its products to sixty wholesalers. It does not sell to retailers, but to just these sixty wholesalers, and it only employs one salesman, for it is an easy matter for one salesman to take care of sixty customers. Most of their shipments are large. In addition to this, they minimize their creditors. By dealing with only sixty wholesalers who are of responsible financial status, they lessen

the possibility of credit risk. This company finds it to their advantage to sell only to a limited number.

We might at this time raise the question--is there any necessity for a wholesaler? It is possible to eliminate some of these intervening middlemen. The statement is made that there are too many men between the manufacturer and the consumer and that each man handling the product receives a profit. If we eliminate one of four men, that only leaves three. If we eliminate three, that only leaves one, and if we eliminate the profit of each, and only one profit is obtained, that would appear to be a more economic situation for the consumer than if there were four middle-men, each of whom obtained a profit, and in all probability a more desirable situation would be created. The question is, however, - is the expense of the cost of four specialized middle-men greater or lesser than the cost of one specialist middle-man? In other words, you can eliminate the middle-men, but the functions they perform remain, and the question is whether the manufacturer who is not a specialist distributer can perform that function at a greater cost or a lesser expense than the individual who is a specialist and who has made a study of the problem and has performed that function and that alone.

Specializing has increased the efficiency of American productive methods. This is the day of the specialist--everyone specializes in one particular line, and it might be cheaper and might involve lesser expense to have the work performed by a specialist, rather than by the manufacturer who is not qualified for that particular purpose. The problem is not of eliminating the middle-men

but of decreasing the expense or cost of performing the services which the middle-men must perform.

One of the functions that must be performed by someone is the function of assisting physically in the distribution of products. The manufacturer does not come in contact with the consumer but finds in the wholesale house an individual who will take his products and those of other manufacturers and store and warehouse them and find a purchaser. That is the function that must be performed, and whether it be performed by the manufacturer himself, or the wholesaler, the fact remains that the real question is,- which of the two is better fitted to perform that function?

Another very important function that the wholesaler performs is in extending credit. When the manufacturer sells to the wholesaler he usually wants cash. He needs it in order to pay his overhead--his service, power, and heat bills, etc., so in most cases, the manufacturer requires cash from the wholesaler, but when the retailer buys from the wholesaler he asks for an open account as he is not paid by his customers. It is a transfer of goods from hand to hand. The wholesaler, by selling on terms--on time, forms an invaluable function. One of the attributes of the wholesaler is that he is organized so that he can perform this particular service. The manufacturer cannot do this, he is not in a position to extend credit, so that the wholesaler plays a tremendously important part in the marketing of our goods. Goods of innumerable classes pour into the warehouses of the wholesaler until the reach the retailer and are brought into the hands of the ultimate consumer. The function which

the wholesaler plays is a tremendously important one, and since he participates in the purchasing of utilities he is as truly an economic producer as is the manufacturer who originally creates the same utility.

Now in comparison with the Dover Shoe Company, we have another shoe manufacturer,- the Lexington Shoe Company which sells a medium grade woman's shoe. One half of them are branded, carry the specific label of the company and are sold as such to the department stores that have the exclusive agency for that particular brand of product. The remaining half of their product, which is just as good but unlabeled and not carrying their trade name, are sold by them to the wholesaler, and now this particular concern is contemplating, and has made application to the Harvard School of Business Administration for assistance in solving the problem of whether it would be advisable to have their own manufacturer's retail branches or sell their own product direct. We know that this is being done. The Douglas Shoe Company, Hannon & Son, and others, sell their own product directly. It makes a tremendous appeal to the people. When the profit of the middle-men is eliminated, you are led to believe that the price is somewhat less than you would pay for the same or a similar quality where there are middle-men. But there is always the question that the elimination of the wholesaler and retailer may not eliminate that expense. We can suggest methods that may be adopted, but we cannot solve it.

One other illustration in connection with the shoe industry, to show a different type of marketing, is that attempted by the United

Shoe Machinery Corporation, which, as you know, is the largest in the world in the manufacture of shoe machinery. They have their main plant, I believe, in Beverly, Massachusetts. They manufacture 350 machines exclusively for the shoe trade. The shoe business, as I indicated before, is the most highly specialized business in existence. There are 150 separate and distinct operations of necessity performed in the creation of a turned shoe. It is still within the memory of man when shoes were made by hand. When the McKay shoe was placed on the market, machine-made shoes were first introduced to the public.

In connection with this, there is the Goodyear Stitcher made by the United Shoe Machinery Corporation, and it is interesting to know how it is distributed, or marketed. It has 1104 parts and every time it operates there are 316 parts which move at the same time. It is one of the most complicated machines I have ever seen. The United Shoe Machinery Corporation has a method which is unique and unusual. Out of every 300 machines which they make, they sell 100. They do not sell the remaining 200, but lease them. The United Shoe Machinery Corporation will put the machine in the shoe factory and the manufacturer pays from one to six cents a pair on each pair of shoes he makes, for the use of this machine. That is the royalty charge on a Welt shoe. They use that system all over the world.

The shoe industry is important to us at this particular time for the reason that in the future shoe industries will be placed before Congress to take shoes off the free list and place them on the tariff list.

I happened to be in Boston around Christmas time and saw the Shoe Style Shoe. One of the exhibits at the show was that of a man

named Bala, from Czecho-Slovakia. He made shoes here during the war and brought back with him to his own country machines leased from the United Shoe Machinery Corporation, and is making American products with American trained labor. As a result, he is importing into the United States at the present time approximately 5,000 pairs of shoes, duty free, because shoes are on the free list, and at the show in Boston he was displaying a shoe at $1.85 which cost $2.25 to make in this country. He could sell them in this country for a price considerably less than the shoe could be made.

That brings up another situation I would like to speak about. Whenever question of price is raised in comparing American with foreign goods, it is the general opinion that American goods are better goods, and that they are worth more money. This is not true today to the extent that it was years ago. You must say today that the Czecho-Slovakian shoe is as good as the American shoe. Foreign made products are being made by American machinery just as well as they are being made here, so we find a keen competition with foreign countries. The reason, despite the fact that we have 1,000 representatives all over the world, that export figures do not show the increase that we might normally expect, is one of competition,- the result of a closing down of the foreign market for American products. They are selling us more today than they ever sold us before and some day, when the check-up comes and the bills have to be paid, there is going to be a delicate situation created.

You may have seen the advertisements in the Washington papers in November "Buy now and pay in January." Not so bad when you get it in December,- but when you get it in November!

There are at least three billion dollars of installment credit existing in the United States today. You can buy radios, automobiles, homes (although homes are permanent and durable and we don't mind paying for them on time), clothes,-- almost anything you might want can be gotten that way.

A man who runs an inexpensive credit store on Seventh Street told me recently that it is not unusual to see a man drive up to the store in a Studebaker, a Nash, or a Buick car to make a $2.00 weekly payment. You might find it very interesting to study the problem of installment credit.

Incidentally, I hope that your activities here exclude you from the stock market and that you are not vitally concerned with it.

One other way to show differences in marketing methods is meat packing in this country. I discussed it very briefly at our last meeting and I think it is of particular interest to a military organization.

I will take two of our largest packers and show a slight difference in the methods that are employed. There are five packers in the country who do 70% of the total business. Of these, Swift, Armour and Cudahy have the monopoly. By packing, we do not mean simply supplying American people with beef and pork. We mean by the packing industry one that is concerned with hides, meats, poultry, cheese and eggs, glue, fertilizer, brushes, combs, drum-snares, and innumerable products. The price that they get for beef just covers the cost of the steer. There is little or no waste,- they throw almost nothing away from a steer, every part is used for some purpose or other.

The fact that the packer handles a very perishable commodity necessitated a particular method,- a very speedy process. The longest period of time elapsing from the day the steer is purchased until it is on the block in Chicago, is 15 days--a tremendous speed.

Another reason which necessitated the particular type of distribution adopted by the packer, is the nature of the demand. I think 1,000 cars of meat a week is the minimum for the City of New York. If the people of New York were under-supplied with meat there would be suffering, but if they were over-supplied, a tremendous loss in waste would result, and so by the perishable nature of the commodity it is necessary to adopt a method that will meet the particular requirements.

Let us take Swift and Armour and show a slight difference in the methods they employ. Their plan is very similar, but Swift has adopted the refrigeration process and Armour has 366 manufacturer's wholesale branches scattered thru the United States which are allocated geographically, according to the number of people and are situated in the most strategic positions.

Thru the 366 branches there are 197 car routes. In the communities that are somewhat remote from the branches, they load cars and send the goods directly to the towns where Armour has its own trucks to distribute the orders to the retailers. They even do the trucking themselves.

Swift, on the other hand, while having 343 similar branch houses, (against Armour's 366) have their salesmen follow a rural train line and stop off at each community and take orders and the next

morning a refrigerator car of Swift & Company will follow the same route and drop off the products purchased the day before. They do not use their own trucks other than that they have developed a refrigerator peddler car,- the only difference in the plan adopted by Armour and that of Swift.

The Federal Trade Commission recommended that the United States Government take over the refrigerating cars that are in the hands of private enterprises or retail branches and operate them upon a Government basis in order that they may introduce a method advantageous to human welfare.

I have attempted to show what distribution means to the economist and to the business man--the dis-similarity in the terms "marketing" and "distributing." It is impossible for us to solve the great problem of eliminating the middle-men and of the handling and cost of production. I have simply attempted to give you, in so far as I could, a picture of what the distributing problem is, the manner in which some of our industries are trying to meet it, and to stimulate your interest so that you will go to the innumerable sources of authority for solution.

It has been an inestimable pleasure for me to come here. Last year it was an equal pleasure, but I hadn't heard from your head here, and I was afraid that I wasn't going to be invited again. I hope that some day you will invite me back. Thank you.