

THE
Elements of Marketing

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PREFACE

THIS book, while it deals with the elements of marketing, is not a book for beginners. Marketing in the aspects here treated is of the nature of an applied science; and in somewhat the same way that a treatment of the elements of bridge design would necessarily take for granted a firm grounding in underlying sciences, so it has been necessary to assume here a clear grasp of economic principles. At the same time, these principles have been dealt with as applied to this special branch of business, and for that reason there has been an avoidance, perhaps too scrupulous, of the terminology of the science.

Moreover, the treatment of the subject has been confined to the concrete problems of merchandise distribution. The larger aspects of the subject have been left to others better fitted to deal with them. The able discussion of this phase of the subject which has appeared in Alfred Marshall's *Industry and Trade*, published after these chapters were ready for the press, fully covers that field. In the collateral readings here listed numerous references to this remarkable book are included.

My purpose has been to present a simple statement of the problems of marketing by functions. As result of twelve years of teaching the subject of marketing

in the Graduate School of Business Administration at Harvard University, I have become convinced that really constructive work in this field will be achieved only by getting back of the complex forms of the marketing mechanism to the functions for the performance of which these various devices have developed. This is the central idea about which these chapters are grouped.

All of the various points covered might well be illustrated by accounts of marketing experiences, as is done in a few cases. I have felt, however, that to do this adequately would make the book too voluminous and would also obscure the main idea, the presentation of which is the book's object. I have been content, therefore, to utilize references to other easily accessible books which contain illustrative material and to suggest the sort of problem work which will produce illustrations better than could be put into a book.

PAUL T. CHERINGTON.

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THE ELEMENTS OF MARKETING

INTRODUCTION

THERE is no really good single word for designating the process of distributing merchandise under what may be termed modern conditions. The simple process of barter or sale is only one factor in the process of distributing merchandise made under conditions of large-scale production and consumed in concentrated markets. Neither of the terms "selling" or "buying," therefore, describes fully what takes place. The term "merchandise distribution" is complicated and unwieldy and is open to the additional objection that only in so far as part of the process is concerned is it accurately descriptive except by extension much beyond its accepted meaning. Of the many terms tested for use in this connection each seems open to some objection.

The term "marketing," like the others, is not wholly satisfactory. It certainly is capable of too close restriction in its use. It has also the unfortunate connotation given it by its use in connection with the process of provisioning a household. For want of a better term, however, and in the hope that this one (which, after all, is capable of justifiable expansion to fit the case) may be made, eventually, to take on the larger dignity of its expanded use, it is employed in this book. The term as used is designed to cover the complex group of

services involved in the distribution of merchandise from producer to consumer, excluding only those functions which involve alterations in the form of the commodity. These latter must be regarded as of a different nature and therefore must be treated as manufacturing or production processes.

Marketing, even under the most complex of modern conditions, may still be carried on in the simple form of barter, or of simple and direct passage of goods between original producer and final consumer. Indeed, a surprising amount of business still is conducted in this way. Cabinet-making, custom shoe-making, tailoring, in fact all of those distributing operations which call for the rendering of a personal service in substantial amount in addition to the actual transfer of ownership of merchandise, serve to illustrate the persistence of this simple form of direct marketing. It is not accurate to say that direct sale is no longer important under modern conditions. But it is true that it is not the typical modern marketing method.

The conditions which have served to render complicated the task of distributing merchandise include practically all of the economic developments and many of the social changes involved in what are commonly referred to as modern conditions of life. Of these, perhaps the most conspicuous is large scale production. Goods produced in large quantities cannot be produced exactly in the quantities, and at the precise time in which they are to be consumed; nor is there the accurate adjustment which exists in the case of simpler transactions with regard to the quality of the goods produced. More-

over, the place of production may not at all coincide with the place of consumption. Thus, increase of the scale of production alone introduces maladjustments between producing and consuming conditions with regard to quantity, quality, time, and place, which it becomes part of the marketing problem to correct.

The spread of large-scale production, while one of the chief factors, does not stand alone among circumstances surrounding production as a cause of augmented perplexity of marketing problems. In fact, this phenomenon is itself a result of far-reaching changes lying back of it. For instance, the accumulation of adequate quantities of surplus capital, the increased accessibility of large quantities of raw materials, and the social conditions which have, in the main, supplied sufficient quantities of suitable labor, all have played their part in facilitating the development of large-scale production in its present form. Each of these has affected marketing problems, either directly, or through enlarged scale of production, or both.

The influences modifying the problems of marketing have not all arisen, however, from changes in conditions surrounding production. The conditions surrounding consumption have had quite as distinct an influence upon these problems and the mechanism which has been developed for their solution. For example, such social changes as the decline of illiteracy cannot be neglected in attempting to account for the distributing mechanism of the present day. It is safe to assume that the general intelligence of purchasers concerning goods is rising, and that relations between buyer and seller

will show resulting modifications. The growth of cities, the increased mobility of the population in the United States and elsewhere also suggest social changes which have had a direct effect upon the marketing system. Another change in conditions surrounding consumption is the general use of such devices as rapid transit systems. As long as the market for a retail store, to cite only one example, was confined to those people living within walking distance, and to a comparatively few others who lived beyond that radius, but still within driving distance, the size to which the store could develop was limited by that relatively small market. With the introduction of electric street railways and the establishment of a low fare covering a radius of several miles, the possible market of such a store was obviously increased and the limitations on the development of the size of the store were in a measure removed. Many such radical changes in the conditions of living of great masses of the population have come within a generation. They serve to indicate something of what has been in progress in recent years which may be grouped together as influences modifying the conditions of consumption.

While these new conditions surrounding production and consumption have been growing up, the facilities for marketing, and the conditions under which the marketing processes are carried on also have shown remarkable change. The most revolutionary changes are those due to the betterment of facilities for the transportation of goods. Another factor of great importance has been the availability of capital for dis-

tributing enterprises. This is a comparatively new development in the history of finance. A very marked effect on distribution during the last few years has followed also from the general upward trend of practically all the elements which go to make up the cost of distribution. This has made the devising of new forms of distributing organization an attractive field for adventure. The experiments undertaken have been generally of one of two forms. Either the effort has been aimed at increasing the scale of operation and thus in some measure decreasing the relative cost, or else it has been aimed at increasing the speed of sale, thus turning the capital oftener and making it possible to do business on a narrower margin of profit.

The increased complexity of modern marketing methods is not due to any change in the inherent nature of the elemental task of marketing, namely, effecting a change in the ownership of merchandise. It apparently arises partly from the addition of other supplementary tasks not necessary until recently, and partly from the development of more indirect forms for this task itself.

COLLATERAL READING

Alfred Marshall, *Industry and Trade*, Book I, Chapters II, VIII, and IX, and Appendix B.

P. T. Cherington, *Advertising as a Business Force*, Chapter V.

CHAPTER I

THE ELEMENTS OF MARKETING

THE essential task of any form of merchandise distribution (or marketing) is to effect a transfer of ownership of goods in exchange for what is considered to be an equivalent. Instances are numerous even in present-day commerce in which one single transfer of this kind represents the complete progress of merchandise from the producer to the consumer. The householder who wants a piece of furniture made to order goes to a cabinet-maker and with him agrees upon design, material, time of delivery, and price; all the conditions of sale are the subject of either expressed or implied agreement between the two, and all of the services incident to the transfer of ownership are of such a character that they are absorbed by either one party to the transaction or the other, while their cost disappears in the transfer price. Other illustrations of the same sort of selling process are to be found in custom tailoring, custom shoe-making, and in fact all those distributing operations which call for the rendering of a substantial amount of personal service in addition to effecting the actual change of ownership of the merchandise. The element of personal service, it should be made clear, is not an essential factor in keeping those transactions simple and direct, but it illustrates the type of influences which keep these direct forms of marketing alive.

In many cases of the sale of equipment or of materials for manufacturers direct sale exists on a large scale, although it is frequently modified by contracts or agreements providing for the assignment between the two parties of such risks or other causes of expense as might not without special arrangement be equitably covered by the selling price. Again, in the case of an appreciable portion of the sales of garden truck, direct sale from the producer to the consumer is employed, although in this case it is not uncommon to find the selling centralized at public markets, and many of the conditions of sale controlled by market regulations instead of by individual agreement.

The marketing problems involved in the simplest form of direct transactions are elementary. Goods are sold as they are produced. The marketing functions include few if any activities beyond those concerned with the fundamental task of effecting a change of ownership. The corresponding mechanism is simple; functional distributors either do not exist or are unimportant. This form of marketing needs no discussion to supplement the bare statement of the economic rudiments involved. In discussing these simpler forms of sale, generalizations are easy and safe; the principles involved are fairly plain; and the price-making factors and the elements of marketing cost present no troublesome variations.

For the more complex forms of sale, however, where the producer and the consumer do not actually meet, the marketing task of effecting a change in ownership, while it still exists, no longer constitutes the single neces-