PRINCIPLES
OF
MARKETING

PAUL W. IVEY

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A TEXTBOOK FOR COLLEGES AND SCHOOLS OF BUSINESS ADMINISTRATION

By

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PREFACE

With the advent during recent years of a buyer's market, the study of marketing has come into prominence. Getting the goods to the consumer has now become as important as the actual production of goods, and the costs are oftentimes as great. This fact, together with the rising costs of living, has directed public scrutiny to the subject of marketing, with the aim of simplifying its machinery and lowering prices. Without presuming to prophesy, conditions seem to point to a still greater interest in the subject in the future.

The present volume is designed as a textbook for schools of business administration, and is intended to introduce the student to the marketing process. It does not attempt to describe all phases of the marketing functions; these are more elaborately comprehended in the collateral readings listed in the Appendix. It seeks rather to unify the subject through analysis and the formulation of principles. What the student most needs, probably, is a viewpoint from which he can intelligently organize the growing mass of material to be found in this new division of economic study.

Emphasis is placed on the marketing of manufactured products rather than that of raw materials and agricultural products, because it is in connection with manufactures that a more decided buyer's market has developed and probably will continue to develop. It is here also that the high costs of marketing, with which the public is so consciously concerned, are more frequently to be found. It is likewise true that the curriculum of schools of business administration is often relieved of an intensive study of agricultural products because of the close relations of such institutions with schools of agriculture. Yet these other products are not overlooked; a brief comparative study of them is made to give the student a broader comprehension of the entire subject.

While the material herein set forth appeals primarily to students as a branch of economic study, experience indicates that it may prove of value to the business man. The evolution of industry and trade is developing a new type of enterpriser who desires to proceed scientifically. This modern "progressive" in business has been kept in mind in the preparation of this volume. In it he will find an analysis of some of his most vexing problems and a frank treatment of changing business conditions.

The author is indebted in various ways to many recent discussions in books and in trade magazines for which acknowledgment is made in the appropriate places. Valuable aid has likewise been extended to him by various business men as well as by his colleagues in the College of Business Administration in the University of Nebraska. A special debt of gratitude is due to: J. W. Fisk, Manager of Hayden's, Omaha; C. F. Kurtz, Vice-President of The Denecke Company, Cedar Rapids, Iowa; A. E. Simmons, Manager of M. L. Parker Company, Davenport, Iowa; H. B. Whitehouse, Sales Agent of National Cash Register Company, Omaha; R. O. Bell, Merchandise Manager of Davidson Brothers Company, Sioux City; and to Dean J. E. LeRossignol and Professor O. R. Martin of the University of Nebraska.

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CHAPTER I

DIFFERENTIATION OF MARKETING FUNCTIONS

Pressure of Markets upon Production.—The Industrial Revolution which changed the structure of our economic society is still in progress. Its first phase lasted approximately from 1750 to 1880, and was marked by a widening of markets disproportionate to the increase in production. This was a natural result of machine industry, for although by machine processes goods were produced in quantities formerly unheard of, the development of machinery led to better railroads, the telegraph, and the telephone, which extended the market and made possible the immediate absorption of the mass of newly produced goods. Contemporaneously with this industrial development, new areas were being opened up in the United States, population was increasing at a more rapid rate than during any previously recorded period, while habits and customs of centuries were being discarded as a result of contact with new conditions, and in their place was developing a system of wants more complex and numerous than had ever existed in the history of the world.

The lagging of production behind the markets materially affected the course of our economic development. During this period emphasis was naturally placed on increasing production. Schools of technology were organized, scientific factory management received much attention, motion study of employees became common in manufacturing plants, efficiency engineers were called upon to co-ordinate the different departments of production, and inventions which displaced labor with machinery were numerous. Naturally, little attention was given to analyzing marketing processes. First of all it was necessary that production become efficient.

Development of Traditional System of Marketing.—Since a seller's market (a market in which the advantage rested with the seller) existed during this period, the manufacturer accepted the distributive system as he found it and turned his goods over to the jobber with little thought of the ultimate consumer. It was a roundabout way of getting goods to the consumer, but the market was seeking the goods; the goods were not seeking the market. Heavy demands to increase production were being made on manufacturers, but they had no time or capital to invest in getting the goods to the market. Neither were they interested as to whether or not their products were marketed economically. A marketing structure, which had developed from the changes that followed the Industrial Revolution, was at their disposal, and it was natural that they should make use of it since no responsibility attached to the manufacturer and he was left free to devote all of his energies to production.

Pressure of Production upon Markets.—The second phase of the Industrial Revolution dates from 1880 and is still in progress. It is characterized by production which increased at a faster rate than the markets developed. The cause of this reversal of conditions can be traced to: (1) a check in the rate of increase in population, (2) the taking up of unoccupied lands, and (3) the fact that the attention which had been given to increasing production now began to bear fruit. The latter reason is perhaps the most important of all, for each year saw quantities of goods placed on the market for which no obvious immediate demand existed. Production now began to seek markets, where previously markets had sought production. The traditional system of distribution did not permit of such a ready outlet for commodities as the new conditions demanded, so during this period the marketing system underwent many modifications. National advertising, direct selling, the mail order house, chain store, and department store, are all developments resulting from this new condition of economic affairs.

Elimination of the Middleman.—The popular cry for the elimination of the middleman arises from both ends of the distributive process. The consumer has found it increasingly difficult since 1900 to maintain with constantly increasing prices his standard of living, and in seeking an opportunity to vent his wrath has hit upon the distributive system. The producer in many lines has found it difficult to get an adequate outlet for his goods through the old system of distribution, and has undertaken to educate the consumer to demand his goods from the established middlemen, or he has on his own responsibility set out to fulfil the functions of the middleman.

A great deal of loose talk exists about eliminating middlemen, in which there is no attempt to distinguish between the middleman and the middleman's functions. The middleman himself can be eliminated, but his functions cannot. These must be performed by someone. If the manufacturer is handicapped in securing an outlet for his goods, he may take capital and labor (which under other circumstances would be used in producing goods) and utilize these in gaining markets for his goods. Thus, while he may have gone over the heads of the jobber and the retailer, he has used some of his resources to perform some of the functions which they have been accustomed to perform. In other words, the problem of the present-day manufacturer is not whether he should do away with the middleman's functions, but whether he should take over these functions himself. This naturally brings us to a consideration of the functions of the middleman.

Functions of the Middleman.—The functions performed by the middleman may be viewed as the creation of certain kinds of utilities, i.e., want-satisfying characteristics or operations. Utilities may be classified as form, time, place, and ownership:

1. Form utilities are created when, as in a manufacturing operation, the form of commodities is changed. Thus, steel bars are brought into a factory, they are cut into desirable lengths, and then made into razors. Agriculture likewise produces form utilities with the aid of nature.

2. Time utilities are created by storage. Goods are accumulated when the demand for them is weak, and then are carried over until the demand for them is strong. The storage of ice and vegetables illustrates this classification.

3. Place utilities are created by moving or transporting goods from places where they are little needed, to districts in which the demand for them is strong. Hay in some of our western states would be nearly valueless if it could not be removed to districts where it is less plentiful.

4. Ownership utilities are created by the exchange of goods between people. The grocer creates utilities of this nature when he exchanges flour for money; the real estate agent, who brings together buyer and seller of property and effects an exchange, creates ownership utilities.

Of these four kinds of utilities, marketing deals primarily with the last three. Industry may thus be divided into two divisions: (1) manufacturing, or the creation of form utilities, and (2) marketing, or the creation of time, place, and ownership utilities.

In the creation of time, place, and ownership utilities, the middleman performs certain specific duties, such as:

1. Assembling
2. Grading
3. Storing

4. Transporting
5. Risk-taking
6. Financing
7. Selling

The extent to which each of these factors enters into the distribution of any product varies widely, but all of them usually function to some extent in the marketing of goods from the manufacturer to the consumer. Moreover, they all exist because they satisfy some need; they have arisen as a result of natural causes.

Middleman's Former Functions.—Before the Industrial Revolution, each person whose task it was to get goods from the producer to the consumer performed a part of each function. Each successive middleman, so long as he held title to the goods, assumed the risk of their destruction. The same was true of credit losses. Transportation facilities were provided by each middleman for carrying the goods from the producer's storage house to the consumer. The different middlemen extended either cash or credit to themselves or to each other for the purpose of securing title to merchandise during its successive stages of distribution, or for financing the entire distributtive operation. The selling or disposing of goods to succeeding middlemen was likewise a function of each factor in the marketing process, as was also the providing of storage space for the temporary holding of goods which were physically unready for resale, or for which a market had to be found. Finally, the preparation of goods for resale was a necessary part of each middleman's work. Among other operations, this consisted of: classifying, sorting, cleaning, arranging, boxing, grading, crating and reshipping goods.

Rise of Functional Middlemen.—With the widening of the market following the Industrial Revolution, it became more and more necessary to have some of these functions performed by specialists. Hence we have the rise of what are known as functional middlemen, viz., insurance companies, transportation and express companies, banks and trust companies, and storage companies. These new middlemen differ from the old middlemen in that they assume one function and not portions of a number of functions. With the development of functional middlemen who have taken over some of the duties of the old middlemen, the importance of the latter has declined; only the functions of selling and the preparation of products for reshipment are left to them.

Separation of Producer from Consumer.—This widening of the market, followed by the specialization of the middleman's functions, removed the producer at each stage further from the consumer. The producer was no longer a merchant and therefore had no direct connection with those who consumed his products. Because of this development, his point of view changed. Goods were now desirable from the standpoint of both producer and middleman to the extent that they produced a profit in resale to the retailer. The characteristics of quality and service acquired prominence only when the retailer came into contact with the consumer. Thus the isolation of the producer from the consumer, due to the former becoming separated from the middleman's functions, has resulted in the offering of incongruous suggestions for the purchase of merchandise—all depending on whether or not the goods are intended for resale or consumption.

Disregard for Consumer.—The producer, because of his proximity to the middleman and his removal from the consumer, is inclined to energize over lowering costs of production so that he may be able to offer a lower price to the middleman, rather than to render his products more capable of giving satisfaction to the consumer. The degree of satisfaction that the goods are capable of affording the consumer, only indirectly benefits the producer, and does not exert the influence on him that salability to the middleman does. Being uncertain or indifferent to the point of view of the consumer, the possibilities of making improvements in quality and service in his goods are overlooked and are subjugated to the more prominent element of profits.

Handicap in Serving Consumer.—In case, however, producers wish to give prominence to customers' desires rather than to the immediate salability of the product to middlemen, the circuitous manner of transmitting ideas of quality and service through the middlemen to the consumer robs them of their potency and neutralizes their value. The middleman handles so many different products that he can ill afford to give undivided attention to a single commodity and accurately and consistently transmit its claims of superiority to retailers. There is thus a break in the chain of ideas regarding the merchandise, and the retailer, in his attempt to create a desire in the customer for the product, transmits to the latter ideas foreign to those brought to him by the middleman who directly preceded him in the distributive process. For this reason the producer is handicapped, by the traditional system of distribution, in conveying to the consumer accurate, forceful, and clearly differentiated ideas regarding his merchandise. With the increasing competition of producers, this handicap under which manufacturers have been working has daily become more apparent.

Modification of Traditional System. — Because larger amounts of goods similar in kind and quality are being produced by competing concerns, it has become increasingly necessary to differentiate products. Manufacturers have come to realize that a wide distribution for their products can be secured only by transmitting the idea of their merchandise to the customer so directly that he will be favorably impressed with their particular product. In other words, it has become a common belief among producers that customers should be educated away from the universal understanding that shoes are shoes, or that canned peas are canned peas; they should be trained to think of a certain make or brand when the need for shoes or peas arises. This has led to the identification of goods by means of trade-marks and trade-names. It has also led to a more careful study of the needs of customers by producers; more clear-cut statements regarding the functions of merchandise; and a more critical scrutiny of products by customers. All this has meant a nicer adjustment of production to the needs of the consumer, as well as the production of goods made primarily to render satisfaction rather than to sell.

Direct Communication of Producer with Consumer.—In attempting to get into close touch with the consumer and escape from the pressure exerted by the middleman, the producer has taken away from the middleman a part of his selling function, viz., the communication of ideas, and has turned this duty over to functional middlemen—newspapers, periodicals, and other advertising agencies. The removal of this function from the middleman has further weakened his position, which was primarily endangered when he was separated from the functions of transportation, financing, risk-taking, and storage; and with every decrease in duty, the middleman becomes of less consequence in our distributive system.

Residual Function of the Middleman.—The only remaining important function for the middleman is that of assembling, or of rendering the goods physically available to consumers. This function embraces the operations of classifying, sorting, cleaning, arranging, boxing, crating, and reshipping goods. In some lines of merchandise this remaining function is being whittled down by direct shipments from producer to consumer, but in only a few special cases has this movement resulted in the elimination of the middleman and the transfer of his last function to the producer. This has been true because the middleman is primarily fitted and equipped to perform this function economically, and nothing may be gained by the producer in taking over new duties which are foreign to his specialized work. Only where the middleman has stood as a barrier to a more complete distribution, has it been deemed wise by producers to perform this middleman's function themselves. For the most part, whenever they can get this function performed satisfactorily by the middleman, they are content to leave its performance to him.

Elimination of the Wholesaler.—In some lines of merchandise it has been found desirable to take over the residual function of one of the middlemen, viz., the wholesaler. This has been true where the manufacturer has stimulated a demand for his branded products by direct communication to the consumer of ideas about the goods, and where the cost of performing the residual function of the wholesaler was less for the producer than for the middleman. The desirability of taking over this function of the wholesaler by maintaining branch houses, is illustrated by the advantages accruing to a large paint manufacturer:

1. He is able to obtain the entire time of trained men, devoted solely to the handling of his products.
2. He obtains a direct contact with the retailer dealer, who he finds prefers on the whole to buy directly from the manufacturer.
3. He is enabled to carry larger and better assorted stocks than the wholesaler would be willing to carry.