HOW MANUFACTURER MARKETING PROGAMS BUILD BETTER DISTRIBUTOR RELATIONS IN THE FOOD INDUSTRY

Thesis for the Degree of M. A.
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Carl G. Sander

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by

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AN ABSTRACT

Submitted to
Michigan State University
in partial fulfillment of the requirements
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MASTER OF ARTS

Department of General Curriculum in Food Distribution

1961

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HOW MANUFACTURER MARKETING PROGRAMS BUILD BETTER DISTRIBUTOR RELATIONS IN THE FOOD INDUSTRY

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This thesis purports to discuss the various aspects of manufacturer marketing programs in order to determine what effect, if any, they have in developing better distributor relations in the food industry.

Maintaining sound distributor relations is becoming increasingly important in the 1960's, and manufacturers are beginning to place more emphasis on this facet of business. This thesis examines the relationship manufacturers have with distributors, the general feeling distributors express about various marketing practices, and recommendations as to how marketing programs can be improved or initiated which better serve distributors.

Research material for this thesis was gathered from three main sources: (1) A review of the major food distribution periodicals from January, 1954, through July, 1961, in addition to articles appearing in business, government, and trade publications. (2) Personal interviews with food distributors and manufacturers throughout the United States where the author had experience working for Scott Paper

Company since 1957. (3) Personal observations the author recorded from his experiences.

The conclusions reached are as follows:

Manufacturers should give more attention to creating better distributor relations because: (1) The concentration of an increasing number of supermarkets accounting for the major share of the nation's food business into the hands of fewer, but economically stronger, supermarket organizations. (2) The need for manufacturers and distributors to work collectively to achieve greater progress in food distribution in the decades ahead. (3) The need for both to work cooperatively in capturing a larger share of the consumer's dollar spent on food.

There are four marketing factors which help manufacturers build better relations with distributors. First, distributors want to sell products which have consumer demand and return a satisfactory profit. Second, distributors like liberal discount terms and more efficient deliveries which allow them to keep inventory to a minimum and increase inventory turnover. Third, advertising contracts, deals, coupons, and allowances help distributors sell more product, but the work involved in the handling and administration of these incentive programs often times offset the advantages of increased sales and profit. Manufacturers should try to eliminate additional workloads

required to handle incentive programs. Finally, salesmen should be trained to be marketing men skilled in understanding distributor problems and capable of providing pertinent data and information, as well as merchandising ideas which increase sales and profits.

Inter-industry conferences and the manufacturer's willingness to help distributors solve their problems breed confidence and good will and create the proper climate within which to build the finest, most advanced food distribution network the world has yet to see.

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CHAPTER I

INTRODUCTION

The food industry is one of the largest in the United States, today. The Chase National Bank's bi-monthly economic review stated that the industry gets the largest share of the consumer dollar.[1] Currently, food outlays are running at a rate in excess of 65 billion dollars a year.[2] This is close to one-fourth of the total consumer spending in this nation.

Spending large sums of money on food in this nation does not necessarily imply that the food supplier's role is a so-called "bed of roses." Nothing can be further from the truth. As a matter of fact, manufacturers need to be alert to the perpetual changing patterns of food retailing in order to maintain their respective share of the grocery business.

Maintaining sound relations with food distributors is just as important to the manufacturer as keeping the consumer happy. This is especially important in the food industry because of the development of two trends: the growth of the supermarket and the merging of food distributors throughout

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[1]"More Dollars Spent On Food," Food Mart News, April 15, 1958, p. 13.

[2]Ibid.

the United States. The growth of the supermarket is a fantastic tale, rich in American tradition, drive, and ingenuity. Born in the depression, the supermarket has taken its place among the many wonders of progress which could happen "only in America." It has revolutionized the American women's shopping habits by creating a new shopping atmosphere in which, claims M. M. Zimmerman, Editor of Super Market Merchandising, "sight and touch buying and freedom of choice prevail."[3] Massive supermarket structures with colorful decors, soothing music, temperature and humidity control, appealing food stuffs from all over the world merchandised in compelling display cases and shelving, ample parking facilities, kiddie corrals, and other conveniences too numerous to mention lure American women away from the "corner" grocery store and into the land of "Superama."

In the "1960 Annual Report on Food Retailing" prepared by the Editors of Progressive Grocer, supermarkets accounted for 69% of the total food sales in the United States while comprising only 13% (33,200 stores) of the total retail outlets. Conversely, stores with sales of under $75,000 per year accounted for 65% of all grocery stores in America but did a mere 7% of the food business.[4] It is clearly evident

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[3] M. M. Zimmerman, The Super Market (New York: McGraw-Hill Book Company, Inc., 1955), p. ix.

[4] The Editors, "1960 Annual Food Report On Food Retailing," Progressive Grocer, Vol. 40, No. 4 (April, 1961), p. 39.

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that supermarkets have become the dominant factor in food retailing and will continue to do so in the years ahead. Therefore, manufacturers should respect the supermarket position and strive to market products which lend themselves to supermarket merchandising if they are to compete for 69% of the food business.

The second major trend prompting manufacturer's attention to distributor relations is the number of mergers which have taken place since 1955 involving the nation's largest chain and independent distributors. The following table lists the number of transactions and the total number of stores changing hands in supermarket mergers or acquisitions since 1955:[5]

Year	Mergers	Stores
1955	42	863
1956	34	332
1957	38	438
1958	47	449
1959	40	250
1960	17	250

Mergers and acquisitions tend to place more stores under the control of fewer food distributors. Therefore, as the large chains and independent groups grow, manufacturers find that maintaining warm distributor relations is a necessity.

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[5]Martin Gottfried, "Chain Merger Rate Off Sharply," Supermarket News, Vol. 10, No. 1 (January 2, 1961), p. 31.

The growth of large food distributors has been receiving public attention. The Federal Trade Commission's study released in May, 1960, pointed out some very interesting facts concerning the growing power of retail chains. The report revealed that since 1929, food retailing has developed into big business. Stores with sales in excess of $300,000 a year accounted for only 4% of the total grocery store sales in 1929 but, in 1958, accounted for nearly 70%. Corporate chains acquired almost 2,500 stores by mergers and acquisitions from 1949 through 1958. Two-thirds of the total stores were acquired by ten of the industry's largest food firms.[6] The Federal Trade Commission's report has drawn the attention of some members of Congress who are advocating governmental controls to guard against monopolistic tendencies in the food industry.

The president of one of the largest food manufacturers in the nation discussed the growing threat of large chains in the company's annual report to the stockholders. Charles G. Mortimer, President of General Foods Corporation, remarked in the 1958 annual report that the steady increase of the concentration of buying power in the hands of fewer grocery distributors poses a serious threat to food manufacturers. These powerful distributors, Mr. Mortimer revealed, control

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[6] Marvin Caplan, "FTC Issues 338 Page Report," Supermarket News, Vol. 9, No. 21 (May 23, 1960), p. 1.

their distribution channels and through strong sales emphasis, push their own "private" labels or brands.[7]

Sidney Johnson, marketing consultant, compared the situation of fewer distributors controlling more and more supermarkets to that of a funnel. Mr. Johnson pointed out that products must pass through the narrow neck, representing distributor buying offices, to reach the food stores doing the largest part of the food volume in the United States. Therefore, Mr. Johnson recommends that manufacturers make a strong effect to gain the respect ahd cooperation of the large distributors to insure the study flow of merchandise to the market place.[8]

In addition to the growth of the supermarket and the concentration of food store sales into fewer distributor organizations, sound relations between manufacturers and distributors has a healthy effect on the nation's economy as well. Through mutual cooperation, better methods of distribution food can be achieved which benefit Americans resulting in a wider variety of improved grocery at reduced costs made available in modern, efficient, and pleasant supermarkets. Paul Willis, President of the Grocery Manufacturers of American, asserted that the food industry keeps

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[7]George Lieberman, "Supplies Threat Seen In Chain Competition," Supermarket News, Vol. 7, No. 16 (June 16, 1958), p. 40.

[8]J. Sidney Johnson, Marketing Consultant, in an address to the Food Distribution Class, Michigan State University, April 30, 1956.

production and marketing facilities in high gear and maintains a high level of employment to help off-set the effects of economic slumps in other areas of business. In the past, Mr. Willis recalled that the food industry acts as a stabilizing influence during periods of reduced business activity by providing employment and offering food stuffs at the lowest possible cost to the consumer.[9] Thus, the manufacturer and distributor have an obligation to the American people to work together to perfect a better food distribution system particularly in periods of business recession. Every saving made indistribution costs can result in greater values for the consumer and, consequently, more business for the food industry. Relationships between manufacturers and distributors should be properly cultivated since an "all out" team effort and cooperation among all segments of the industry offer the best opportunity for continued success in making contributions for the betterment of America's food industry.

The author purposes to discuss the manufacturer-distributor relationship in the food industry in an attempt to determine how both, through mutual understanding, can work collectively to preserve and improve the most efficient and economical method of distributing food.

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[9]Paul Willis, "The Food Industry--A Stabilizing Influence," Food Mart News, April 15, 1958, p. 1.

Definition of Terms

Throughout this thesis, the term distributor will be used to encompass the following types of distributors most prevalent in modern food retailing:[10]

Chain Organization	--An organization operating 11 or more retail stores.
Independent	--A person or persons owning 10 or less retail stores.
Cooperatives	--Retailers who are owner members of a cooperative wholesale buying group such as Certified Grocers, Associated Grocers.
Voluntary Groups	--Retailers who are members of a voluntary merchandising and buying group, sponsored by a wholesaler and who operate under a common name, such as IGA, Red & White, Spartan, Super Valu, Clover Farms, et cetera. Such organizations are commonly referred to as voluntary groups.

The author wishes to state that he has had the good fortune of working for a manufacturer, The Scott Paper Company, whose dedication to the consumer, distributor, and food industry is above reproach. The Scott Paper Company has expended great amounts of time, money, and manpower in an effort to assist the distributor to better serve the public.

Although the material presented in this thesis does not necessarily represent the thinking of Scott Paper Company, the author sincerely believes that an attempt at this time to expound on ideas concerning manufacturer-distributor relations

[10] The Editors, "1960 Annual Food Report On Food Retailing," op. cit., p. F6.

in the food industry would have been most impractical without the valuable experience gained while working with this company.

Information for this thesis was obtained from a variety of sources, and the author is grateful to those who unselfishly gave of their time to be of assistance. However, a token of appreciation should be given to Super Valu Stores, Inc., a progressive voluntary group which the author had the privilege of working with for two months to grasp a comprehensive understanding of a distributor's operations and problems in the grocery industry.

The mere fact that the reader may formulate opinions and judgments contrary to those which are to be presented is not so important as long as one realizes that the guarantee to greater achievements in food retailing depends upon an understanding coexistence between the manufacturer and distributor.

Psalm 44:3

. . . For they got not the land in possession of their own sword, neither did their own arm save them. . . .

CHAPTER II

THE PRODUCT

Perhaps the most important factor in developing good distributor relations is the willingness of distributors to sell a product which has consumer demand and appeal and sells fast enough to produce satisfactory profit. Distributor interest depends on the product and the value the consumer. Usually, a manufacturer's reputation is inherent in the product, and a great deal of admiration is given to the manufacturer whose high quality product is known and wanted by the consumer. Distributors welcome merchandise with wide customer acceptance, and more often, they are most likely to take on the new product of a reputable supplier than a company whose name has not been established in the food industry.

The major barrier distributors raise when considering what new products to stock is the problem of space and where to put the new items in the store. With the average supermarket selling approximately 5800 items, the shelves are packed and where to put new products poses a serious question. Either the new product replaces an existing one or space is made by cutting down on the amount of shelf space allocated to other products in the store. Therefore, manufacturers complete against each other when introducing new merchandise

and the outcome depends on a number of factors which will be covered in this chapter.

When observing the variety of products sold in the supermarket, one might recognize that certain manufacturers sell a number of items. Companies, such as Proctor & Gamble, Campbell Soup, General Foods, General Mills, California Packing, Gerber Baby Products, H. J. Heinz & Company, Scott Paper, Libby, McNeil & Libby, come to mind. All of these companies are reputable and their products are purchased by countless Americans. An analysis of product programs reveals the principles which are employed by the major companies when introducing new products. These principles are summed up by the formula used by The Scott Paper Company to explain the success of a product franchise--QVA=P. Explained in words this means quality, value, and advertising, equal profits. Each principle will be discussed individually.

Quality

Quality is the factor by which all products can be judged. It provides a basis for comparison. Quality signifies the efforts and toil of countless employees in various capacities working coherently to produce a product which satisfies the desires and needs of the consumer.

Quality standards must be rigidly adhered to if a product is to fulfill the wants of the shoppers. Once the product is placed on the market, the manufacturer has a public trust to maintain quality standards which the consumer expects to receive. Any carelessness in keeping quality controls may be detected by consumers and discourage repeat purchases. Unfortunately for distributors, there have been occasions when consumers decide it is more convenient to complain to the supermarket manager rather than to the manufacturer. Naturally, distributors wish to avoid agitating the consumer and look unfavorably upon suppliers who allow "inferior" merchandise to reach the market place. There have been occasions when manufacturers, whose products drew adverse criticism, found that distributors turned a "deaf ear" to new product presentations even though the new items were of high quality. Even though apparent discrepancies were corrected, the suppliers found it extremely difficult to get back into the distributors' good graces.

Value

Quality is important in the success of a product but so is price. Therefore, a happy medium must be reached regarding how much quality the consumer is willing to pay for. Expressing it in another way, the supplier must ask the question--how important is the quality image in the consumer's mind, and will she pay a premium price. Often, consumers will pay more for a product if the quality advantages are easily recognized. However, if the quality difference between competing brands is not easily distinguished, price becomes an important factor.. If a manufacturer is to be successful in inducing consumers to pay a higher price for

a product, there must be a marked difference in the product which insures the consumer's brand loyality.

Thus, it is reasonable to assume that quality plus price determines value. The more value a consumer receives, the better the chance a product has of becoming a success. Certainly, distributors are anxious to satisfy customers, and manufacturers who are able to offer products of high value are sure to reap consumer patronage and in turn merit distributor confidence and support.

Advertising

Contributing heavily to a product's success in advertising, the stimulus that sparks demand for a product. Quite frequently, one is attracted to advertising messages bombarding the public from various advertising media. Advertising helps to attract attention, create interest, and stimulate decisions to buy. Without advertising, many of the leading grocery products in today's supermarkets would not have achieved the success they now enjoy.

The advent of "self service" shopping in modern supermarkets places the responsibility of making buying decisions squarely on the shoulders of the consumer. This decision can be influenced by compelling television commercials, color magazine and Sunday supplement ads, or haunting radio jingles. Confronted with endless varieties of merchandise, consumers may be prompted into selecting certain brands because a manufacturer spent time and money to create a brand image in the shopper's mind.

Today, most distributors assume or expect manufacturers to place adequate advertising behind products to insure consumer acceptance. Almost all suppliers in the food industry advertise in some way, shape, or form, whether it be a gala television spectacular in living color, a fifteen second spot commercial on the late, late movie show, or a full page color ad on the back of one of America's leading comic books. The important point to remember is that the advertising expenditures should be geared to an objective. Most likely, this objective is to present the sales message to the largest number of consumers possible. Advertising merely for the sake of telling distributors a product is advertised without regard to a carefully planned program is a waste of money. A comprehensive advertising schedule not only blankets a certain area with convincing sales stimuli but also lends support to promotions and in-store displays at the retail level. Suppliers backing products with strong stimuli usually have a better chance of increasing turnover which results in additional dollars to the distributor.

Profit

The final factor in determining the success of a product is profit, in this case to the distributor. There are two basic tenets of supermarket selling--fast turnover and high cumulative dollar contribution of low profit items to net profit. Whereas, low prices reduce the profit on a per case basis, they encourage a larger number of consumers to buy by resul

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thereby resulting in more profit dollars to the operator of a supermarket. The moral of the story about a "fast nickle beating a slow dime" certainly applies to the supermarket. Lower prices enable more people to buy a larger number of items as well as spreading purchases over a wider variety of grocery products assuming the consumer adheres to a fixed percentage of the amount of family income which can be spent on food.

The percentage of profit is important to the distributor, but so is turnover. Manufacturers should take both turnover and per cent of profit into consideration when pricing merchandise to the distributor. However, there are still a number of distributors who actually do not quite understand where profits come from in the food industry. How often have manufacturers heard retailers say that the percentage of profit is entirely too low without considering the turnover potential of the product. Malcome P. McNair in his study that appeared in the June, 1957, Harvard Business Review said that retailers have become slaves to percentages. Something stands in the way of clear thinking. Continued emphasis is placed on percentages of sales instead of dollar earnings and the relation of dollar earnings to investment. Mr. McNair suggested that retailers stick to making dollars, find out what returns come from an investment, and get to know and understand turnover.[1]

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[1]Malcome McNaire and Eleanor G. May, "A Revolutionary Approach to Retail Accounting," Harvard Business Review, Vol. 35, No. 3 (May-June, 1957), p. 105.

In answer to the question what makes turnover, one can safely answer "merchandise that sells." In most cases, distributors say that it is the sure and dependable day after day sellers that create turnover and not the goods that "move slowly," tie up capital, and subsequently result in lower dollar profits. Too often, "slow-moving" merchandise, termed hidden profit leaks, take up valuable shelf space that should be occupied by merchandise that sells in greater quantities. In the final analysis, turnover is what makes profit in the food industry. Refer to Appendix A for a mathematical explanation of turnover.

Conclusion

In conclusion, many factors play an important part in building a market for a product, however, four basic ones are usually adhered to by the established manufacturers to insure the product's growth: Quality, Value, Advertising, and Profit. Quality and value go hand in hand offering consumers a product worthy of the prices they are willing to pay. A product which is able to offer "more for the money" has a better chance of attaining a larger share of the market than one whose product characteristics are not as easily identified by the consumer.

Advertising, the third element, creates a market for the product by building a product image in the consumer's mind and encourages her to purchase it when shopping in the supermarket.

Finally, profit is essential in the over-all mix of a successful product. Needless to say, the higher the total dollar profit that can be made from selling the product, the happier the distributor. However, profit is a combination of two things: turnover or sales velocity and mark-up. Relying strictly on per cent of mark-up to determine what items to sell does not give the supermarket operator a true picture of the dollar profit return if turnover or case movement is not considered.

All four of the above factors are dependent upon each other. The elimination of any one can adversely affect the sales of a product. Suppliers incorporating these basic factors into product programming will not only create a firm marketing foundation upon which to build a bright future but gain distributor confidence as well.

Mr. J. O. Peckham, Executive Vice President of the A. C. Nielsen Company, stated in the 1959 _A. C. Nielsen Marketing Operations Report_ that the new or improved product was the most decisive factor affecting sales gains for a product. By new and improved, Mr. Peckham meant any new brand or an improved version of a present brand that incorporates some fairly substantial added value that the consumer can recognize very easily. In addition, products which can be classified as premium brands with added consumer values of sufficient importance to command a higher price than most other brands with which they compete have the effect of expanding the

dollar market for the commodity groups in which they were introduced and not merely to take business away from competition. Tonnage, as well as dollar gains, are evident in many instances as consumer usage is increased through product improvement and additional marketing effort of these new brands.[2]

Therefore, the product plays a most important role in gaining good distributor relations. With supermarkets selling nearly 6,000 items, it behooves manufacturers to offer products which give the consumer a better value for the money and not similar values already received from existing products. Unless this condition is met, the so-called "me too" products introduced as new will have only temporary success and at a very high marketing cost.

Needless to say, if manufacturers introduce new products which not only offer better values but expand the product category sales as well, they will receive a most cordial acceptance and vote of confidence from distributors. As long as manufacturers can maintain and increase added consumer value through product improvement, fair pricing, and well directed sales and advertising effort, they will be planning their marketing operations very well, not only for the present, but for many years to come.

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[2]J. O. Peckham, "Planning Your Marketing Operations for 1959 and the Years Ahead," an address given at the 50th annual meeting of the Grocery Manufacturers of America, Inc., on November 11, 1958, at the Hotel Waldorf-Astoria, New York City, New York.

CHAPTER III

TERMS OF SALE

Competitive conditions in the food industry have influenced manufacturers to institute more rapid delivery schedules and liberal discount terms for the benefit of distributors. This chapter will discuss specifically what these discounts are and how they are designed to assist the distributor in selling merchandise to the consumer at the lowest possible price.

Discounts

Quantity discount. There are certain fixed costs which accompany every order. For example, there are the salesman expenses, clerical and accounting costs for processing an order, and expenditures involved in warehousing and shipping merchandise. Normally, these costs are incurred in small quanity orders as well as large ones. However, cost savings are effected by manufacturers when large quantity orders are shipped, the reason being that the costs are spread over a larger number of cases. For manufacturers, just as many costs are involved in selling, processing, and shipping a 50 case order as a 450 case one. To induce distributors to buy large quantity orders, manufacturers usually pass on these savings in cost by reducing the cost per case. These savings are known as quantity discounts and benefit both parties--the manufacturer sells more cases of product and the distributor receives a lower cost. Probably, the larger chains and wholesalers are in a better position to take advantage of quantity discounts because their capacity to sell merchandise is greater.[1]

Cash discounts. Nearly all manufacturers allow distributors to discount their invoices if paid for within a certain period of time. The reasoning here is that the manufacturer grants the distributor an incentive in the form of a discount in return for the distributor's prompt payment for the merchandise. Most terms of sale give distributors the option of paying for goods within ten days from the date of the invoice and deducting 2% from the total amount or paying the entire bill in 30 days with no 2% discount. Some suppliers give more liberal discounts such as a 3% or 5% cash discount while others grant discount terms varying from fifteen to thirty days.

The Scott Paper Company announced on February 9, 1961, that during the introduction period for any new product, the company terms of sale on the first order will permit a 2% cash discount if the invoice is paid for in forty days from

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[1]Manufacturers may grant additional quantity discounts. For example, Scott Paper Company allows a $25 car loading allowance for each rail car load order of a single brand. This is an incentive to those distributors who can buy carload quantities of one brand rather than a car containing assorted brands.

date of invoice. Net payment will be due in sixty days from date of invoice. The change was made so customers can facilitate distribution and capitalize fully on consumer advertising for the new brand. In addition, Scott Paper Company allows the same terms on promotional or deal merchandise when distributors stock up on merchandise to take advantage of the reduced costs or extra promotional allowances.[2]

In addition to receiving prompt payments from distributors, suppliers find that cash discounts encourage the turnover of receivables, reduce bad debts, and help manufacturers to detect poor risks. On the other hand, most distributors are satisfied with cash discounts, however, a few situations have arisen which have prompted distributors to make suggestions for more liberal cash discount policies. One is the matter of check handling expense incurred by distributors when reimbursing various suppliers for each shipment of merchandise received. A spokesman for a large Midwestern chain suggested that manufacturers allow them to write one check per week, per manufacturer covering the total amount of merchandise received the preceeding week and still take the cash discount on the total amounts purchased. Presently, this particular chain's accounting department

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[2]Chain in terms of sale policy published by Scott Paper Company in a letter addressed to the food industry dated February 9, 1961.

remits checks to manufacturers for every invoice on the date specified to enable them to take advantage of the cash discount. Perhaps this means that they write three or four checks on different days of the week for one manufacturer. Possibly a system allowing this distributor to write one check for the four invoices due in any one week would reduce the check handling expense for both the manufacturer and distributor. Already, the Stockley Van Camp, Inc., company allows distributors to pay for merchandise once every thirteen weeks and receive cash discounts on total purchases during this period.

While on the subject of invoices, the test of Trade Practices Recommendations presented at the fifty-first annual meeting of the Grocery Manufacturers of America set forth three recommendations. They read as follows:[3]

1. Distributors have stressed the importance of working toward a standard invoice form on which all essential information such as terms, discounts, quantities, and the like would appear in a uniform place on the invoice. This would facilities the job of the accounts payable clerk in processing invoices. Such standardization could result in savings of hundreds of clerical man hours, and eliminate much of the confusion that now exists.

2. A distributor committee is now at work on this and will submit a recommended format.

3. Bills of lading should be attached to the invoice. Where this is not possible or practical, the invoice should show the rail car number and routing instructions.

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[3]Steve Weinstein, "Urge More Realistic Co-op Allowance," Supermarket News, Vol. 8, No. 49 (November 16, 1959), p. 37.

Since most terms of sale grant cash discounts on a specific period of time usually commencing with the date of invoice, there are times when the invoices become payable to earn the cash discount even though the merchandise has not been received because of a delay in transportation. Thus the distributor must pay for the product before the contents of the shipment can be checked and accepted. However, such complaints are hard to completely eliminate and, today, all manufacturers will gladly reimburse distributors for any shortages and damages discovered in the shipment. If merchandise is damaged in route, manufacturers can file a claim against the carrier if proof can be established that the merchandise was in good condition when loaded.

The Kellogg Company recently initiated plans to enable distributors to pay for merchandise from the date the merchandise arrives at the customer's warehouse. All of Kellogg's invoices are post dated, taking into consideration transit time. Thus, distributors can take advantage of the cash discount from the date the merchandise arrives in the warehouse and no longer from the date the goods were shipped from the manufacturer's plant. Needless to say, distributors like the idea of paying for Kellogg's brands ten days following its receipt in the warehouse so they can turn a carload order before paying for it. Some large distributors are working on Kellogg's money because they sell the merchandise before the cash discount period ends.

A buyer for a large Seattle, Washington, wholesaler, Mr. Ed Lake of Associated Grocers, made an interesting statement in 1958 about the way cash discounts were figured on deal merchandise. He stated that a 2% cash discount on a case of soap powder with a 4¢ off label reduces the case cost eighty cents (from $5.60 to $4.80). Thus, the per case cash discount is reduced two cents (from eleven cents to zero cents). The cost of warehousing and shipping a case to the stores remained the same regardless of the cost. Therefore, Mr. Lake suggested that distributors be permitted to discount an invoice on regular cost and not on the deal price.

A purchasing director for a Southern Voluntary chain raised a technical question concerning the proper cash discount which could be taken on an invoice paid prior to the commencement of a price decline, as well as the procedure of refunding money. It appeared that the director paid for a shipment of coffee on July 15th for $1,500 and was notified on July 30th that a $200 refund would be paid because of a price reduction. Another shipment of coffee was purchased in August for $1,300 and when the invoice was presented in early September for payment, the director noticed that the $200 refund was deducted from the $1,300 August cost, thereby reducing the bill to $1,100, and the cash discount from $26 to $22. The director claimed that he should be entitled to a 2% cash discount on the $1,300 or the contracted price of the coffee. He was losing $4 cash discount by deducting the

2% on the $1,100. With a twinkle in his eye, the director thought that he might have another argument for keeping the $4 cash discount on grounds that the coffee company did not promptly return the $200 refund in July and, therefore, he may be entitled to keep the $4 as "interest" charged to the coffee company for use of the $200 for two months. A pretty far-fetched point but appropriate in reminding manufacturers to make prompt payments to distributors on all matters, such as promotional allowances, refunds, discounts, and other incentives which are due.

The General Foods Corporation announced in 1959 that they were offering a new cash discount policy on trade and consumer deals which should remedy the complaints voiced by Mr. Lake and the Director of the Southern Voluntary chain. Henceforth, customers will be allowed to deduct cash discounts where applicable from the gross amount of the invoice before deduction of trade and consumer allowances. Cash discounts are to be computed before any adjustment for transportation or other miscellaneous charges and allowances.[4] Standard Brands, Inc., and The Green Giant Company have initiated similar policies.

Perhaps an explanation is appropriate at this time as to why distributors express so much concern over cash discounts. The reason is simple--cash discounts together with

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[4]GMA Blue Bulletin No. 885, January 5, 1959, p. 3. (Published by the Grocery Manufacturers of America, Inc.)

advertising and promotional allowances account for a substantial part of the distributor's net profit!

Prompt Delivery of Merchandise

Distributors are conscious of the fact that inventory should be kept to reasonable levels and geared to turnover of products at store level. Excessive inventory may create financial strains for the distributor if he must wait for long periods of time for the merchandise to move out of the warehouse. Money tied up in excess inventory might very well be used in other facets of the business and help keep to a minimum the costs of borrowing capital from outside sources.

Manufacturers are cognizant of the distributor's concern for maintaining proper inventory controls and some have taken steps, costing large sums of money, to give better service to distributors. The General Foods Corporation has constructed sixteen food distribution centers throughout the United States to give distributors delivery on assorted brands within forty-eight hours after receipt of the order. A manufacturer of fifty-two diversified products, General Foods now maintains stocks on all of their brands in each distribution centers to better serve the trade. Prior to the distribution center program, General Foods was shipping various products from different mills. It was not uncommon for a California distributor to wait three weeks for a delivery of dog food from Iowa or a Miami wholesaler to receive a carload of gelatin and cake mixes from Michigan before two weeks' time.[5]

The Scott Paper Company also established shipping depots throughout the United States to provide quick delivery as well as assorted brand shipments to their customers. As a result, distributors can keep inventory to a minimum by ordering assorted Scott brands at more frequent intervals.

Advancements, such as these, have enabled food distributors to operate more efficiently. A major cost factor in a distributor's operation is obtaining capital for expansion and the construction of new stores. If capital is borrowed, the cost can become quite substantial, especially if the nation is in a period of a "tight" money market. Therefore, one way in which to release funds for planned capital expansion is to keep inventory costs to a minimum. A study conducted by the Penn Fruit Company, in 1954, revealed that over two-thirds of the merchandise stocked in Penn Fruit stores sold in quantities of less than a case per week. This prompted Penn Fruit directors to consider a more efficient method of buying merchandise so as to keep inventory requirements to a realistic limit. A fifteen day inventory program was instituted. Buyers were instructed to work with manufacturers and establish buying and transportation schedules. Of course, buyers had to exercise judgment so as to keep

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[5]"General Foods Warehouse," <u>Wall Street Journal</u>, XLI, No. 106 (March 15, 1961), p. 11.

total costs (merchandise and capital costs) at a minimum. Some inventory had to be kept in excess of the fifteen day policy limit because of the nature of the product and the transportation time required. Suppliers able to perform within the fifteen day schedule contributed to developing more efficient buying practices at Penn Fruit and at the same time greatly increased their own prestige and reputation with the distributor. The director of purchases at Penn Fruit revealed that this modified "hand to mouth" buying decreased capital requirements and reduced capital costs.

Constructing distribution centers requires vast capital resources and not all manufacturers are in the financial position to develop such an expansion program. However, all manufacturers should find it good business to maintain fast and efficient transportation services to distributors. Manufacturer salesmen should endeavor to keep buyers informed on transportation criteria and solve transportation difficulties as soon as they arise. Salesmen should check periodically with receiving clerks and warehouse personnel to determine the period of time shipments are taking to arrive. Delays could be detected and action taken to provide for faster and more efficient transportation. Constant policing is necessary if manufacturers expect to provide the best possible service. The amount of confidence and respect earned more than compensates for the time spent reviewing shopping schedules and determining the most appropriate means of delivering goods to the distributor.

Mr. T. G. Harrison, Chairman of the Board of Super Valu Stores, Inc., spoke about transportation in the food industry at the fifty-first annual meeting of the Grocery Manufacturers of America in 1959. Mr. Harrison talked about the possibility of manufacturer and distributor working mutually to reduce warehouse space requirements by as much as fifty per cent by fast dependable deliveries. His major concern was the great waste of time, space, and money inherent in current transportation practices. As one solution, Mr. Harrison recommended closer scheduling of shipments from the manufacturer's plant to the distributor's warehouse to reduce the time between the arrival of the merchandise at the warehouse and the time it takes to deliver it to the stores and stocked on the shelves.[6]

Mr. Harrison pointed out that warehouse turnover of merchandise has increased tremendously. In 1949, a turn of ten times a year was considered satisfactory. Today, eighteen turns is unsatisfactory and twenty to twenty-two turns are acceptable to Super Valu. In order to increase the turns still further, manufacturers must work with distributors to effect a more efficient system of distribution. In closing his speech, Mr. Harrison read the suggestions received from the buyers from Super Valu's five divisional offices as to how manufacturers could better serve the distributor:

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[6]Weinstein, op. cit., p. 37.

1. Have manufacturer's invoices carry the same description of merchandise as that contained on the buyer's order particularly on deal pack merchandise where manufacturers often designate a certain deal by merely a code number suffix in back of the brand name.

2. Buyers like to receive invoices promptly. Many come in weeks after the product arrives. In many instances the shipments have been disposed of before the buyers get the invoice listing the price at which it was billed.

3. The traffic department in the distributor's warehouse needs manifests of rail and truck load orders. Even though they may be included in the cars or vans, copies should be mailed to the traffic department.

4. If a deal pack becomes available after a buyer places an order for regular pack merchandise, but before the shipment, the buyer should be notified.

5. When a warehouse in a city is served by more than one railroad, the carrier used by the distributor should be utilized by the manufacturer.[7]

Conclusion

Making it easier for the distributor to buy is most important to manufacturers striving to better relations with the trade. Quantity discounts enable distributors to take advantage of lower prices and the savings are usually passed on to the consumer. Cash discounts provide a lucrative source of additional income to distributors, but are not used to reduce the selling price. Both discounts assist distributors to compete more effectively.

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[7] *Ibid.*, p. 39.

Another factor helping distributors to compete is the ability of suppliers to deliver merchandise in the quantities desired on the dates specified. Suppliers capable of rendering "first class" service assist distributors in maintaining predetermined inventory controls which keep inventory stocks to a minimum, yet avoide out-of-stock conditions. Certainly those manufacturers who want to help distributors and try to adhere to distributor suggestions will undoubtedly reap just rewards for their efforts.

CHAPTER IV

DEALS--SPECIAL INCENTIVES TO INCREASING SALES

Vast amount of money is spend developing, researching, advertising, and distributing a product. Additional money is spent creating consumer demand for a particular brand. This is true of new products as well as those which have been on the market for some time. There are many methods manufacturers use to increase consumer demand and force distributors to stock items, deals, et cetera.

Deals benefit the distributor as well as the consumer and as a result play an important role in distributor merchandising programs. This chapter discusses the various deals and what they are designed to accomplish. Distributor opinion about the manufacturer's "wheeling and dealing" practices will be discussed, together with suggestions as to how deals can be made more effective and acceptable to the distributor.

The description of deals will be divided into two parts: those benefiting the distributor and those benefiting primarily the consumer.

Deals Benefiting Primarily the Distributor (Trade Allowances)

The give-away. One of the most popular deals is the give-away, i.e. merchandise which the manufacturer gives to distributors in return for orders for a specified number of cases, such as the one free with every ten cases purchased. The free goods are either identical or different cases from the merchandise purchased. For example, a canner may offer one free case of corn with every ten cases of corn ordered. To promote a different item, a case of canned peas may be given away. Actually, the give-away can be construed to be a reduction in the case cost, since the distributor receives eleven cases for the price of ten which reduces the cost proportionately. However, in order to take advantage of the give-away, the buyer must order in quantities specified to receive the free merchandise.

The give-away is designed to encourage distributors to promote the item usually at special prices. Most distributors try to take advantage of the give-away. In addition, give-aways are used by manufacturers for "forcing" new products upon distributors as in the situation of a free case of peas for every ten cases of corn.

Today, independent supermarket operators can take advantage of give-aways since most wholesalers reflect the deal in the price of merchandise by reducing the cost accordingly. Thus the independent owner does not have to buy ten cases to take advantage of the give-away, which would be prohibitive for many smaller volume grocers.

Give-aways are popular with distributors when they can buy unlimited quantities prior to the termination of the deal. Thus they can either continue to sell the deal at reduced retail prices, or elect to sell the items at regular prices and thereby make a larger profit.

Distributors prefer floor stock price protection on inventories at the beginning of a deal so that merchandise on hand is given remuneration to equal the deal. For example, if a distributor has 400 cases of corn on hand at the beginning of the deal period, the manufacturer would give the distributor the 40 free cases of corn on a one free with ten basis to protect the inventory stocks. Thus the distributor can remain competitive by selling the existing stocks at the deal price until the deal merchandise is delivered. If protection is not given, the distributor may have too many cases of regular pack on hand which might prevent him from taking advantage of the deal price altogether, since deals are usually limited to a four week period. In addition, distributors may have to stock both regular and deal merchandise to remain competitive if no protection is given which ties up capital in duplicate stocks.

Count-recount deal. A count-recount deal is designed to pay distributors a promotional allowance on the number of cases sold during the duration of the deal. This method prevents distributors from stocking up at the end of the deal period. It is to the distributor's advantage to promote the deal merchandise during the period in order to get paid a larger promotional allowance, since distributors get paid on the number of cases actually sold. An inventory is taken at the beginning of the period. An inventory is also taken at the end of the period and subtracted from the amount of inventory on hand at the outset as well as merchandise purchased during the deal period to determine the actual number of cases sold. For example, if a wholesaler had a hundred cases of cake mix on hand at the start of the deal, purchased 300 more, and finished with only 50 cases on hand at the end of the count-recount program, he would receive payment on 350 cases or the actual amount of product sold during the period.

Promotional allowance. The promotional allowance is designed to encourage distributors to promote at retail level. It is intended to accomplish the same objective as the give-away. Usually no minimum quantity is required to receive an allowance. Allowances are paid on a per case basis and all merchandise shipped during a specified period is covered. Usually, floor stocks are protected and the promotional allowance is paid on warehouse stocks. It behooves distributors to promote the deal merchandise in order to earn higher allowances.

Cost reduction. Instead of a promotional allowance, manufacturers may voluntarily reduce the case cost for a limited period of time. A case reduction has the same effect as the give-away and the promotional allowance, in that distributors can sell merchandise at a lower price to the consumer.

Increase in cost. The increase in the cost of merchandise acts as a stimulant to get distributors to increase purchases prior to the price increase. Usually ample notification is given so distributors have an opportunity to "stock up" at the "old" price. Quantities may be limited or unlimited. It may be to the distributors' advantage to buy heavily so as to keep a competitive pricing position. However, the availability of warehouse space and/or capital may tend to limit buying.

Deals Designed Primarily for the Consumer

Whereas the deals discussed in the preceeding section depended upon the distributor to pass them on to the consumer via price reductions, the incentives which are to follow are passed directly from the manufacturer to the consumer. The number of consumer deals offered by manufacturers has tripled from 1955 to 1959, and increased six times faster than the actual tonnage movement of grocery store commodities as presented in the "Twenty-Sixth Annual Nielsen Review of Retail Grocery Store Trends."[1] Of these deals, the cents off deal is by far the most popular.

The cents off the package deal. The cents off the package deal enables consumers to purchase merchandise at a discount. The label tells how much the consumer saves. For

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[1]A. C. Nielsen, Jr., "Twenty-Sixth Annual Nielsen Review of Retail Grocery Store Trends," 1959, p. 21.

example, the label may read "3¢ off" which means the product can be purchased at a saving three cents below normal selling price. Suppliers reduce the cost of merchandise to the distributor thereby enabling him to maintain his regular profit margin while offering the product to consumers at a reduced price.

Multi-pack deals. Multi-pack deals are a popular merchandising device. Multi-pack deals contain two or more items packaged together, one selling at regular price and the other at a reduced price, or free. For example, soap companies often band four cakes of bar soap together and advertise "Buy three at regular price and get a fourth one free." The distributor cost is reduced to enable him to maintain a normal profit margin. The products are deal packed by the supplier and cases are flagged for easy identification.

Free trial offer. Manufacturers induce consumer buying by offering to refund the purchase price if the label or some other product identification is mailed to a designated address. The consumer declares the purchase price and in turn is reimbursed with a check or coupon redeemable for cash at any supermarket. In some instances, the refund may be redeemable only on an additional purchase of the same product. Either way, the consumer receives free merchandise.

Premiums. Premiums appear primarily in two ways: packaged with the product or write-in offers. In the first method, premiums are placed either inside the package, such as a toy boat inside of a package of cereal, or attached to the outside of the package as in the case of a sponge attached to a package of soap powder. There appears to be one problem with premiums of this sort, they are limited in use. Some premiums cannot be placed inside the package because of health restrictions while premiums attached to the outside of the package may be removed by careless handling, by accident, or even pilferage.

On the other hand, premiums are used effectively via the mail method whereby the consumer mails a box top, label, or other means of identification along with a sum of money to the manufacturer and receives a premium in return. Breakfast food manufacturers have used this type of premium extensively--most notedly the offering of silverware.

When B. T. Babbitt offered the first premium back in 1851--lithographed pictures for 25 soap wrappers each--he started something which today is considered by many companies an essential part of sales promotion. Generally speaking, experts agree that if a premium is not unique, it had better be utilitarian and related to the product. On an individual basis, cooking and eating utensils far out number all other premiums, as revealed by a survey published in the June, 1959, issue of Food Business. According to the survey, the ten most used premiums are:[2]

Item	% of Companies Using
Silverware	41
Stainless Steel	39
Glass Utensils	31
Cutlery	30
Aluminum Ware	30
Applieances	27
Plastic Utensils	22
Pens, Pencils	21
Picnic, Barbeque Items	20
China Utensils	19

Direct sampling. Direct sampling can be accomplished in two ways: door to door or in-store sampling. The placing of samples at the consumers' door is extremely costly, yet probably the most direct method of getting consumers to try a product. Soap companies have placed all sorts of soap products on the door step of millions of consumers in the United States.

Home sampling of new and improved products has become a rapidly growing $200 million a year industry according to a recent article published in Printer's Ink. Recent trends noted in the door to door direct sampling method of marketing include: a shift away from mailed samples as a result of recent increases in postal rates; the use of holders which are attached to doorknobs for home distributed samples, since the method of personal presentation with a sales talk has become prohibitively expensive.[3]

[2]Editors, "Premiums: The Who, What, and Why Among Food and Grocery Manufacturers," Food Business, Vol. 7, No. 6 (June, 1959), p. 32.

[3]Aber, Goldberg, and Nesfield, "Notes on the Grocery Trade," J. Walter Thompson Company Bulletin 11-16, June 15, 1961, p. 1.

The J. Walter Thompson Company's Marketing Research Department published a few guides to sampling designed to bring about greater efficienty in sampling. These guides are:[4]

1. Include enough of the product to give a fair trial but not enough to delay initial sales;
2. Include, if possible, a coupon good for a discount on the purchase of the sampled product;
3. Distribute only in areas where the proportion of prospective customers is high;
4. Use caution in sampling products which are already established as an antidote to falling sales since samples does not seem to permanently halt a decreasing sales curve; and
5. Distribute samples of the new or improved product after the products have obtained distribution in at least half of the supermarkets in the area.

Manufacturer-Distributor Attitudes on Deals

The number and variety of deals employed in the food industry is larger today than ever before. Therefore, it is essential that manufacturer and distributor work closer together to reap maximum benefits from them. However, neither the manufacturer or the distributor is satisfied with deals. Manufacturers feel that better distributor cooperation in the handling of deals would justify their cost and obtain objectives they are designed to achieve. Distributors believe that manufacturers could make the distributor's job easier by reducing the amount of time, labor, and capital needed to handle deals.

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[4] Ibid., p. 2.

This is the era of "wheeling and dealing." Deals have become a potent marketing tool used by manufacturers when introducing new products as well as stimulating the sales of existing ones. Deals are becoming more prevalent in product categories where quality advantages are difficult to distinguish. When consumers can not notice any appreciable quality characteristics between two or more competing products in the same price range, there is little chance of their becoming loyal to a particular brand and more reason to believe that their choice depends upon advertising stimulus which influences buying decisions, such as television and radio commercials, coupons, cents-off deals, in-store displays, and promotions.

The trite saying, "We can't live with them and we can't live without them," describes the manufacturer's dilemma. Surveys and studies conducted by numerous research agencies have revealed that deals increase the sales of a product temporarily, but very seldom on a permanent basis. One study published in Printer's Ink, stated that deals usually produce an increase in both sales and distribution but such are illusory. As soon as the deal is finished, the sales curve starts on a downward plunge, leveling off at a point or two below the pre-deal position. Also, there is a similar decrease in the number of stores stocking the item.[5]

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[5]Wayne Mooney, "Are Deals Worthwhile," Printer's Ink, October, 1953, p. 33.

For a number of years, Mr. J. O. Peckham has been observing the effects of deals in the food industry, and concluded that consumer deals produce only temporary gains. In addition, Mr. Peckham observed that deals load regular customers with cut-price merchandise at the expense of future sales, result in progressively smaller temporary gains as the promotions are repeated, and will not stop a declining sales trend for a product. Furthermore, Mr. Peckham claimed that deal promotions are now so common in the food industry that he has noticed many instances where even temporary gains are lacking or are barely noticeable.[6]

An interesting point stressed by Mr. Peckham concerned the distributor. While consumer deals or price promotions on established brands do not provide much aid and comfort to a manufacturer, they do give an alert distributor an opportunity to increase retail sales, particularly if the promotion is on a brand with a substantial consumer following. Since consumers frequently shop in more than one store per week, a store providing effective backing for the promotion has a good chance of securing added business from the stores which do not adequately feature the consumer offer.[7]

This brings up the question, what can a manufacturer gain by spending money on deals when most results are

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[6]J. O. Peckham, Planning Your Marketing Operations for 1959 and the Years Ahead," op. cit.

[7]Ibid.

temporary? The answer depends on a number of factors, such as, the franchise the manufacturer has been successful in building, new quality advantages, competitive activity, desire to sell greater quantities of merchandise, et cetera. Normally, a supplier whose products enjoy a high consumer franchise does not need to resort to deals as frequently as suppliers whose share of market is limited. Brand loyalty most often discourages shoppers from buying competitive items even at reduced prices. A prime example of this can be found by examining the share of market established by the Campbell Soup Company or the Hershey Chocolate Company, both enjoy a major share of the national market. As a matter of fact, these companies do not offer advertising contracts. However, very few products, today, command such a large share of the market that the companies do not have to resort to deals or special incentives. For most manufacturers, deals play an important role in helping to maintain a share of market as well as build a larger one. Therefore, even though deals produce temporary results, they are a means by which suppliers can hold on to a franchise or initiate "stop-gap" action, pending quality improvements or hard hitting advertising programs. Most often, the extent and frequency of deal activity depends upon competitive pressures from other suppliers.

An interesting study was conducted by the Colgate-Palmolive Company to determine what appeal, if any, deals had to their detergent FAB. A test panel was organized to study the effects of the various types of deals on FAB sales over three stages of the product's life cycle: introduction in 1951, maturing in 1953, and establishment seven years later.[8] In FAB's first year, three different deals were promoted. Two deals were run during FAB's "Maturity" year, and finally, three deals were offered after FAB became an established product. The results proved interesting. In the introductory stage, the volatile nature of FAB was significant. Consumers looking for bargains temporarily abandoned their regular brand to buy the FAB deal. People tried it for the first time because of the deal. Through this hectic experimental traffic, the product, accelerating its exposure by means of deals, began the long job of selecting its market.

As a maturing product, on the market for three years, deals helped to improve FAB's position, but it was apparent that the market's responsiveness to FAB's deals had grown more resistant.

Finally, as a maturing product, deals did little to further the growth of FAB's market. In fact, sales declined after the duration of the deal. In contrast to its earlier elastic responsiveness, FAB's sales stimulation due to deals has become limited in scope and duration. Deals were unable

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[8] Mac Hanan, "Does the Deal Produce the Big Sales Gain," Food Business, Vol. 18, No. 5 (May, 1960), p. 18.

to continue increasing and holding sales advances above pre-deal levels as the product became more established.

Perhaps something of value can be learned from this study. Three general implications may be worth examining by manufacturers and distributors stated, Mack Hanan, consultant to Colgate-Palmolive Company and originator of the FAB study. First, there may be a point of diminishing return in the life cycle of every product beyond which deals fail in significantly altering its long term market position. This would suggest that deals are marketing tools of primary value only to new or maturing products for which deals best fulfill their two major purposes: to attract new users and then to hold as many of them as possible. Secondly, advertising and distribution may render a product eventually undealable. Whether or not familiarity can be said to breed consumer contempt, it apparently discourages the consumer's attempt to associate herself more closely with the product through incentive purchases. Mr. Hanan thought a new truism in marketing may be conceived, i.e. the longer and stronger a product is advertised, the shorter and smaller will be its expected sales gains from deals. Thirdly, if an established product is no longer responsive to deals for itself, how else can its sales be rejuvenated? Must it be tied in with younger and successfully maturing products? Are premiums more likely to add a sense of newness to the product than price or offers? These are questions which must be studied further in order to give marketing men an idea as to the true effect of deals in helping a product to gain a larger share of the market.[9]

A word of caution should be injected at this point. Manufacturers should not mistake deals as a panecea for building a firm foundation for a product's future growth. The real key for development unquestionably lies with research and the ability to manufacture new and better products which offer higher values to consumers. Deals do not provide a "short cut" to market development. Neither do they take the place of intensive advertising programs or an efficient and well trained sales force.

As one top executive put it:

> Cents off deals, deal packs, premiums, and special promotional allowances do not build brand loyalty nor do they convince the consumers. Instead, consumers are persuaded to purchase because of deals. In essence, deals merely borrow consumer demand from a competitor's brand. The patronage is often temporary, however, since the quality advantages are not strong enough to prevent these "borrowed" customers from buying another brand offering a better deal.[10]

Glen Martin, a writer for Printer's Ink, wrote that,

> Wheeling and dealing companies who rely on deals, premiums, deal packs, etc. to build a market suffer from a habit forming opiate from which few escape. When will these companies realize that customers can be bought until somebody buys them back with a new offer?[11]

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[9] *Ibid.*, p. 42.

[10] Ed Walzer, "Significant Food News," *Food Business*, Vol. 3, No. 12 (December, 1955), p. 24.

[11] Glen Martin, "What Price Brand Loyalty?," *Printer's Ink*, Vol. 257, No. 13 (December 28, 1956), p. 84.

Clarence Eldridge, former Vice President of the Campbell Soup Company, said that high quality products and consumer acceptance achieved through product development and market research, respectively, are the basis for a sound consumer franchise and not marketing objectives based on deals, give-aways, premiums, et cetera. "Deals are a substitute, an expedient of temporary and illusory benefit," said the executive of the world's largest producer of soup.[12]

Speaking at the mid-year meeting of the Grocery Manufacturers of America on June 24, 1957, Harrison F. Dunning, Vice President of Marketing for Scott Paper Company, remarked that more substitutes exist today for hard selling than ever before. Gimmicks, deals, allowances, prizes, trips, and other shot in the arm techniques that seldom ever build a sound, continuing business for the supplier are most prevalent these days. "Such substitutes do not sell, they buy; they don't breed respect between supplier and retailer, they breed distrust; they don't make products cheaper for the ultimate consumer, they make them more expensive; they don't reflect strength among America's promotion minded men, they reflect weakness."[13]

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[12]Clarence Eldridge, "Marketing--The Key to Campbell's Expansion Drive," Printer's Ink, Vol. 250, No. 7 (February 18, 1955), p. 63.

[13]Harrison F. Dunning, in an address to the mid-year meeting of the Grocery Manufacturers of America, June 24, 1956, White Sulphur Springs, West Virginia.

Continuing, Mr. Dunning claimed that distributors are sick and tired of the number of the preposterous force plays which are presented to them by suppliers, such as the one free with ten, deal packs, premiums, et cetera. Buyers recognize the fact that deals, when employed by suppliers to encourage the distributor to promote products which have strong consumer acceptance and intensive national advertising, are of value to both supplier and retailer. However, when an increasing number of manufacturers use deals primarily as a substitute for national advertising, consumer acceptance programs, and market research, distributors begin to view deals with suspicion and skepticism, thereby imparing the impetus or effect deals are expected to exert.[14]

Despite efforts by some manufacturers to recognize the limitation of deals, there is every reason to expect that "wheeling and dealing" will become more intense in the food industry. Julian Handler, Editor of Supermarket News, observed that deals are running rampid throughout the industry as a result of intensive competition in all levels of food distribution.[15]

Mr. Ben Swartz, Executive Vice President of Food Company reported his chain is continually "flooded" with myriad

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[14] Ibid.

[15] Julian Handler, "The Editor's Corner," Supermarket News, Vol. 5, No. 51 (December 17, 1956), p. 2.

of deals. In one day, Foods Company buyers were offered six liquid detergent deal packs, four soap powder deal packs, three shortening deals, eight cake mix deals, and two bleach cents-off packs. All of these in addition to three promotional allowances on toilet tissue and six premium offers on breakfast foods.[16]

Mr. Swartz's predicament keynotes the major complaint that distributors voice against deals, i.e. they do not like the way suppliers are handling them. This was brought out at the mid-year meeting of the Grocery Manufacturers of America in June, 1958. Distributors complained that not enough time was given by manufacturers to enable distributors to plan for the deal programs. Lead time is extremely important to distributor merchandising programs. Buyers need time to reduce inventories before the arrival of the deal merchandise, warehouse personnel need time to plan floor locations for the deal brands, and the merchandising department needs time to schedule promotions and plan in-store displays for the deals.[17]

Serious problems can develop when not enough time is given to distributors. Deal pack merchandise may arrive in the warehouse before normal stocks have been depleted. This

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[16]"Western Chains Air Views on Promotions," Supermarket News, Vol. 7, No. 17 (April 28, 1958), p. 26.

[17]"Heavy Consumer Dealing Confined to Few Products," Supermarket News, Vol. 7, No. 1 (June 30, 1958), p. 4.

creates two separate inventories and requires distributors to tie-up capital and warehouse space in the form of duplicate stocks of the same product. Strong national advertising exerted at retail level encourages consumers to purchase deal packs which temporarily "kills" the non-deal pack merchandise. Distributors plead for ample lead time on all deals, particularly deal packs, to enable them to sell out current non-deal stocks and prepare for arrival of the deal packs.

When speaking of timing, an important element to be considered is the time of the year the promotion is offered. Certainly, a soap company would find distributors more receptive to promoting soap in January than in December, when attention is devoted to holiday items. Occasionally, manufacturers exercise poor judgment when determining promotional dates for deals, particularly those products which have a tendency to conflict with seasonal ones. Without proper calendar timing, distributors can hardly be expected to do a good sales job on deals.

In addition to timing, buyers require pertinent information such as cost, how deals are packed, case contents, ordering requirements, time interval for ordering at the deal price, extended credit terms, and many others. The difference in the number of units to the case should definitely be covered with buyers to prevent over or under ordering of quantities. Where possible, buyers would like to have more than one opportunity to order deal merchandise, since they cannot always estimate accurately how much deal merchandise they can sell. Also, "one-shot" deals requires distributors to tie-up too much space in the warehouse, particularly if buyers over estimate the sales potential of the deal.

As an aid to warehousing, it is suggested that all deal pack merchandise be specifically flagged by manufacturers so it can be separated from regular stocks. This will help the warehouse personnel to make immediate distribution on the deal packs when shipping orders to stores, thereby benefiting both the supplier and distributors.

Conclusion

There are various types of deals offered by manufacturers each one intended to accomplish a specific purpose. They can be classified into two main areas: those benefiting the distributor and those benefiting primarily the consumer. They produce temporary results and are effective in obtaining short range sales increases. Many suppliers believe deals are most effective when introducing new products or quality improvements to existing ones. Manufacturers should realize that deals are a means for obtaining marketing goals and, by themselves, do not build lasting consumer franchises.

Trade incentives or those deals designed for the distributor have not made all manufacturers using such deals all together satisfied with the results. Perhaps a major complaint against these deal incentives hinges on the practice of some distributors "pocketing" the promotional dollars without passing the savings on to the consumer. This is particularly true with promotional allowances. For example, a few distributors may feature the product once during a four week promotional allowance and then continue to sell the item at regular price for the remaining three weeks, or some distributors may not bother to reduce the retail price at all and do nothing in the way of merchandising displays, yet collect promotional allowances on all cases purchased during the promotional period. Naturally, manufacturers become annoyed with spending promotional dollars and not getting distributor promotional cooperation in return. Because of these disappointing responses, some manufacturers are placing more emphasis on consumer incentives.

This concern over the distributor's lack of interest in trade incentives again emphasizes the point that deals in themselves do not build markets or franchises which are lasting. Manufacturers should always remember that the product has to be established with the consumer first before distributors are going to find it good business to promote it in the first place. Too often, manufacturers who condemn distributor follow through with trade incentives are actually placing too much emphasis on them in the first place.

Both manufacturers and distributors agree that deals are an important marketing tool and, when used effectively, can produce results acceptable to both. However, a better understanding must be developed on behalf of manufacturers and distributors as to each others' problems and suggestions in order to maximize fully on the objectives deals are intended to achieve. A list of recommendations concerning deals was adopted jointly by both distributor organizations and the Grocery Manufacturers of America and presented at the annual meeting of the Grocery Manufacturers of America in 1959. The recommendations read as follows:[18]

1. Manufacturers are requested to give distributors from four to six week's notice about forthcoming deals in order to give them an opportunity to dispose of their regular stock, and so they can plan tie-in promotions.

2. Distributors feel that manufacturers should allocate enough cases to each distributor to stock all stores with sufficient quantities of merchandise to justify promotion. The proper quantity can be arrived at by the manufacturer and distributor working this out together, thus avoiding under or over buying.

3. There should be a fixed policy on the part of the manufacturer covering the following points: termination date of deal; whether distributor can place one or more orders; what manufacturer considers final shipping date; and assurance that the deal is over at the termination time for everybody simultaneously.

4. Distributors have expressed annoyance about overlapping deals on the same product. Having two or more different deals on the same product in the warehouse and in the stores at the same time creates confusion and irritation. Sometimes overbuying brings about such a condition.

5. Any deal should be practical and desirable for the distributor as well as for the manufacturer.

6. When distributors take in the special pack merchandise, their regular pack becomes dead inventory. This ties up money and uses up warehouse space. They feel manufacturers should give them sufficient notice on forthcoming special packs to enable them

[18]Steve Weinstein, "Urge More Realistic Co-op Allowance," Supermarket News, Vol. 8, No. 49 (November 16, 1959), p. 37

to reduce regular pack inventories aand give them extra dating on the deal inventory, or on the special pack shipment.

7. Distributors are particularly concerned with overlapping markets where deals are offered to one operator through his buying office or wholesaler in a given area without similar benefit to another operation whose buying office or wholesaler serves him from another area. This gives one operator a price advantage over another and works hardships on the distributor. It is recommended that when such plans are made, especially for selected test markets, manufacturers should advise distributors in the adjacent areas concerning the tests.

CHAPTER V

COUPONS

What Are Coupons

Coupons are a means by which manufacturers stimulate sales as well as introduce new products. Coupons have a certain redemption value which, when presented to retailers or mailed directly to suppliers, entitle the holder to either a cash refund, free merchandise, or a discount from the current retail price of a particular product.

Coupons are made available to consumers by three main methods: printed in newspapers, magazines, and publications; placed inside packages or printed on labels, wrappers, boxes, and containers; and direct mail. Coupons printed in magazines and newspapers as well as those mailed to the home enable consumers to redeem them on the next purchase of the couponed product, however, those placed inside packages or printed on the wrapper usually require the shopper to make two purchases: the first time to obtain the item and the coupon and the second to redeem the coupon especially when the coupon specifies a cash saving "good only on the next purchase" of the same product.

Although coupons are primarily designed to stimulate product sales by appealing directly to the consumer, they are also an effective means by which manufacturers induce distributors to stock and promote brands, some for the first time. Since coupons afford consumers monetary savings, most distributors, particularly retailers, want to make sure that the couponed merchandise is available for shoppers especially when the coupons are backed by powerful and compelling consumer advertising programs. In addition, coupons provide merchandising opportunities for distributors. The vast amount of consumer advertising placed behind a couponed product practically guarantees a fine sales increase for the product particularly when distributors support the coupons with active in-store promotional activity. In early February of 1958, a local New York Food Chain featured nineteen couponed grocery products for one week and emphasized in their advertising that consumers were being offered coupons totalling two dollars. So successful was the promotion, that the Dilbert Quality Super Markets recorded a new high in sales volume for their fifty-seven store chain.[1]

Problems Concerning Coupons

Basically, there are two problems confronting the use of coupons in the food industry. They are (1) the distributor's complaint about the cost and trouble of handling coupons, and (2) the manufacturer's concern over misredemption practices. Both will be discussed together because of their relationship to each other.

[1]"Dilbert Features 19 Coupons in Ads," Supermarket News, Voo. 7, No. 7 (February 17, 1958), p. 16.

Although most distributors agree that coupons stimulate product sales and lend themselves to exciting and dynamic promotional programs, there are times when distributors question their value. Perhaps the majority of distributor complaints center upon the problem of coupon handling especially at retail level. There are three main stages in which coupons are handled before distributors are reimbursed by suppliers. First, handling is required at the checkout area where shoppers pay for merchandise. Checkout cashiers must count the coupons, deduct the monetary value of the coupons from the shopper's grocery bill or give them cash for their value, file the coupons in cash register drawers or some other container, and in some instances, inspect the shopper's order to see that the merchandise for which coupons are being honored is purchased. On crowded shopping days when customers must wait in line to be "checked out," check out personnel are most likely to forget about inspecting the merchandise so as to speed up the check out operation. Therefore, it is not uncommon for distributors to redeem coupons for cash thus causing manufacturer protests.

The next stage of coupon handling encompasses coupon accounting. Coupons must be sorted and counted before mailing them to chain headquarters, wholesaler accounting departments, or directly to the manufacturer or clearing house. However, this step is a tedious one for many distributors not having an organized coupon handling program at store level. There are many independent supermarket operators who keep coupons in cigar boxes or other containers and wait until the box is full before sorting them. The term "cigar box" accounting has been given to this disorganized system. Progressive minded retailers count and separate coupons at the close of each day, some of the aid of coupon sorting bins as devised by the Grocery Manufacturers of America, in order to conserve man hours, reduce coupon handling expense, and maintain accurate coupon accounting records.

The third stage of coupon handling involves the billing and mailing of coupons to manufacturers or redemption agencies. Some distributors wait a long time before receiving reimbursement for reasons of pure carelessness, such as improper mailing addresses, no return address, and a difference between the actual number of coupons forwarded and the number recorded on the accompanying distributor's coupon invoice. On the other hand, manufacturers may take an unusually long time paying distributors because coupon redemption departments are improperly manned to take care of the coupon redemption claims. Time is of importance to distributors since sizeable sums of money may be tied up in coupons at any particular moment. Therefore, prompt payment enables distributors to avoid tying up capital for long periods of time.

Aside from the handling problem, another criticism manufacturers hear from distributors is that coupons "force" distributors into selling brands they do not want to sell. Consumer demand for couponed merchandise may be so great that distributors must find space to stock the item even though sales may drop to a level lower than that prior to the couponing. Distributors point out that the reason for the increase being only temporary is that manufacturers do not always follow through with strong promotional efforts after the couponing is over. As a result, distributors may be left with large stocks of slow selling merchandise which takes up valuable shelf space which could be devoted to better profit items.

Because of the variety of problems inherent in coupon promotions, a few distributors have openly denounced them. The late Patsy D'Agostino, former President of the National Association of Retail Grocers of The United States and a successful supermarket operator in New York City, charged that coupons bring "Nothing" into his stores and that they merely switch customers from one brand to another. Mr. D'Agostino contends that, "Suppliers use coupons as a device to force retailers to stock merchandise." Continuing, Mr. D'Agostino claimed, "That there are retailers who redeem coupons on other brands or strictly for cash rather than go through the trouble of checking the item against the coupon."[2]

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[2] "Significant Food News of the Month," Food Business, Vol. 3, No. 11 (November, 1955), p. 27.

A past president of the Supermarket Institute, Joseph P. Mott, revealed that fifty per cent of the members of the Institute (requirement for membership: supermarkets with annual volume of over one million dollars) redeem coupons in cash regardless of whether the customers purchased the brand being couponed. Mr. Mott assailed coupons as "being outmoded in the self-service shopping system of super markets." He pointed out that there are too many delays at checkout counters while cashiers redeem coupons for customers. Also, the accounting involved in processing coupons take too much time and cost the retailer money in terms of the time and labor devoted to coupon accounting.[3]

Jules Trieb, an associate editor of Printer's Ink, had a word to say to manufacturers contemplating coupon promotions in the food industry:

> No one can blame distributors for trying to discourage the use of cash redemption on coupons which merely switch consumers from one established brand to another via price cutting. Too often, the manufacturer is trapped into couponing campaigns by well meaning sales managers. Pressed for volume, the price cut via the coupon is a quick way to impressive orders. The end result is deep disappointment on the part of the sales department and a waste of money. Coupons are an effective and highly profitable part of advertising when they are used effectively and help to increase or continue to increase the already climbing sales curve of a product.[4]

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[3]"Grocery Expert Rips Cash Discount Coupon," Editor and Publisher, Vol. 89, No. 20 (May 12, 1956), p. 26.

[4]Jules Trieb, "Food Chain Mergers Forecast Problems in Advertising and Marketing Methods," Printer's Ink, Vol. 256, No. 8 (August 24, 1956), p. 23.

While trying to find ways of minimizing the handling problem associated with coupons, distributors have employed two methods of redeeming coupons which have caused concern to manufacturers. One method was pointed out by Messers. D'Agostino and Mott--that being the practice of cashing all coupons regardless of whether the couponed merchandise is sold in the stores. Legally, manufacturers are not obligated to redeem coupons presented by distributors when such distributors did not or do not intend to stock the couponed items. Some manufacturers may be hesitant to demand proof from distributors for fear of antagonizing distributors and jeopardizing future relations.

Occasionally, manufacturers are confronted with distributors physically removing coupons from merchandise and offering "couponless" items to consumers at a reduced price equivalent to the value of the coupon. Manufacturers frown upon this practice because distributors turn the coupon promotion into a "cents-off" deal (described in the previous chapter), thereby preventing the manufacturer from obtaining the results a coupon promotion is designed to achieve. As stated previously, an on package coupon promotion encourages consumers to buy a product twice. Coupons removed from packages may give the product an undesirable appearance and may even give the impression that something is wrong with the product. Shoppers should be given the opportunity of deciding where and how coupons will be redeemed and not be "forced" to have the distributor make the decision for them as is the case when coupons are removed from the package. If manufacturers intended a cents-off deal, the package or wrapper would state such an offer. Legally, manufacturers are not obligated to reimburse coupons which have been removed from the package by distributors. As in the case of distributors redeeming coupons for cash regardless of whether couponed merchandise was sold, manufacturers may prefer to "turn their heads" on the practice of distributors removing coupons from products to avoid "disturbing" the trade. Whether manufacturers enforce the proper redemption procedures at the distributor level depends upon the courage of the supplier to do so.

Attempts by the Grocery Manufacturers of America to Improve Coupon Promotion and Handling

In view of the widespread interest of both grocery distributors and grocery manufacturers in improved methods of handling manufacturers' coupon programs, the Grocery Manufacturers of America (GMA) undertook an extensive study of the subject in 1956. The results revealed a generally favorable attitude towards coupons among grocery distributors. Many retailers who were interviewed appreciated the fact that coupons provide additional money for purchasing more groceries and that coupon promotions bring customers into the stores. Distributors felt that coupons did not disrupt the routine handling of merchandise since only regular stock was involved and no additional warehouse space, storage area, or shelf space was required for products being couponed.

The study uncovered some major aspects of coupon promotions which cause problems for distributors as noted below, however, the objections to coupons were chargeable to handling difficulties and not to coupon promotions as such. Problems occurred in the following areas:[5]

1. The increase in recent years in the number and variety of manufacturer coupon promotions.

2. Differences in size and condition of coupons cause handling problems. Coupons torn out of magazines, newspapers, and packages appear at the checkout counter with ragged edges and in a dilapidated state. Distributors recommend that coupons be issued in standard sizes and forms so that they fit in cash register drawers. Most distributors do not like to handle coupons which have to be cut out of newspapers, magazines, or cardboard packages. Coupons should be printed so that distributors have little trouble determining the monetary value as well as the product to which the coupon applies.

3. The absence, in most cases, of a really efficient method of handling the increased volume of coupons at the store and warehouse level.

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[5]GMA Coupon Study, A Report Prepared by the Grocery Manufacturers of America (New York: GMA, 1956), p. 5.

4. Variation in redemption methods of manufacturers such as some manufacturers redeem coupons only through salesmen, others require distributors to mail coupons to the manufacturer or coupon redemption agency. The problem of prompt redemption, one of the most important in the entire couponing operation, was concentrated among smaller retail stores where the volume of coupons on an individual offer was small and where salesmen's calls are irregular or infrequent.

The specific recommendations of the GMA Study were as follows:[6]

Manufacturers

1. Coupon types and sizes:
   a. Use uniform size coupons (no larger than dollar bill size) on paper stock of sufficient weight and texture to assure easy handling.

   b. Minimize the use of:
      (1) Printing on coupons--giving the space to essential information about the coupon.
      (2) Coupons in newspapers and magazines.
      (3) Coupons pasted on package, or part of the package, or requiring mutilation of the package.
      (4) Customer or retailer signatures on coupons.
      (5) Multiple attached coupons or coupons attached to an ad.

   c. Wherever practicable, establish face value denominations at easy to compute standard amounts such as 5¢, 10¢, 15¢, etc.

   d. Wherever practicable, establish an easily identified "family" format to be used in coupons for all company products.

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[6] Ibid., p. 5.

2. Redemption Practices:

    a. Make available to distributors self addressed envelopes for mailing coupons and provide mailing and shipping instructions.

    b. Redeem coupons promptly.

    c. Where redemption is handled through the salesmen, provide for redemption in cash or draft wherever reasonably practical.

    d. Permit the grocery distributor to submit coupons for redemption, sorted in any way which fits his operation.

Distributors

The distributor can reduce handling costs by adopting:

1. A simplified system of accounting, sorting, and reporting at store level.

2. A simplified system of auditing, collating, and invoicing at headquarters.

The 1956 plan scratched the surface but did not put an end to the redemption of coupons for cash. Manufacturer complaints continued to mount over this practice. One small company almost went out of business because of coupon misredemptions. Pam Industries, Inc., a small company, put a new cooking discovery called Pam Dry Fry on the market with a 25¢ coupon in the Reader's Digest as well as selected newspapers throughout the nation. A few months later, the company was hit so badly by a plague of misredemptions, mainly cash redemption, that it stopped the promotion and was obligated, in some cases, to reimburse retailers with credits or stock instead of cash. Apparently droves of shoppers clipped the coupons, did not buy the product, gave the coupon to checkout clerks, and received 25¢ credit. The checkout clerks, in many instances, just did not bother to check to see whether the product was bought. But even when clerks were aware of this irregularity, they loath to risk offending customers by rejecting the coupons. When quizzed about who was at fault over the misredemption, one official of Pam Industries, Inc., thought it was due to two factions. The shopper starts it with her "innocent deception" and the retailer abets it with his expedient oversight. The retailers' orientation is toward the shopper's satisfaction and the idea of raising a question about the shopper's honesty at the checkout counter is not a pleasant prospect.[7]

Misredemption has become so serious since 1956 that many manufacturers may have to drop the whole business of couponing and go back to the old "send in the box top and get your money back" offer. This came to light in April, 1960, when Paul Willis, President of the Grocery Manufacturers of America proposed a direct action campaign to stop coupon misredemption in the stores. Mr. Willis explained that couponing was big business in the United States. Almost ten billion coupons are distributed in this nation annually for redemption at one billion dollars. If the misredemption rate is 5%, a huge sum of money is involved. It can make

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[7]John Lynch, "Coupon Misredemption: Fact or Fiction? Ask Pam Dry Fry," Food Business, Vol. 8, No. 5 (May, 1960), p. 30.

or break a manufacturer as in the case of Pam Industries, Inc.[8]

Because of the serious problems resulting from coupon misredemption, the Grocery Manufacturers of America decided to do something about it. In March, 1960, Paul Willis revealed the Grocery Manufacturers of America's plan to combat unethical practices such as attempts of consumers to cash in on the coupons without buying the specified products. The test program was to be run in Southern California and would be highlighted by consumer advertising campaigns directed against cashing of coupons without buying the couponed items. Ads would be run in the newspaper reminding consumers of their obligation to redeem coupons only on specified items. In addition, int-store literature designed for check stands would be posted and read: "Please present your coupons first. Checkers are permitted to redeem coupons only when product specified is bought." Window posters and shelf cards were also planned to be placed in appropriate spots in the store.

The Grocery Manufacturers of America's program never got under way. For one thing, the Southern California Supermarket Operators Committe, composed of members accounting for over ninety per cent of the food business in Southern California, objected to the plan. According to operators

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[8]Les Gilbert, "GMA Offers Plan to Cut Coupon Misredemption," Supermarket News, March 28, 1960, p. 1.

present in the committee meeting, an overwhelming majority of the members voiced vociferous opposition to the basic idea of couponing. Several members suggested that the problems arising from couponing could only be terminated by ending the practice of this promotional device. In essence, the members felt that manufacturers should not attempt to "clean linen" without first tending to their own and trying to eliminate the many malfunctions inherent in couponing. The members were just tired of bothering with the handling problems characteristic with couponing and felt that they should not have to be burdened with trying to educate the consumer for something that the manufacturer was responsible for in the first place.

The Southern California distributor committee countered the Grocery Manufacturers of America plan with an eight point proposal designed to alter certain manufacturer couponing practices. Their feeling was that the manufacturers should help to eliminate the costly handling costs and inconvenience for distributors before tackling a consumer education program. Along with the eight point proposal, the committee stated that each distributor would strive as "individuals" to eliminate coupon misredemption but did not believe that the initiation of the GMA consumer educational program would be suitable at this time. The eight point proposal program submitted by the committee, and later approved by the Grocery Manufacturers of America, read as follows:[9]

1. Manufacturers avoid couponing practices which may encourage bulk redemptions such as placing a coupon or series of coupons in any one issue of a publication having a total value substantially greater than its news stand price.[10]

2. All coupons be perforated, wherever practical, for easier removal from any printed matter.

3. To facilitate handling, coupons should be issued preferably in one standard size, approximately 3 inches by 2 and 3/16 inches or punch card size.

4. Redemption value be printed in bold type in at least two places on the face of all coupons. Also the words, "Store Coupons" be printed in bold type to distinguish these coupons from "Mail-in Certificates."

5. No expiration date to appear on any coupon.

6. Manufacturers recognize clearing houses.

7. An industry study be made to determine the true handling cost of store coupons, and steps be taken immediately to get this study under way.

8. All retail distributors will redeem coupons only for products specified on the coupon.

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[9] Tes Gilbert, "[illegible] Harmony in G M A [illegible] Meeting," Supermarket News, April [illegible], 19[illegible]0, p. [illegible].

[10] The Swift and Company inserted a $[illegible] worth of coupons in a double page of Life Magazine, [illegible], and The Ladies Home Journal, in February, 19[illegible], in a [illegible] coupon promotion. Many consumers, as well as retailers, clipped the coupons and redeemed them for cash. When Swift's lawyers tried to bring action against distributors for "manipulating" coupons, distributors, particularly independent supermarket operators, violently objected to the program and labeled it with such terms as "fiasco, horrible situation, ill advised, unreasonable, and a messy confusion." Adverse publicity developed over the program, and it remains questionable whether or not the Swift and Company really achieved any value from this costly program. Generally speaking,

In January, 1961, Paul Willis announced that the distributor's cost of handling manufacturer promotions on coupons will be the subject of a study launched immediately under the sponsorship of the Grocery Manufacturers of America. The analysis will take about five months and cover supermarkets in several major cities across the country. The study will be conducted by the Arthur Andersen Company, Chicago management consultant firm. Once this study is completed, it is hoped that valuable conclusions can be obtained which enable distributors to reduce coupon handling costs and inconveniences.[11]

Mention was made in the eight point program about coupon clearing houses. Such houses were established to facilitate coupon handling for both manufacturers and distributors. The A. C. Nielsen Company was the pioneer in the coupon clearing house business when it set up a house early in 1957. The Nielsen plan was designed to get distributors to contract to send all coupons to the Nielsen Company Clearing House (NCCH) for redemption. The clearing house sorts the coupons, immediately returns one check

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manufacturers as well as distributors wondered whether the sales increases achieved was more than offset by distributor agitation and ill will.

Steve Weinstein, "Coupon Push Recaptures Limelight from Stamps," Supermarket News, Vol. 6, No. 4 (January 28, 1957), p. 4.

[11]Les Gilbert, "GMA to Sift Retailer Cost in Processing of Coupons," Supermarket News, Vol. 10, No. 3 (January 16, 1961), p. 1.

covering the distributors' total handling allowance plus face value of coupons, then bills individual manufacturers for their share. The distributor is paid for all coupons except those where the manufacturer does not contract for the clearing house services, in which case, the NCCH forwards the coupons to the non-contracting manufacturer for subsequent remittance to the distributor. Some of the distributors now using the NCCH clearing service are The Kroger Company; Miejer's Super Markets, Inc. Grand Rapids, Michigan; Standard Food Markets, Inc., Oklahoma City; and Colonial Stores, Inc., Atlanta, Georgia.

Manufacturers contract for the Nielsen Clearing House Service on two basis: custom service and cooperating plan. Under the custom service program, manufacturers instruct all distributors, whether members or not of the NCCH, to forward coupons to the NCCH. The clearing house assumes responsibility for handling all coupons on designated products. These duties include: (1) receiving the coupons from distributors; (2) counting and checking against the distributor's count; (3) sorting; (4) sending redemption check to distributor with folder explaining the NCCH and its value to distributors; (5) tabulation of the number of distributors sending in coupons, chronologically; and (6) preparing statistical reports for manufacturers. extent depending on the information desired and contracted for.

The NCCH makes it possible for manufacturers to shut down their own redemption services. Some of the manufacturers using the custom service are the Armour and Company, Corn Products, Inc., Helene Curtis, Aluminum Company of America, Reynolds Metals Corporation, Kimberly-Clark Corporation, Morton Salt Company, and many others.

More than 425 manufacturers are using the cooperative plan. This involves only receiving, counting, sorting, and redemption of coupons turned in by member distributors. No reports are prepared other than total coupons redeemed. Some of the companies who have used this service are the H. J. Heinz Company, Pillsbury Mills, Inc., General Foods Corporation, and Coca-Cola Company.

In its initial six month plan, the Nielsen Clearing House plan charged distributors one cent per coupon redeemed. It sought to get half of this cost from the retailer and the other half from the manufacturer. This would have resulted in an increase to two and a half cents in the manufacturer's handling payments and they generally balked. Nielsen then attempted to offer services for a fee to non-participating suppliers. This attempt also fizzled and Nielsen now gets its entire handling charge from the distributors. Distributors are charged on a sliding scale depending on the number of coupons redeemed with an estimated average charge of about a penny a coupon.[12]

[12]Stuart Shryer, "The Nielsen Coupon Clearing House," Food Business, Vol. 6, No. 4 (April, 1958), p. 18.

Three banks are also in the business using the present Nielsen formula of charging only the distributors for the redemption for a charge of less than two cents per coupon. The banks are the Bank of America on the West Coast, The Federation Bank and Trust Company in New York, and the La Salle National Bank in Chicago. Mr. Thomas Purcell, trust officer in charge of the coupon clearing service at The Federation Bank and Trust Company in New York feels that banks are a "natural" for handling coupons because they deal with bonds which are likened to coupons except that coupons in the food industry are of smaller denominations. Mr. Purcell believed that with trained personnel and years of experience in handling bonds, banks are in a good position to offer a fine service to the food industry.[13]

Recently there have been several smaller firms setting up clearing houses on a more localized basis. The manufacturers are concerned over these smaller houses charging higher handling rates thereby upsetting the relatively stable distributor-manufacturer coupon relations with distributors attempting to have the two cent allowance increased so they will be left with some money over and above the face value of the coupon after paying a clearing house. With this in mind, the Grocery Manufacturers of American attempted to set up standards for all clearing houses to follow so as to

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[13]John Kovac, "Coupon Redemption Broadened by Bank," Supermarket News, Vol. 12 No. 4 (March 24, 1958), p. 4.

prevent if possible the rising cost of coupon clearing operations. The program covered six points: (1) clearing houses should keep distributor and manufacturer services completely separate transactions, (2) that the manufacturer should not pay more than the two cents handling charge he pays when dealing directly with the distributor, (3) that there should be no discrimination between the handling of coupons of different manufacturers, (4) that the confidential nature of redemption statistics must be observed carefully, (5) that the clearing houses must accept some responsibility for policing redemptions, and (6) that the clearing house must supply to manufacturers on request information on their financial ability to support warranties and guarantee obligations.[14]

The Grocery Manufacturers of American Coupon Committee noted that it looks with favor upon the basic idea of coupon clearing houses established to simplify distributors handling problems and hasten reimbursement provided there was no decrease in the manufacturer's control of coupon redemption and no increase in the manufacturer's redemption costs. The group recommended support of any clearing house which met the Grocery Manufacturers of America's standards.

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[14]Steve Weinstein, "Coupon Clearing House Do's and Don'ts Set by GMA," <u>Supermarket News</u>, July 14, 1959, p. 1.

Coupon Redemption at Super Valu

In Minneapolis, Minnesota, Super Valu Stores, Inc., discovered that many retailers were not redeeming coupons with manufacturers because of the inconvenience and exessive cost of mailing coupons to each individual supplier. As a sponsoring wholesaler, Super Valu considered it a duty to their dealers to set up a coupon redemption department to handle coupons for member stores in order that the retailers could get quick turnover on their coupon investments. The coupon redemption department has been revamped several times since its birth, the last time in 1956 after the Grocery Manufacturers of America's study on coupons. Super Valu recommends that dealers sort coupons daily and mail them to Super Valu's coupon redemption department every two weeks. The coupon redemption department then makes payments to the retailers within one week of the receipt, retaining only a two cent handling charge per coupon for this service.

The coupon redemption department strongly encourages dealer cooperation behind coupon promotions and recommends that they aggressively merchandise the coupon items in the stores. Often times, letters and sales bulletins are prepared by the coupon redemption department and sent to dealers concerning coupons. Super Valu's enthusiasm for coupon promotions is evident in the following letter sent to Super Valu member stores in June, 1957:

> Presently, there are around 300 different merchandise coupons in our seven state area, not including local

companies, which are being distributed by 132 manufacturers. Of this amount, more than 100 of these are to be found in the shopping area of any given store. Yet, an analysis conducted by your Supply Depot's Coupon Redemption Service, seems to indicate that the number and variety of coupons redeemed by our member stores varies a great deal. This holds true for stores of approximately the same volume class, as well as all stores generally. This leads us to conclude that either maximum utilization of an important "sales gimmick" is not being exploited to full advantage, or coupons in general are a nuisance because of the additional work entailed in their redemption. In either case, we feel that a change is in order.

The use of manufacturer coupons in your promotion and merchandising programs represents maximum usage of an important sales gimmick. Your cost of utilizating this sales promotion tool is insignificant compared to the capital outlays made by the manufacturer to promote his product. Why not capitalize on these promotions, then, by following through in your own operations? Most manufacturers provide advance notice of a new item being couponed. Let's use window posters, store banners, prominent in-store displays properly priced for the promotion period to inform the public. With the proper follow through on all coupon items, we feel certain that a "traffic builder" will be created.

This may well be true, are probably your thoughts at this moment, but these coupons are still a "nuisance." I've forgot to redeem them through 132 different manufacturers in order to get my money back; besides, the time involved in communicating with each other can best be utilized through other means of promotion. "Wait a minute" is our response, "Send all your coupons to our Coupon Redemption Service thus you are dealing with only one concern and besides you have coupon capital turnover on a very frequent basis.

Yes, you too can be known as a Coupon Merchant by your customers and profit by it. More dealers each day, our service indicates, are becoming conscious of the fact that coupons are here to stay and thus are turning a "nuisance" to their advantage. For the period September 9 through December 31, 1956, our redemption service handled 399 lots of coupons from our affiliated stores. For the first five periods this year (through May 18) we handled almost 1,400 lots, representing a retail dollar volume of $47,366. Our total volume amounted to only $34,742 in 1955 and $50,857 in 1956. Further analysis of this service

> indicates that there are only 279 dealers who have really taken advantage of our "nuisance eliminator." This means that there remains approximately 400 of you who can also become coupon minded without entailing the nuisance factor.[15]
> Super Valu helps their dealers in handling coupons by providing coupon sorting bins for sorting coupons plus redemption reporting forms with which to list total cash value of coupons by denominations.

Further progress in stopping malpractices in couponing was reported after an agreement between the Grocer Manufacturers of America (GMA) and the National Association of Retail Grocers (NARGUS). The merchandising committee of NARGUS and representatives of GMA jointly approved the GMA eight point proposal (based on the Southern California Distributor Committee's platform). In addition, the NARGUS committee recommended several other points for the GMA'S consideration. These points included elimination of coupons pasted on packages and minimum use of coupons in newspapers and magazines. The committee also asked that the 2¢ handling charge be reconsidered so that "adequate compensation" can be made to distributors to cover handling costs. All buyers should be notified of all coupon deals at the same time so as to eliminate possible competitive advantages. Attention was also focused on the possibility of the manufacturer putting premiums inside packages and not outside since the latter type of premium shrinks shelf space. Among other coupon recommendations, the NARGUS committee recommended

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[15]"The Coupon Merchant," Super Valu Digest, Vol. 1, No. 7 (June, 1957), p. 5.

that manufacturers do away with requirements of a signature of either consumer or distributor; establish face value of coupon in easy to compute amounts; keep multiple coupons to a minimum and do not attach to each other; instruct salesmen to refrain from suggesting to distributors particularly store operators the "mishandling" of coupons; encourage everyone, from store personnel through consumers to handle coupons as currency; and to indicate clearly the value of the coupon to the consumer.[16]

Supplier Consumer Education Program

Three manufacturers attempted to launch a consumer educational program in Southern California with the "qualified" blessings of the Southern California Supermarket Operators Committee in the fall of 1960 designed to reduce misrepresentations of coupons. The Proctor and Gamble Company featured grocery bag stuffers offered to distributors without charge along with a special leaflet enclosed in coupon envelopes mailed to the home. The leaflet's front page is themed "Don't Embarrass Your-Self or Your Dealer." Inside the leaflet is this message:

> Do Play Fair. Your dealer will be glad to redeem your coupons when you buy the brands called for and you will be saving money on top quality products. Coupons are a way of giving you a chance to try our famous products at cash savings. We want to continue to send you these

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16"New Accord Reached on Coupon Practices," Supermarket News, May 16, 1960, p. 8.

money saving coupons from time to time. We think you're wonderful and we and your dealer appreciate your cooperation in proper redemption of these coupons.

The bag stuffer, placed in each grocery bag, is thereby similarily and pleasantly reminds shoppers not to redeem coupons for cash.[17]

Lever Brothers and General Foods Corporation also initiated similar programs. General Foods coupons on Jell-O contained this message:

> Be sure to present product and coupon together at the checkout counter.

On the back of it, there are these words:

> "Mr. Grocer . . . Coupon may not be assigned or transferred by you. Invoices proving purchases of sufficient (name of product) to cover coupons must be shown by you for redemption upon request."[18]

Should these tests prove successful, the Grocery Manufacturers of America might consider similar programs to other manufacturer members in the future.

Conclusion

Coupons have been recognized as a valuable merchandising device and because of the many developments within the food industry in past years, more and more manufacturers

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[17] Les Gilbert, "P & G Sets New Coupon Plan," *Supermarket News*, Vol. 9, No. [illegible] (November 2[illegible], 19[illegible]), p. [illegible].

[18] *Ibid.*, p. 1.

are actively engaging in coupon activities. In October, 1955, The Wall Street Journal reported that between 75 and 100 million dollars worth of coupons are granted to consumers a year. Stuart Shryer, managing editor of Food Business, wrote that over one billion merchandise coupons were redeemed in food stores in 1957.[19]

Coupons benefit both distributor and manufacturer. Manufacturers coupon merchandise to stimulate sales as well as induce distributors to stock and promote particular brands. On the other hand, coupons provide distributors with excellent merchandising opportunities with which to take advantage of effective manufacturer advertising programs supporting the couponed merchandise.

However, with the tremendous increase in coupon activity in recent years, two problems developed. On one hand, manufacturers complained about consumer and distributor misredemption activities particularly consumers redeeming coupons for cash without purchasing the couponed product. When pressure is applied from manufacturers, distributors retaliate that coupons are somewhat of a "nuisance" in that the cost of handling them in addition to inconveniences outweigh the advantages which coupons are designed to achieve.

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[19]Shryer, op. cit., p. 18.

Attempts have been made by the Grocery Manufacturers of America and various distributor trade associations to foster joint manufacturer-distributor conferences to "iron out" difficulties characteristic of coupon programs. Strides are being made in alleviating many coupon malpractices. In 1960, the Grocery Manufacturers of America together with distributor trade associations set forth an eight point program established to eliminate the costly handling problems and inconveniences encountered by distributors when redeeming coupons. In addition, the Grocery Manufacturers of America is currently conducting a study to determine distributor costs in handling coupons in addition to developing methods to keep such costs to a minimum.

The advent of the coupon clearing house has been beneficial to the food industry since it plays an important role in facilitating the handling of coupons for both the manufacturer and distributor. Many clearing houses have sprung up since 1958, and development has prompted the Grocery Manufacturers of America to set forth a list of standards designed to keep clearing house charges within the 2¢ allowance given to distributors for this purpose.

Some manufacturers have taken steps to test consumer educational programs created to combat misredemption practices. If such programs prove beneficial, the Grocery Manufacturers of America may recommend expanded application of consumer indoctrination programs throughout the nation.

Despite all of the dissention encountered in the food industry, coupons are here to stay and will continue to perform an important role in food merchandising. However, maximum benefits are yet to be achieved through closer manufacturer-distributor understanding of the problems involved and each side's willingness to work mutually to alleviate the pitfalls encountered in coupon promotions.

CHAPTER VI

COOPERATIVE ADVERTISING

The Advertising Contract

The advertising contract is an agreement between the manufacturer and distributor in which the distributor agrees to advertise the manufacturer's products in return for a specified sum of money. The advertising can be done in newspapers, radio, television, or handbills. Payment to the distributor will be made upon receipt of a proof of performance as stated in the contract, i.e. dated tear sheets from newspapers, a copy of a handbill with the distributor's certificate of the number distributed as well as the date and method, and a copy of the text of each announcement with certification by the station of the date and duration of the ad in the case of radio and television. The contract may establish particular time intervals during the year in which distributors must advertise, that is on a monthly, quarterly, semi-annual, or yearly basis.

The amount of money paid by the manufacturer is determined in three major ways. The first and most common method is a specified sum per case on all merchandise purchased by the distributor during the specified time limits designated in the contract. The amount of money paid is determined by the quantity of cases which the distributor buys. This method is based on volume, and the more cases the distributor purchases, the larger the sum of money received. This form of payment is characteristic of the majority of advertising contracts issued in the food industry. A distributor needs only to advertise a product as often as stated in the contract to receive compensation. For example, if a distributor purchases 2400 cases of facial tissue during a three month period and signed a contract which paid 10¢ per case advertising allowance, the distributor would receive $240 for advertising according to the terms of the contract.

Distributors like being paid on a per case basis since the amount of money earned often exceeds the actual cost of advertising a certain product. Let us assume that a one column inch ad in a full page newspaper ad costs approximately sixteen dollars. If two ads are placed for a product on separate dates as required by the contract, the distributor spends $32 to perform according to the contract. If the distributor is paid on a per case basis, sales volume on the particular item may return an advertising allowance far greater than the cost of advertising the product.

The second type of payment made in advertising contracts is done on a national line rate payment schedule. Again, the distributor is paid a sum of money based on case purchases, however, he must show proof that he actually spent the money granted to him on advertising the product. Payments are based on a national line rate and there are no requirements as to the number of times a product must be advertised. Taking a hypothetical situation, suppose a distributor is entitled to one hundred dollars as a result of buying a certain number of cases but spends only fifty-five dollars advertising the product, the manufacturer will reimburse the distributor only the actual cost of advertising which in this example is fifty-five dollars. Because of increasingly higher newspaper advertising rates in recent years, this method of payment is becoming less effective for small volume distributors since the cost of an ad may cost more than the allowance earned. Large volume distributors can accumulate some savings by placing an ad at local advertising rates, which are usually lower than national line rates, and billing the manufacturer at the nationalline rate.

The third method of payment is a flat rate paid by manufacturers regardless of the number of cases purchased by the distributor. With proof of performance, distributors can collect a flat rate as specified in the contract. Extremely small volume distributors, particularly individual store operators, like this method because the amount paid does not depend on purchases. If purchases were the key factor, most small volume store operators could not earn enough allowance to pay for the advertising costs incurred.

Of the three methods of payment, the first one discussed or reimbursing distributors on a per case basis is by far the most popular among distributors since more money can be earned from the manufacturer over and above the cost of advertising.

Purpose of the Advertising Contract

Fundamentally, advertising contracts are designed to create a product's image before the public via the distributor's advertising programs. Manufacturers gain increased sales and product recognition through distributor promotions and advertising media. It offers one method of getting advertising exposure at the local or store level, exposure which is considerably less expensive than the cost of placing a large display ad in a daily newspaper or running a radio or television campaign.

On the other hand, distributors recognize the importance of their enhancing the sale of merchandise and feel that their services should receive just compensation from the manufacturer via the advertising contract. In addition, the contract provides a source of revenue. Some distributors use allowances and cooperative advertising funds to pay for their entire advertising budget, others make a profit over and above their ad expenses. Some smaller volume operators rely on allowances heavily in order to afford advertising in the first place.

The Association of National Advertisers conducted a study on cooperative advertising, and it is interesting to note the answers received by the Association from suppliers concerning reasons for using cooperative advertising:[1]

Reasons	% of Answers Reported
1. Stimulate dealers to start advertising.	36%
2. Increase Retail Advertising	31%
3. Stimulate dealer interest and good will.	29%
4. Tells consumers where to buy.	24%
5. Supports national advertising.	24%
6. Helps meet competition.	23%
7. Other reasons.	20%

As distributors grow larger and the trend toward fewer stores accounting for the nation's major share of the business continues, there is reason to expect that distributor pressure will be exerted on manufacturers for more "liberal" advertising contracts designed to fit the needs of operating today's supermarkets. Already, some manufacturers view advertising contracts as a marketing "must" in order to gain distributor cooperation on promotional programs and new product introductions. One supplier described the contract as a disguise for "cooperation" payments with cooperative advertising features a secondary factor. In return for mass displays, brand elimination, favorable pricing and other benefits, suppliers are content to offer their appreciation for much "bigger things" via the advertising contract.

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[1] Rus Carpenter, "What's Ahead for Co-Op Advertising," *Printer's Ink,* Vol. 258, No. 8 (February 22, 1957), p. 25.

There are a few manufacturers who regard contracts as a "me too" device. Merely because competitors offer advertising contracts is reason enough for some suppliers to offer the same. What type of consumer response is received from the advertising program is not nearly as important as keeping competitive with other suppliers and maintaining good relations. Quite possibly this line of reasoning could be interpreted as nothing more than "handouts" to the trade.

One spokesman for a large food processor frankly stated that he was afraid to "gripe" to distributors concerning poor contract performance for fear that distributors would discontinue his products. This is particularly true with those manufacturers whose products compete with a variety of similiar ones. In instances where a brand does not have strong consumer acceptance, the manufacturers must "play along" with distributors hoping to get promotions or displays not specifically called for in the advertising contract. While waiting for a promotion, the manufacturer continues to pay advertising allowances.

Whether or not advertising contracts are beneficial for suppliers or just a waste of money is a controversial question which each supplier must decide for himself. However, an understanding of the distributor operations and how rising costs are affecting the cost of doing business lend insight to the question of the importance of advertising contracts to the financial structure of the distributor. The threat of ever increasing costs in supermarket operations has caused operators to worry about narrower profit margins. Rising labor costs, higher expenses of obtaining capital, material, and maintenance expenditures and expensive expansion operations, as well as other costs are squeezing the profits of distributors. As a result, distributors look to manufacturers for assistance in introducing, promoting, and advertising brands. Besides more liberal cash discounts, terms of sale, and higher profit margins, the advertising contract provides distributors with additional sources of income. There is a general feeling among food distributors that a part of the cost of advertising national brands in the supermarket should be paid for by manufacturers since they benefit from distributor advertising programs, too.

Advertising allowances are usually recorded as other income and contribute as high as seventy-five per cent to the distributor's net profit. As food distributors continue to tip the scale of bargaining power, it is reasonable to expect more distributor pressure on manufacturers to subsidize distributor advertising and merchandising programs to help offset the rising costs in food store operations.

Controversial Subjects About Advertising Contracts

By now, the reader has probably detected an undertone of manufacturer discontent with cooperative advertising.

presently, it is a subject of wide debate as expected. There are still a few spokesmen in the food industry who dispise the contract, and do not hesitate to say so. One is Clarence E. Eldridge, Vice President of the Campbell Soup Company, who asserted that every dollar spent on cooperative advertising is taking away a dollar necessary to establish and maintain a consumer franchise. This franchise must be nurtured and kept alive and vital by constant attention. The responsibility for building a consumer franchise rests with the manufacturer while building sales for a particular supermarket is the responsibility of that store.[2] Of course, Mr. Eldridge can speak out against advertising contracts without too many reservations, or fear of distributor repercussions because of the large share of market enjoyed by Campbell Soups. This is an exception rather than the rule, and most manufacturers with not nearly the same consumer franchise advantage must yield somewhat to distributor desire and offer advertising contracts.

Mainly, the controversies associated with cooperative advertising encompass two areas: the protest of the manufacturer of not getting a satisfactory return on the money paid to distributors and the distributor countering with the complaint that advertising contracts, as a whole, are too binding.

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[2]Clarence E. Eldridge, "Marketing--The Key to Campbell's Expansion Drive," Printer's Ink, Vol. 250, No. 7 (February 18, 1955), p. 63.

As already pointed out, there are a variety of reasons why manufacturers offer advertising contracts. However, there is one controversial matter which, regardless of manufacturer motives for using the contract, is characteristic of his complaints: that is the cooperation received from distributors signing the contract. Manufacturers claim that distributors are only too eager to earn maximum allowances, but are less willing to perform to the satisfaction of the supplier. Some get the impression that distributors regard advertising allowances as "pennies from heaven"--a lucrative source of income.

In a sense, dealing with some distributors is like conducting two types of business transactions: selling merchandise and negotiating a contract. The advertising director for a large voluntary group in the Midwest stated that distributors take advantage of suppliers since they are in a more advantageous bargaining position as discussed earlier in the chapter. As a result, the contract may be written more to satisfy the distributor than the supplier. For example, if no mention is made in the contract as to the minimum requirement of the size of a newspaper ad, mere mention of the product--no matter how small--is proof of performance. With the large variety of products to advertize, distributors find it difficult to at least mention them in the newspaper ad, let alone devote feature space to them.

Unfortunately, a practice has developed whereby distributors list products in ads strictly for qualifying purposes and not for promoting brands at feature prices. Usually, the section of the newspaper ad, often at the bottom of the page, is devoted to products which are being advertised to qualify for allowances under the terms of the contract. This type of ad is referred to as a "soap box" ad since the contracts of soap companies, for years, required distributors only to list the brands of soap to qualify for maximum allowances. Craig Davison, Vice President of Purex Corporation, Ltd., referred to this section as the "one-inch product obituary."[3]

Obviously, the "soap box" advertising was not the intent of the supplier, but the wording of most contracts has made it legal for distributors to follow this practice and qualify for advertising payments. Some distributors literally run an advertising "collection sheet" to obtain allowances rather than create ads designed primarily for maximum customer appeal. One Eastern chain uses a quarter page advertisement to list brands so as to qualify for allowances. As a matter of fact, this particular chain collected maximum case allowances from one supplier for two full years and yet did nothing more than list the products in the "soap box" section of the ad.

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[3]"Significant Food News," Food Business, Vol. 7, No.8 (August, 1959), p. 8.

Technically, distributors cannot be blamed for poor cooperative advertising performances because almost all advertising contracts are so written that the distributor needs to "devote only that amount of space normally devoted to feature items once a quarter" to collect allowances on all the cases purchased from the supplier during the contract period. The phrase, "amount of space normally devoted to feature items," is construed by most manufacturers to mean a one-inch column ad for a supplier's brands when the contract does not specify exact amounts of space larger than one column inch. Almost always, the manufacturers' contracts call for a one-inch column ad performance for distributors to qualify for allowances.

Distributors complain that the average advertising contract is too binding or restrictive for advertising purposes because the provisions in the contract require certain amounts of space be devoted to products at specific intervals during the contract period. This situation, claim distributors, limits the flexibility in preparing ad layouts in that a definite part of the weekly newspaper ad must be designated for contract features.

A spokesman for Marsh Foodliners, Inc., expressed concern about the problem of stereotyped newspaper ads and feels, as others do, that manufacturers' contracts are forcing this situation upon the distributors. With the number of contracts in effect at Marsh Foodliners, the spokesman said that at least twenty items must be promoted each week to keep up with the commitments or provisions of the contracts. Twenty items per week, he continued, is entirely too many to feature in just one week.

Richard Waxenberg, President of Eagle Food Centers and past present of the Supermarket Institute, revealed at the Fifty-first Annual Meeting of the Grocery Manufacturers of America the results of the Supermarket Institute survey which showed that the average food chain was offered 300 advertising contracts. Of the 300, 260 were accepted and 40 rejected. Rejections were based on such reasons as insufficient sales movement, burdensome requirements, and the performance provisions were too rigid. The contracts are too complex thought Mr. Waxenberg. The 260 contracts accepted by the average distributor in a year meant that 1,040 promotions had to be scheduled which averaged to twenty per week.[4]

The advertising director of Super Valu Stores, Inc., Art Leemis, recommended that advertising contracts be revised by manufacturers to enable distributors to accumulate advertising moneys (based on case purchases) until such time as an effective advertising job can be done for the manufacturer. When the money accumulates to a certain sum,

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[4]Weinstein, "Urge More Realistic Co-op Allowance," op. cit., p. 37.

the manufacturer's salesman and advertising director of the chain would sit down and plan an "all out" promotion to the mutual satisfaction of both. Thus cooperative advertising is linked to the amount of purchases instead of specific advertising dates under present contracts. Distributors are not required to spend money within a certain time and, with slower selling items, can allow advertising allowances to accumulate for as long as a year before spending it. Mr. Leemis suggested that restrictive clauses, such as specific dates of performance and definite amounts of space required to be devoted to a brand feature in an advertisement be scratched from the manufacturers' contracts altogether so as to eliminate cluttered up ads and so-called "soap box" type ads from food store advertising. Mr. Leemis further recommended that the distributor and manufacturer's salesman maintain close communicative ties so that both can sit down and arbitrate as to the best time to run a feature promotion. Naturally, if a product is a good seller, distributors may want to promote the product more than the number of times stated in the contract.[5]

In conjunction with Mr. Leemis' line of thinking, the participants in the National Association of Food Chains Management Clinic held in Atlanta, Georgia, on March 23, 1958, expressed dissatisfaction with the rigid requirements

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[5]Statement by Art Leemis, personal interview, September 12, 1957, Super Valu, Inc., Hopkins, Minnesota.

of most manufacturer's contracts. The participants urged that provisions be changed to permit a wider choice by the distributor of the advertising media and the timing of the ads. The chain personnel recommended contracts which would allow a wider range for satisfying the requirements of co-operative advertising by eliminating provisions which stipulate that certain amounts of lineage be used up within a month or other specified periods of time. In addition, the participants thought contracts could be improved if manufacturers would allow distributors to decide whether a more limited use of larger ad insertions would be preferable to smaller insertions over a longer period of time.

The NAFC members claimed at the Atlanta meeting that both manufacturer and distributor could reap greater benefits from cooperative advertising if it were generally revamped to meet present day needs. The clinic participants noticed, however, that changing the contract is a complicated problem since manufacturers' contracts must be made applicable to all distributors to satisfy the legal requirements of the Robinson-Patman Act.[6]

A spokesman for a large food distributor in the United States who wishes to remain anonymous, said that he gets "sick and tired" of hearing manufacturers complain about

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[6]"NAFC Clinic Urges Co-Op Flexibility," Supermarket News, Vol. 7, No. 12 (March 24, 1958), p. 1.

not getting their money's worth from advertising contracts and laid blame at the feet of the suppliers. He contended that if a manufacturer does not obtain value received from the money which is expended for cooperative advertising, it is probably the fault of the manufacturer. The trouble most likely arises because of the terms of the advertising contract which may be too broad, and may not require specific performances on the part of the distributor in order to earn advertising dollars. The salesmen may not work closely with the distributor in helping to obtain the greatest possible results through the expenditure of the cooperative advertising dollars.

The spokesman further stated that distributors in general are interested in cooperative advertising arrangements with suppliers, but that the interest goes beyond any income which may be received which comes as a sacrifice of marketing results. If distributors are to perform an advertising job for the manufacturer, distributors should be compensated for out-of-pocket costs as well as administrative expenses, costs of materials, andcompensation over and above these costs for the support and cooperation which distributors place behind the manufacturer's program.

In conclusion, the anonymous spokesman said that he gets mighty tired of hearing and reading statements by manufacturers that cooperative advertising is a racket, and that little or no value is received by the supplier. He believed that this is an alibi on the part of the manufacturer for not having set up the necessary supervision over expenditures of cooperative advertising money and not having provided the ideas, materials, and program to make the expenditure of these allowances truly effective.[7]

In the Fifty-first Annual Meeting of the Grocery Manufacturers of America in November, 1959, the subject of cooperative advertising was discussed, and a complete text of the trade practice recommendations was presented. These recommendations, briefly, were these:[8]

1. That the food industry adopt the name "Cooperative Merchandising Agreement" ("CMA") covering any arrangements for advertising and promotional agreements between manufacturers and distributors.

2. Such CMA agreements shall define: (a) the payments for specific advertising services and (b) the payments for specific promotion services, and (c) the evidence of performance must be submitted before payment is made.

3. Distributors feel that current "Cooperative Merchandising Agreements" which generally limit participation to newspapers, handbills, and window posters should be broadened to include radio, television, floor displays and outdoor promotions.

4. Distributors and manufacturers agree that there must be performance of contract and evidence of performance submitted before the manufacturers should be expected to pay.

5. Manufacturers contend that they should not be called upon by distributors to pay "extra money" for participating in their special events. For such extra payments legally obligate manufacturers to offer proportionately equal payments to all competing dealers, which is impractical.

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[7] Personal interview with person wishing to remain anonymous.

[8] Weinstein, "Urge More Realistic Co-Op Allowance," op. cit., p. 37.

6. Manufacturers may participate in distributors' special events which qualify under the terms of the performance of the contract when such cost is applied to the regular "Cooperative Merchandising Agreement" available to competing dealers.

7. Contract forms should be short, simple, understandable and practical. They should be reviewed periodically and revised to fit changing conditions when necessary.

8. "Cooperative Merchandising Agreements" should appropriately emanate from manufacturers.

9. Distributors feel that manufacturers can no longer handle cooperative merchandising agreements on a mass basis and that they need to give consideration to what each distributor can especially do promotion-wise, and then work out some arrangement. Manufacturers stress that this must be done within the spirit and letter of the Robinson-Patman law.

10. Distributors should receive a prompt remittance from manufacturers upon submittal of their invoice and evidence of performance.

11. Any money received in payment of "CMA" arrangement must not be considered as part of the price of merchandise or as a contribution to profit. Such payments should be separately made by the manufacturer to the distributor for services rendered. No such money should be deducted from the invoice covering the purchase of merchandise.

Conclusion

Cooperative advertising benefits both the manufacturer and distributor. To the manufacturer it means advertising exposure at the local or store level. For distributors, it is a source of revenue. The advertising contract is designed for a specific purpose as defined within the terms of the contract. If manufacturers expect better cooperation from distributors, the contract will have to be changed so as to specifically state exactly what performance is expected from the distributor.

In addition to making changes in the contract, there is still another way manufacturers can secure satisfying performance from distributors and this responsibility lies with the manufacturers' salesmen. Perhaps a good many manufacturers' complaints about not getting their money's worth could be rectified if the salesmen were taught to encourage distributors to advertise in a manner acceptable to suppliers. Salesmen should be indoctrinated to use the contract as a "tool" in securing promotions and not learn to depend solely on allowances to obtain distributor cooperation. Even though a distributor signs an advertising contract, salesmen must still be able to sell promotions over and above the minimum requirements stated in the contract.

The key to gaining effective distributor cooperation from the contract centers with salesmen, but there are certain principles which must be followed. First, salesmen should realize the importance of selling values and benefits of their products in a manner that makes the distributor consider it to be good business to advertise and promote the merchandise in the first place. Then the salesmen should offer the contract as an added incentive to distributors for promoting his brands. Too often, salesmen lose sight of basic selling principles and lean too much on advertising contracts to secure promotions and feature sales.

Distributors have no obligation to perform more than the contract demands, however, salesmen can be successful in securing satisfactory cooperation by selling the reasons for promoting and featuring their products and then portraying the advertising allowances the distributor can earn by doing so.

Paul Brown, Vice President of Scott Paper Company, once told Scott salesmen about the large distributor who long asked for a cooperative advertising contract from Scott Paper Company before the company initiated one, but, who after getting it, said "Don't stop selling me . . . an advertising contract never yet whispered to me a new idea and an exciting merchandising program. . . . I like your contract, Mr. Brown, but remember, it is no panacea for salesmanship."[9]

Regardless of the opposition and controversies discussed about cooperative advertising, contracts are here to stay. Whether or not manufacturers are happy with the contract will depend upon how it is written and what specific purpose it is intended to accomplish. Mr. James Rankin, formerly a Vice President with Pillsbury Corporation and now President of Foremost Dairy Corporation, made a statement which pretty well sums up the opinion of most manufacturers with regards to advertising contracts. Mr.Rankin

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[9]"Inside Success, What Special Secret Made Scott Sales Grow 7740% in 15 Years?," Printer's Ink, Vol. 267, No. (April 3, 1959), p. 28.

said that advertising contracts help manufacturers, particularly those of small or medium size, in attaining distribution for their products and maintaining dealer interest. The days are over when manufacturers can expect promotional cooperation from distributors on the strength of an ambitious television program and magazine advertising program. "After all," explained Mr. Rankin, "Who doesn't have a big national ad schedule these days?".[10]

As to the feeling of distributors about cooperative advertising, perhaps James Cooke, President of ACF Wrigley, sums it up this way. A manufacturer's national advertising program would not be effective if it did not have as its counterpart local advertising to close the sale. The distributor's meager profit margin cannot provide for the amount of advertising to sell the manufacturers' multifarious products. Mr. Cooke believes that advertising allowances enable distributors to advertise on a more spectacular basis and make a larger and more compelling impression on the public which otherwise would be impossible without the advertising allowance.[11]

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[10] Ed Walzer, "Significant Food Business," Food Business, Vol. 3, No. 3 (March, 1955), p. 25.

[11] James Cooke, "Speaking of Food Business," Food Business, Vol. 3, No. 2 (February, 1955), p. 10.

CHAPTER VII

DISTRIBUTOR-MANUFACTURER PRACTICES AND THE FEDERAL TRADE COMMISSION

Of profound concern to both manufacturer and distributor is the intense desire to operate business within the framework of the law. The government has been giving the food industry a jaundiced eye with respect to manufacturer-distributor relations and unfair practices by which manufacturers favor one distributor over another. The growth of large volume food distributors, coupled with keen competition between manufacturers, has influenced some manufacturers into conducting "sub rosa" activities with food distributors. Under the watchful eye of the Federal Trade Commission, many of these unfair activities have been detected and orders issued to cease and desist. The purpose of this chapter is to help the reader understand the necessity for sound and fair supplier-distributor cooperation in order to adhere to the law, as well as emphasize the active role the government will be taking in months ahead to insure strict adherence to the law.

Violations of the Robinson-Patman Act

In order to fully understand the reasoning behind the Federal Trade Commission's complaints, a brief explanation of the Robinson-Patman Act will be helpful. The Act was passed by Congress on June 19, 1936, as an amendment to section two of the Clayton Act. Under the provisions of the Robinson-Patman Act, there are a number of trade practices which are declared illegal and subject to jurisdiction of the Federal Trade Commission (which shall be referred to as the FTC). Gilbert Weil, general counsel for the Association of National Advertisers, Inc., explained that the basic purpose of the Act is to

> Interpret the viscious cycle that starts when a large purchaser uses its economic bargaining power to pry preferential treatment from suppliers. This in turn enhances its competitive position against its smaller, and hence less favored competitors. It thus attains an even more dominant position in the market which enables it to compel still greater favoritism from suppliers. The movement towards monopoly is readily apparent.[1]

The Act opposes the trend toward monopolistic position by prohibiting certain discriminations in favor of one customer as against its competitors. Sub-sections (d), (e), and (f) are the pertinent sections of the Act which bear upon cooperative advertising although neither uses the terms as such. Sub-section (d) covers the situation in which a seller of goods becomes, in turn, the purchaser of promotional facilities or services from dealers. In other words, the dealer, for compensation, supplies advertising or merchandising, or facilities for the manufacturer's benefit.

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[1]Gilbert H. Weil, "Legal Aspects of Cooperative Advertising," Association of National Advertisers, Inc., April, 1956, p. 1. (Phamplet.)

Sub-section (e) covers the converse situation of sub-section (d) and deals with violations in which the seller supplies promotional services to the buyer.

Briefly, sub-section (d) states "that it will be unlawful . . . to pay . . . for any services or facilities . . . unless payment . . . is available on proportionally equal terms to all competiting customers. . ." Sub-section (e) likewise provides simply that "it shall be unlawful . . . to discriminate . . . by . . . furnishing . . . any service or facilities . . . upon terms not accorded to all purchasers on proportionally equal terms . . ." Both section (d) and (e) specify that allowances and payments must be made to competing customers on proportionally equal basis.[2]

Sub-section (f) states that "it shall be unlawful . . . to knowingly induce or receive a discrimination in price which is prohibited by this section."

The majority of complaints issued by the Federal Trade Commission in the food industry seem to cover three main types of violations: (1) where manufacturers fail to make allowances available to competing customers on proportionately equal terms; (2) distributor pressure for illegal payments from suppliers; and (3) unlawful manufacturer allowances to individual distributors, thereby enabling such manufacturers to meet competition.

[2] See Appendix B.

Perhaps the most publicized case to come before the Federal Trade Commission in recent years was the complaint issued against Giant Food Shopping Center, Inc., operator of 53 supermarkets in Maryland, District of Columbia, and Virginia, and eleven manufacturers. Giant Foods was charged with violation of sub-section (f) of the Robinson-Patman Act when the chain demanded and received illegal promotional allowances from its suppliers in connection with special anniversary sales when both the chain and suppliers knew similar allowances were not being made available to competing distributors. Proceedings against Giant Food Shopping Center, Inc., commenced on November 21, 1955, and not until June, 1961, did the Federal Trade Commission officially issue a cease and desist order to the chain to stop "knowingly" inducing its suppliers to pay discriminatory promotional allowances. The Commissioner's ruling upheld the examiner's initial decision in March 28, 1960. The Examiner delcared.

> Giant's officials must have known that many of its suppliers executed the contracts and paid the requested amounts in due course only because of the tremendous buying power of Giant. It requires no great seer to know that a concern doing even $60 million worth of business can exert an economic pressure upon it's [sic] sellers, large and small, to obtain concessions that no small competitor could possibly attain. For every supplier who contributed anywhere from $250 to $1,000 to Giant's 1955 anniversary sale, Giant well knew that in the cost accounting of such supplier, that expense item would have to be considered and reflected at some time in the cost of the merchandise bought by other grocers. Such amounts, even though infinitesimal, would ultimately not only increase the cost to other grocers

> but would add to the consumer's cost. These subtle attempts of this very large buyer to obtain special concessions amount to improper and undue pressures upon its suppliers. Such conduct is one of the monopolistic types the Robinson-Patman Act is intended to prevent. If the big chain competitors of Giant were all permitted to follow the same practices as Giant with the tacit or express approval of the FTC, the small grocery competitors in this area of competition that are not instantly throttled would surely suffer a slow and painful death.[3]

The Commission's ruling in the Giant Food Shopping Center, Inc., case carries no penalties but makes the chain liable for penalty proceedings in Federal Courts for future violations.

The Federal Trade Commission's ruling in the Giant Food Shopping Center case follows by ten months the Commission's order against the Grand Union Company for inducing illegal allowances from suppliers in connection with Grand Union's Broadway "spectacular" sign in Times Square, New York City, when the chain knew or should have known that such allowances were not being made on proportionally equal terms to Grand Union's competitors. Thirty different firms participated in advertising on the Broadway Spectacular sign and at least 29 of them were Grand Union suppliers. The Federal Trade Commission agreed with an earlier decision of an examiner that these advertising payments were for the benefit of the Grand Union Company, and that they were made "in consideration for advertising

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[3] "FTC Examiner Says Food Chain Demanded Illegal Payments from Its Suppliers." Attachment to GMA Blue Bulletin, No. 943 (April 14, 1960).

and other promotional services" provided by the Grand Union chain. The payments for use of the sign were not made available on proportionally equal terms to all other customers of the suppliers the commission declared. The suppliers involved were charged with violating sub-section (d) of the Robinson-Patman Act.[4]

An interesting case brought before the Federal Trade Commission charged seven suppliers with allegedly committing violations of the Robinson-Patman Act while taking part in an advertising plan devised by three major television networks: NBC, CBS, and ABC. The Commission claimed that the seven suppliers indirectly paid for radio and television time issued to a select group of supermarket chains in the New York City area. The networks first approached the chains to get them to agree to put on in-store promotions of unspecified products in return for free radio and television commercials on which to advertise the store and their own private labels. The networks then solicited the manufacturers to buy time at regular rates, offering as an added inducement the in-store promotions of their product.

The Federal Trade Commission on May 22, 1958 outlawed the network scheme and issued a cease and desist order against the Groveton Paper Company, General Foods

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[4]"Dunaway Seeks FTC Settlement," Supermarket News, Vol. 7, No. 20 (May 19, 1958), p. 17.

Corporation, Sunshine Biscitus, Inc., Piel Brothers, Inc., Hudson Pulp and Paper Company, P. Lorillard Company, and Sunkist Growers, Inc. The examiner of the case, Abner E. Lipscomb, found that the suppliers were really paying for free advertising time the chains were getting from the networks even though such payments were not paid directly to the chains. According to the findings, such arrangements violate sub-section (d) of the Robinson-Patman Act through failure of the manufacturers to offer broadcasting time to competing food distributors. Mr. Lipscomb said that smaller volume customers who were competing with the chains and also bought merchandise from the seven suppliers were not getting comparable benefits, therefore, making the discriminatory allowances unlawful. The examiner concluded that section (d) makes no distinction between a benefit conferred directly and one conferred indirectly.[5]

In addition to the Giant Food Shopping Center, Inc., and the Grand Union cases. cease and desist orders have been given to J. Weingarten, Inc., Houston headquarters chain, and the Benner Tea Company, a thirty-four unit chain with headquarters in Burlington, Iowa, by the Federal Trade Commission for inducing discriminatory allowances from suppliers. At the same time, the Commission also issued charges against the suppliers as well for giving allowances

[5]"FTC Outlaws Supply-Chain Air Ad Tie-Ins," Supermarket News, Vol. 7, No. 21 (May 26, 1958), p. 33.

which were not offered on proportionally equal basis to competing distributors.[6]

<u>Federal Trade Commission Crack Down on Unfair Practices to Continue</u>

Events since 1955 clearly indicate that the Federal Trade Commission will be taking a more active role in enforcing the provisions of the Robinson-Patman Act to reduce discriminatory practices in the food industry. In 1959, John W. Gwynne, retiring Chairman of the Federal Trade Commission, publicly reprimanded the food industry for indulging in illegal competitive practices, and sounded a warning to the food industry to "clean house" before the Federal Trade Commission moved in to do the job. Mr. Gwynne was concerned with "doubtful" practices, as well as illegal ones. He commented that:

> Persons prominent in the grocery industry speak of the growing pressures for allowances, discounts, and hand-outs of all kinds. Sometimes a supplier, bent on breaking into certain areas, offers allowances having little relation to actual cost differentials. Often, in fact, it is a gift of money or the equivalent, paid solely for the purpose of displacing a competing supplier's brands. Then again, a powerful distributor demands and receives similiar consideration. Many participants assert that they dislike these practices but are forced into them in self-defense. When such practices have existed a long time, the growing concentration and organization of business greatly increases their effects.[7]

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[6] Harry Picknell, "Supplier Promotion Fee to Weingarten Illegal," <u>Supermarket News</u>, Vol. 10, No. 5 (January 30, 1961), p. 1.

[7] "FTC Again Cautions Trade on Practices," <u>Supermarket News</u>, Vol. 6, No. 4 (January 28, 1959), p. 1.

In June, 1960, the Federal Trade Commission launched a large scale investigation involving 468 firms, including more than 200 food distributors in the continuance of an industry-wide crackdown on discriminatory allowances in the food field. Questionnaires asking detailed information on their three largest promotional sales for the full year starting June, 1959, were sent to 205 distributors. Comparable questionnaires were sent to 113 suppliers. The Commission made it clear that it was going after evidence of discriminatory allowances given to and received by distributors. The Federal Trade Commission hopes to obtain information to help prove that similar allowances granted and received by some chains were not granted to all distributors. The information obtained could result in complaints against suppliers and distributors under provisions of the Robinson-Patman Act. Distributors were asked to supply the following information about each of their three largest promotional sales during the specified year: (1) a description of each promotional sale and dates of its duration; (2) every retail store outlet participating; (3) giving the cities located and the location of warehouses serving these stores; (4) the name and address of each supplier from whom the firm received any money or anything of value; (5) the kind of product or products involved and the brand names of each of these products; (6) the amount of money paid to or for the benefit of the corporation by each

supplies; ([illegible]) the [illegible] they paid [illegible] -
[illegible] in [illegible] the [illegible] of these [illegible]
from each supplier; ([illegible]) [illegible], [illegible]-
[illegible], [illegible], [illegible], [illegible]. [illegible]-
[illegible] between each supplier [illegible] the [illegible]
the [illegible]."

[illegible]

[illegible] may be [illegible] that [illegible]. [illegible]
[illegible] reports [illegible]
[illegible].

The results of the investigation [illegible] three-
[illegible] -[illegible]. It
is estimated that [illegible]
[illegible]. The [illegible] of the
Federal Trade Commission, Earl Kintner, indicated that the
proceedings of the investigation [illegible]
store and still more to [illegible] the Commission [illegible]
[illegible] the complaints [illegible].[9]

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[8]Art Gurel, "FTC Queries [illegible] Retailers, Suppliers on Deals; NAFC Hits '[illegible] Order [illegible]'." Supermarket News, Vol. 9, No. 27 (July [illegible], 19[illegible]), p. [illegible].

[9]Art Gurel and Harry Bicknell, "FTC Expected to File Many Complaints in Ad Allowance Investigation Wave." Supermarket News, Vol. [illegible], No. [illegible] (January [illegible], 19[illegible]), p. 1.

Manufacturer-Distributor Attempts to Comply With the Robinson-Patman Act

The problem of discriminatory allowances in the food industry has been considered by all trade associations for some time. As early as 1955, the Cooperative Food Distributors of America, at their Fifty-Seventh Annual Convention, adopted the following policy to combat the growing menace of discriminations harmful to the reputation of the food industry:[10]

1. Endeavor by every proper means to alert the entire food and grocery distribution industry to harmful discriminatory practices now taking place and to the grave threat which they hold for the stable and efficient development of the industry.

2. Prepare and distribute informational material explaining the application of the Robinson-Patman Act to troublesome practices in the industry.

3. Urge voluntary corrective action by members of the industry.

4. Assist members of the industry by helping to develop factual evidence of probable violations of the Robinson-Patman Act and by filing applications for investigations and complaints with the Federal Trade Commission.

5. Aid the Federal Trade Commission by supplying information and otherwise helping it to obtain compliance with the Robinson-Patman Act.

6. Seek Congressional assistance, whenever it is needed, to carry out this policy, including the passage of the "Equality of Opportunity Bill" to strengthen the Robinson-Patman Act and to prevent the growth of monopoly in the nation's food marketing system.

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[10] "Report of the Trade Relations Committee on Certain Objectionable Practices Current in the Food Distribution Industry," Cooperative Food Distributors of America, August 11, 1955, p. 1.

The Grocery Manufacturers of America sent a list of suggested promotional practices to its members in February, 1957. The proposed promotional practices were part of a three point statement of suggestions for complying with the Robinson-Patman Act. In addition to promotional payments, the statement also deals with brokerage payments. While the two points are merely restatements of the "meat" of the Act, the third proposes that suppliers observe the following basic cautions:

> The agreement between the parties should be in writing; it should be prepared by the seller rather than the buyer; and the seller should not make additional payments for special promotions privately negotiated outside his regular plan. The agreement should be a uniform one which affirms the seller's policy of offering it to all competing customers on proportionally equal terms; and the seller must give affirmative notice of such agreement to all competing customers.
>
> The agreement should specify the services to be rendered, and should require proof that the services were performed. The Act's requirement of proportionality is additionally satisfied by offering media alternatives within the reach of small as well as large volume distributors, and by computing payments according to uniform rates.[11]

Then, again in 1959, the text of the Trade Practices Recommendations presented at the Fifty-First Annual Meeting of the Grocery Manufacturers of America made reference to compliance with the Robinson-Patman Law. The text read as follows:

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[11]"GMA Payments Code Brings Varied Reaction," Supermarket News, Vol. 6, No. 7 (February 13, 1957), p. 4.

a. Unfair discrimination [illegible] of [illegible] the Robinson-Patman Act [illegible] operate within the law. [illegible] and distributors [illegible] [illegible] the law. [illegible] [illegible] to the [illegible] building of business. They [illegible] [illegible] the "best [illegible]" [illegible] by the [illegible].

b. The [illegible] and distributors [illegible] in [illegible] the [illegible] possible to [illegible] [illegible] with the Robinson-Patman Law.

In June, 1960, the Federal Trade Commission issued a ten page pamphlet [illegible] to guide grocery supermarket operators, their suppliers, as well as all other businessmen [illegible] the [illegible] in the [illegible] and receiving of [illegible] promotional allowances and services. The [illegible] prepared by the Federal Trade Commission's Robinson-Patman task force concentrates on the requirements under section 2(d) and (e) of the anti-trust statute. The [illegible] tional allowances represents a departure from the Federal Trade Commission's procedure. It is the first attempt to set forth in non-legal language the basic requirements of certain provisions of the anti-trust law. The booklet should be of great value to those [illegible] by the law by explaining simply just what the law permits and what it prohibits. See Appendix C for an outline of this guide.

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[11]Weinstein, "[illegible] Realistic Co-op Allowance." *op. cit.*, p. [illegible].

Conclusion

The Federal Trade Commission has launched an all out attack to eliminate discriminatory practices which violate the Anti-Trust laws of this nation, mainly the Robinson-Patman Act. Since 1955, the Commission has issued increasing numbers of cease and desist orders for violations of the Robinson-Patman Act against both distributor and manufacturer. Currently, over 500 complaints are being prepared as a result of the questionnaire prepared and distributed by the Commission in June, 1960.

With increased governmental surveillance, distributor and supplier trade associations have begun an intensive educational campaign to assist their members in complying with the statutes. Distributors and manufacturers have been working mutually to discuss the problem of compliance and recommend procedures to follow in business activity to avoid Federal Trade Commission investigations. The Federal Trade Commission has helped to enlighten the food industry by publishing a booklet about the provisions of the Robinson-Patman Act and explaining just what the law permits and what it prohibits.

The emphasis the Federal Trade Commission has placed on malpractices in the food industry goes to point out the dire need for both the manufacturer and distributor to work together to develop a more efficient food distribution system in the United States. Although the number of

complaints being filed and tried by the Commission has increased, nevertheless, when the same result can be accomplished by cooperative and mutual understanding, this is the more economical and satisfactory course. Therefore, it is paramount that distributor and manufacturer cooperate in striving to adhere to better law observance.

CHAPTER VIII

POINT OF SALE ADVERTISING

The Role of Point of Sale Advertising

The last three feet is one of the most important phases of the sale of a food product: the distance being that area traveled by the product from its position on the display to the consumer's shopping cart. Therefore, manufacturers want to make sure displays of their products in supermarkets are attractive and appealing so as to persuade shoppers to buy their merchandise. Point of sale advertising refers to the advertising display pieces and other in-store decorative material which manufacturers supply distributors to help "dress up" the display and add color and life to the merchandise. Through experience, suppliers learned that products presented in bright, colorful, and eye catching displays usually have a better chance of being sold than those items not presented in a compelling and dynamic manner. Display material varies from price cards and case wrap arounds to intricate cardboard spectaculars with moving parts, electric lights, and even sound.

Point of sale material plays an important part in attracting the shopper's attention to the products being promoted. This was emphasized by the DuPont Study on Buying

Habits of 1955. The study revealed that fewer than one out of five supermarket shoppers enter the store with a completely written shopping list. In addition, seven out of ten buying decisions on all supermarket products are made after the shopper enters the store; on many products, the rate is as high as nine out of ten.[1] With so many women making buying decisions in the store, display advertising becomes a significant factor in influencing buying decisions.

Another factor giving rise to the importance of point of sale material is self-service shopping in modern supermarkets. Self-service shopping eliminated the need for personalized selling and placed a great deal of responsibility on so-called "silent salesmen" or point of sale material. Certainly a great deal of consumer buying is sparked by an impulse radiating from point of sale material. Today, more and more manufacturers in the food industry are spending increasing sums of money on these so-called "silent salesmen."[2]

One of the dangers faced by modern supermarket operators is the growing "look-alikeness" among stores that

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[1]Ed Walzer, "Significant Food News," Food Business, Vol. 3, No. 9 (September, 1955), p. 26.

[2]John Wulp, "Outlook for P-O-P Sales," Printer's Ink, Vol. 258, No. 13 (March 29, 1957), p. 72.

is becoming increasingly evident throughout the nation. Standardization in the supermarket style of selling groceries is sufficient, yet monotonous. Often times, consumers will remark that all supermarkets are pretty much the same, i.e. same size, same items, same appearance, same decor, same layout, same parking lot, same everything.

In spite of the sameness, most supermarket operators want to be different and strive to build a distinct personality into the store. There are several ways of doing so. However, point of sale display material plays a dominant role. Manufacturers can be of service to the operators by offering them promotions with point of sale material which, when well planned and executed, helps to create the personality that each operator seeks.

When planned and constructed with care, displays can favorably increase dollar sales, unit sales, and dollar margins compared to normal shelf position performance. The results of the most searching examination of supermarket displays ever undertaken were revealed in the July, 1958, issue of Progressive Grocer magazine. The study indicated that attractive and compelling displays benefit both the consumer and retailer. For the consumer, displays break up the monotony, offer bargains, tell the consumer what is new, make menu suggestions, and serve as effective shopping reminders. Retailers find displays helpful for selling more merchandise, creating a low price reputation, balancing inventories, strengthening retail advertising, and putting "life" into the store.[3] Obviously, point of sale display material is a major factor in achieving these objectives.

What's Wrong With Point of Sale Advertising

Although vast amounts of point of sale advertising are used in supermarket operations, manufacturers still waste huge sums of money on material that is never used by distributors. The reason being that the point of sale material does not fit in with the distributors' over-all promotional programs. The principal objections to manufacturer point of sale advertising is that much of the material plays up one brand or is so garish as to disturb the over-all atmosphere of the stores.

Throughout the nation, food distributors are placing more emphasis on promotions which tie-in several departments in the stores. Therefore, point of sale material which concentrates on only one brand is being rejected. Distributors want customers to shop the entire store and not just one department in which the promoted brand is found. Often, suppliers present distributors with colorful merchandising aids, however, the material contains the name of the manufacturer prominently displayed in bold print. As food retailers strive to develop a store personality, they

[3] "The Super Valu Study, Part 7," Progressive Grocer, Vol. 37, No. 7 (July, 1958), p. S-92.

become receptive to display material which creates a "personalized" atmosphere for the store rather than material which merely advertises a particular manufacturer's brand. The point of sale material must blend in with the over-all store promotional theme.

Harry Shain, Director of Advertising of Stop and Shop in Boston, remarked at a special round table meeting of the Point of Sale Institute in 1956 that display material should perform a certain function and not merely serve to clutter up displays with the name of the manufacturer and the product.[4]

At the Southern California Retail Food Ad Managers Meeting in April, 1957, the ad managers related that more favorable consideration was given to suppliers presenting themes and ideas than those offering promotions centered around one brand.[5]

The conclusions of Supermarket News reports throughout the United States is that the supermarket operators generally judge manufacturer point of sale material on a practical basis--that is, whether the material has tie-in possibilities with other products and whether it permits the supermarket

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[4] "Retailers Speak Up on P-O-P," Printer's Ink, March 30, 1956, p. 88.

[5] Lester Gilbert, "Manufacturers P-O-P Material Runs into Ad Managers Criticism on Coast," Supermarket News, Vol. 6, No. 17 (April 29, 1957), p. 11.

operator to add his name and personal message to the material. Material which blatantly pushes the supplier's name or attempts to get a department item, such as frozen foods mentioned in other areas of the store invariably are rejected.[6]

There has been a marked increase in the number of manufacturers offering storewide theme promotions as a means of inducing distributors to promote certain brands. Scott Paper Company offers a variety of themes, such as the Train Load Sale, Reach for the Stars, Wonderful Summer, Red Hot Specials, and Your Wishes Come True. In addition to providing ad layouts, mats, and other material for newspaper advertising, Scott Paper Company offers storewide kits containing cardboard spectaculars upon which to display merchandise, such as a miniature train, fire engine, or rocket, as well as case wrap-arounds, price cards, overhead wire banners, and other miscellaneous material. Since the advertising material contains only the theme and not Scott Paper Company's name, supermarket operators can utilize the point of sale material for many products in the store other than Scott products.

In addition to Scott Paper Company, other manufacturers offer storewide theme promotions. The Pet Milk Company has twenty-four different themes to give distributors, such as

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[6] "Stores Practical on Display Ad Use." Supermarket News. Vol. 7, No. 14 (April 7, 1958). p. 5.

One Cent Sale, Magic 9 Sale, Dollar Sale, 10¢ Sale, Good Living Promotions, Anniversary Sale, and Grand Opening Sale. Pet Milk Company makes up kits in any quantity and the variety of the different advertising pieces and ships them to any location designated by the distributor. The Nestle Company furnishes a P-Leisure Time Food Festival; Kraft Foods presents a Festival of Foods promotion; California Packing Company has a Fall Round Up Sale; and General Foods designed a Holiday Harvest theme promotion for Christmas.

Multiple-sponsor promotions are rapidly becoming very popular in the food industry. A variety of manufacturers pool money and time to design storewide promotions with which to feature their products. The majority of promotions are conceived by suppliers whose products are related to each other. However, there is a surprising trend toward joining products of a dissimilar nature.[1]

Under ideal reciprocal conditions, each "partner" shows or recommends the product or service of the other in its advertising, and sometimes the manufacturers pool funds for the same advertising copy. Also, salesmen of the participating firms may work in harness even to the extent of calling on the trade together. In any case, the task of distributing display material, as well as the expense of producing it, is shared jointly.

[1]Etna M. Kelley, "Choose Your Partners," Sales Management, Vol. 80, No. 9 (May 2, 1958), p. 38.

A participating manufacturer's return from a cooperative promotion depends upon the sincerity of each partner to bear his share of the responsibility. When there are several partners, the greater the likelihood that friction will arise. Therefore, the attitude of each supplier plays an important part in the success of such cooperative promotions.

A highly successful user of promotional tie-in advertising is the Carnation Milk Company. This company prefers partners who are willing and able to provide advertising and merchandising support as well as teamwork between the various sales forces of the participating companies. Carnation participates in about 15-20 cooperative promotions a year. One run in June, 1958, featured a "Thrifty Fruit Pie Promotion" in which General Mills' Gold Medal Flour, Lever Brothers' Spry, and Carnation Evaporated Milk was featured. The three manufacturers provided posters, recipies, and shelf talkers in addition to heavy advertising support on radio, television, and in the newspapers and magazines. Distributors liked the plan because it gave them a chance to sell canned milk, shortening, flour, and eleven different pie filling ingredients.

During the summer months of 1958, The Saturday Evening Post sponsored a "Let's Eat Out Doors" summer promotion containing products of nine different manufacturers: American Dairy Association; Dixie Cup Company; General Mills, Inc.

(Bisquick, cake mixes, and frosting); The George A. Hormel Company (Spam, Franks, Chili, and Beef Stew); Corn Products, Inc. (Karo Syrup); McCormick-Schilling Corporation (Spices and herbs); The Nestle Company (Instant Coffee, Tea, Chocolate Morsels); Stokely-Van Camp, Inc. (Pork and Beans, Pickles); and the Coleman Company (Coleman picnic coolers and outdoor eating equipment).

There seems to be a distributor movement in the food industry to encourage manufacturers to design point of sale advertising material custom tailored to individual distributor organization, particularly the food chains. The distributors benefit two ways: the cost of merchandising materials is borne by the manufacturer, and an "exclusive" promotional program is made available to the distributor. Many large chains hesitate to use supplier's standard store-wide promotions because of a feeling of losing originality for their stores, i.e. other chains in the area may be featuring the same promotion. Another reason why some chains reject standard storewide promotions is because they feel the manufacturer point of purchase material clutters up the store and distracts from the physical beauty and color combinations of today's modern supermarkets. Many chains using manufacturer storewide promotions insist that the promotion be run on an exclusive basis for a certain period of time. This eliminates the possibility of a competing chain running the same promotion during the same week or month.

Based on the concept that individual store image has become highly important in modern retailing, the Pillsbury Company now is prepared to offer customized promotional service to food store operators. Specific services include ideas for a storewide theme, special display programs and advertising, and custom point of sale material. The service also offers the use of a creative staff to develop radio and television commercials as well.[8]

Material designed or tailored to individual customer specifications may be prohibitive in cost for most manufacturers because of the high expense of producing merchandising aids. In addition, custom designed promotions may not be practical because a promotion designed for one customer may not be acceptable to another. To develop individual programs for a variety of customers quite obviously is too costly for even the largest manufacturers. One alternative, however, is for a supplier to maintain at least four or five storewide promotional themes at any given time since most food chains and independent supermarket operators will probably find at least one theme appealing to their tastes.

Lester Buhai, Advertising Manager for the Food Giant Markets in California, recommends that suppliers consider

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[8]"Trade Winds," Progressive Grocer, Vol. 40, No. 3 (March, 1961), p. 9.

preparing different point of sale material for various size stores and supermarkets. He noted that the reason so much advertising material is being tossed in the waste baskets these days is because most material is too small for use in large supermarkets. "In Southern California, we have the largest markets in the nation while much of the advertising material prepared today is for the smaller stores in Eastern and Mid-Western cities," explained Mr. Buhai.[9]

Manufacturers must exercise caution when presenting storewide promotional material so as not to give the impression that distributors must "load up" on merchandise in order to warrant the cost of the material. Suppliers must be careful not to offer beautiful and elaborate material which can only be compensated through large quantity buying. There may be times when distributors are not capable of selling enough product to justify the cost of the display material, but are "pushed" into ordering heavy anyway. Manufacturers using advertising material as a means of "over-loading" distributors may cause resentment rather than good will throughout the trade. Distributors are not receptive to manufacturer point of sale material which is designed primarily to carry out the aims of the manufacturer while ignoring the rest of the products in the store. Point of

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[9] Les Gilbert, "Food Giant Ad Chief Hits Point-of-Sale Materials," Supermarket News, Vol. 6, No.39 (September 30, 1957), p. 4.

sale material plays an important role in developing good distributor relations, therefore, manufacturers should create and distribute material with the distributor's best interest in mind.

Most likely, manufacturers will employ advertising agencies to design advertising material. However, it is the responsibility of the manufacturer to be certain that the material will meet with the approval of food distributors. Failure to do so will cost suppliers money in terms of unused point of sale material. Sidney Johnson offered sound advice to manufactuceres when he stated:

> Checking with distributors is also a good way to save money on point of sale material. Agency people sometimes create things which are so pretty that manufacturers are overwhelmed and use them because they look good. But are they practical? Ask the distributors for advice.[10]

The late Val Bauman, former Vice President of the National Tea Company, suggested that suppliers approach point of sale material with the same enthusiasm and know how as they do with national advertising programs. Mr. Bauman had this to say to manufacturers:

> The forgotten medium in advertising, in my opinion, is point of sale advertising. . . . I firmly believe that if such advertising can be properly planned with the same research and good business practices that are given other media, the advantage of tremendous food stores circulation will become a major factor in national campaign planning.[11]

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[10]J. Sidney Johnson, Marketing Consultant, an address to the Food Distribution Club, Michigan State University, April 30, 1957.

[11]Stanley Joseloff, "How Point of Sale Advertising was Made Effective and Measurable," Food Business, Vol. 5, No. [illegible] (March, 1957), p. 16.

Conclusion

Point of sale advertising plays a significant role in supermarket merchandising. It attracts the consumer's attention and profoundly influences her buying decisions. However, the success of manufacturer point of sale advertising depends upon its use and acceptance by distributors. Therefore, manufacturers should remember to design material which meets with the distributors' approval and readily lends itself to supermarket merchandising programs.

In the past, manufacturers have wasted large sums of money on material rejected by distributors for various reasons discussed earlier in the chapter. However, manufacturers have shown a decided improvement in presenting usable material to supermarkets and, in the case with some suppliers, tailoring material to specific supermarket needs. A report published in the Supermarket News, in January, 1958, confirmed the fact that there is a general feeling throughout distributor circles in the food industry that improved point of sale material has served to cement better manufacturer-distributor relations.[12]

Today, the advertising agencies preparing point of sale material for manufacturers are making a sincere effort to grasp a better understanding of supermarket operations

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[12] "Maker Bettering Display Aids," Supermarket News, Vol. 6, No. 2 (January 6, 1958), p. 24.

so as to create advertising material which will greatly assist distributors in their merchandising programs.

Supermarket operators are interested in having consumers shop the entire store and initiate weekly promotional programs to accomplish this purpose. Therefore, they are more receptive to manufacturer promotional material which can be incorporated into their over-all store merchandising plans rather than point of sale material which concentrate on a single brand and emphasize the manufacturer's name. Some suppliers have developed storewide promotional themes. Results indicate that distributors are most likely to promote brands which have been presented as a part of a storewide promotional program.

A study conducted by Mass Marketing Research Bureau for the Schneider Press Corporation revealed that point of purchase material is most effective when it is: (1) part of an over-all ad campaign and tied in with other media, (2) tied in with a store promotion such as a dollar sale or store anniversary, and (3) tied in with an outside promotional event such as Dairy Month or Baby Week.[13]

Point of sale advertising was discussed at the Fifty-First Annual Meeting of the Grocery Manufacturers of America in 1959, and three recommendations were set forth in the

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[13]"Salesman's Approach Keys Display Acceptance," Supermarket News, Vol. 10, No. 1 (January 2, 1961), p. [illegible].

text of the Trade Practices Recommendations: (1) While Distributors noted a general improvement in manufacturer's display material, they also reported that a majority of the material they now receive from the manufacturers is still wasted. They contend that manufacturers can no longer handle display material on a "mass distribution basis." (2) They suggest that manufacturers discuss display material with each distributor to find out the kind of material that is usable. the quantities they can use, when the material is needed.and how distributors intend to use it. Consideration must be given to the fact that point of sale material acceptable to distributors varies by distributors themselves, and the territories in which they operate. (3) Distributors say that promotional material should be considered as merchandise. Manufacturers and distributors together should discuss the matter, decide on what they want, and then order it in the same fashion as merchandise on appropriate requisition forms.[14]

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[14]Weinstein, "Urge More Realistic Co-Op Allowance." op. cit., p. 3[illegible].

CHAPTER IX

THE ROLE OF THE SALESMAN

What effect, if any, has the growth of large chains and other distributors had on salesman activities in the food industry? Will manufacturers need smaller sales forces composed of men highly skilled in merchandising and marketing techniques? Have buying committees made personal selling obsolete? What does the future hold for salesmen in the food industry? These are some of the most important questions manufacturers are asking themselves as new patterns begin to unfold in modern food distribution. Patterns which reveal a smaller number of stores accounting for a larger share of the nation's food business.

This chapter purports to analyze present day salesman activities to determine what new selling techniques, if any, are needed to enable salesmen to meet the challenges awaiting them in the food industry.

The Purpose of Salesmen

There is little question about the necessity of salesmen. Certainly as long as people continue to want and have the money to pay, salesmen will continue to function. To adequately describe the salesman's function, one must understand the word selling. Basically, selling performs the task of transferring the title of goods. The salesman is the intermediary in the transaction, and it is his task to satisfy the customer's needs while selling goods at a profit to his firm. He must satisfy both the producer and the distributor to justify his existence.

The salesman has as his function, first, to acquaint customers with the range of products available for choice and, second, to aid them in choosing the specific products they need. A well trained salesman knows his line of products far better than do the great majority of his customers. The salesman is, or should be, a specialist in that line. Any act of salesmanship which creates or heightens the subjective appreciation of a product's actual merit, and every development in salesmanship which gives truthful information concerning the goods which are currently available and the uses for which they are adapted is a distinct gain to the buyer.

The Salesman's Role--A Two Fold Function

When discussing the role of salesmen in the food industry, two facets of selling should be considered; first, there is selling which is done at the buying offices of large chains and wholesalers, and, second, there is selling at the individual supermarket. Basically, the selling objectives are similar in that manufacturers are striving to get their products into distribution, as well as promoted before the public. However, the way salesmen go about selling at both levels is somewhat different. In order to fully understand the salesman's role at both the buying office and store levels, the two will be discussed separately.

<u>Central buying offices</u>. Perhaps the most important phase of selling is accomplished at the central buying office of large distributor organizations. It is here that buying decisions are made which effect the majority of supermarkets in the United States. The salesman must get acceptance for his product so that he can in turn proceed to sell it at store level. The the case of chain organizations, the product, if accepted, will most likely to distributed to individual stores without the salesman's selling efforts. However with wholesalers, salesmen will probably have to sell the store operators into selling the product once it is available from the warehouse. Since there is less control over store operators from wholesaler headquarters then there is in the case of chains where headquarters controls and dictates what products are to be sold.

The salesman's role at the buying office level can be divided into two parts: (1) introducing new products, promotions, and passing along information, and (2) handling orders. Buyers want to know the facts about a product and depend on salesmen to provide them. One of the most important functions of salesmen is to provide essential facts and information upon which buyers can make intelligent buying decisions. Specifically, these facts are: cost, discounts, terms of sale, weight and size of product and shipping case, suggested retail selling price, profit, ordering requirements, transit time to deliver goods to buyer's warehouse, national advertising programs, promotional allowances and deals, competitors stocking the product, et cetera. An alert salesman will endeavor to provide pertinent data at the opportune time. Timing is important to buyers, especially when promotional allowances and incentives are announced so that they can plan to act upon them.

The second main function of the salesman at the buying office level is being able to process the buyer's orders. Most often, this encompasses the responsibility of seeing that the order is properly prepared and forwarded to the supplier's shipping department. He must alert the shipping department about rush deliveries and special shipping instructions so that the proper merchandise arrives at a specific destination on the date requested by the buyer. If any irregularities develop, the salesman should stand ready to assist in arranging for prompt remedial action.

In addition to calling on buyers, salesmen also call upon other members of the distributor organization directly related to the buying and promoting of merchandise. Advertising managers should be consulted whenever there is a promotion so that mats, product repros, and other advertising aids can be used in the advertisement of the product. In addition, salesmen find it necessary to discuss cooperative advertising agreements with advertising managers so that arrangements can be made to feature products as stated in the contract. Often times, cordial relations with the advertising manager leads to better ads for the salesman's product.

Merchandising and sales managers should be consulted whenever manufacturer sales programs are introduced to the trade. In many chain organizations, decisions whether or not to feature promotions are made by the sales or merchandising manager. Therefore, it behooves salesmen to keep in contact with members of the chain's merchandising committee so that favorable results can be obtained for their merchandise.

One of the most pressing problems confronting the buyer-salesman relationship is the time factor. With the average supermarket selling some [illegible],000 items, the buyer's time is extremely limited and the amount available to salesman interviews is valuable. From the buyer's standpoint, he does not want to take up time with salesmen on matters which can be handled over the phone or with correspondence For many years, it was not uncommon for salesmen to personally visit the buyer's office each time an order was due to assist in computing weights and quantity requirements of orders. However, with the advent of more efficient ordering procedures, particularly where electronic computers automatically determine when an order is required, salesmen no longer need to personally call on the buyer to pick up an order. Instead, the order can be mailed to the salesman's home or office. Thus the buyer can take time to interview salesmen offering promotional programs or new products which heretofore was taken up by the "order taker" salesmen.

Even with modern ordering procedures put into operation by food distributors, salesmen often find it extremely difficult to get an appointment with buyers. When one stops to consider the number of products sold in the supermarket, plus the increase in supplier incentive programs and deals, it is readily apparent that buyers are continually pressed for time. Unfortunately, salesmen must bear the brunt of this situation since they might have to waste hours in buyer's waiting rooms. Some buyers' appointments must be made as much as four weeks in advance. As a result, salesment complain about the amount of time they waste waiting to see buyers, non-productive hours which cost money. On the other hand, buyers feel that perhaps salesmen could plan their selling activities more intelligently and find ways to reduce the number of personal calls. As one buyer put it:

> My patience is worn thin by the hours wasted on the so-called "order taker" salesmen who call every week for the order, use 30 to 40 minutes of my time and rarely if ever offer a constructive new idea to help the distributor do a better job.[1]

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[1]Les Gilbert, "Computers Point Certified to Automation." Supermarket News, Vol. 7, No. 42 (October 20, 195[illegible]), p. 50.

Realizing the time factor confronting both buyer and salesman, the Editors of Supermarket Merchandising attempted to formalize a solution to the problems as to how salesmen and buyers could better utilize the time spent in interviews. A multitude of buyers throughout the nation were quiered on the question and the comments were grouped and printed as follows:[2]

1. Distributors should establish appointment systems for salesmen and limit each interview to a specific period of time, perhaps 15 to 20 minutes per interview. This restricts the interview time and enables buyers to see a fixed number of salesmen per day. Salesmen must be able to tell their story in fifteen minutes which tends to restrict most of the calls to matters pertinent to business rather than social. If salesmen need additional time, most buyers will make an appointment so as to continue the subject at a later date.

The appointment system is advantageous to salesmen to salesmen, too, since it eliminates long periods of waiting time to see buyers. One large chain in Philadelphia practices the first-come-first-serve system. It is not uncommon to find salesmen waiting as long as three hours to see the buyer. Certainly an appointment system would be most welcome to the salesmen as well as speed up buying interviews.

One Mid-Western Wholesaler interviews each salesman not more than once per month unless a special need arises requiring the salesman to made additional calls. Special

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[2]"Buyers Offer Code for Salesmen," Supermarket Merchandising, September, 1954, p. 85.

considerations are made for salesmen calling on the wholesaler for the first time as well as salesmen from out of town, both of whom are not familiar with the buying schedule. However, they are advised as to the distributor's buying policies so that scheduled appointments may be made for future calls.

2. Salesmen should take enough time necessary to adequately explain products, promotional programs, merchandising ideas, changes in pricing, ordering procedures, and company policy.

3. Calls should be strictly business and not social in nature. Distributors should discourage salesmen from making calls just for the sake of getting an order. These can be mailed to the salesman's home or office.

4. Salesmen should be well informed on their products, company policy, and promotional programs and be able to answer questions buyers may ask. In addition, salesmen should have all the information at their "finger tips" so that they can give intelligent, efficient, and meaningful answers.

5. An increasing number of distributors are requesting salesmen to fill out fact or data sheets when submitting a new product. Such sheets give all the necessary information about a product which the distributor deems essential for making a decision. In addition, fact sheets insure buyers of getting all the pertinent information they need about a new product. Usually salesmen fill out the fact sheets prior to their interviews so that the buyer's time is not wasted while waiting for the salesman to complete the form. Fact sheets are usually available at the reception desk or waiting rooms.

6. Pressuring buyers and members of buying committees to reconsider a product after it has been rejected not only takes the buyer's time but is not in good taste. Salesmen should gather convincing reasons as to why the product should be reconsidered before submitting it to the buying committee. It is natural for salesmen to be disappointed over the fact that their product has been rejected, but they should learn to accept the decision in good grace. Their

chances for having items reconsidered will be definitely faster if they can substantiate a convincing evidence as to why the product should be purchased rather than "crying" against the decision and demanding that the product be reconsidered on [illegible], unfounded, and emotional reasons.

Some distributors adhere to the policy that once a new item is rejected, it should not be offered again by the manufacturer for six months unless dramatic changes in packaging, pricing, promotional programs, and other factors warrant its reconsideration.

7. Many distributors request that salesmen abide by the appointment system and not try to take advantage of it. This suggestion refers to salesmen who "unexpectedly" drop by the headquarters to introduce the buyer to company officials from the home office. Also salesmen should refrain from making phone calls to buyers during buying hours. This practice not only takes the buyer's time, but is not fair to the salesman giving his presentation at the time of the phone call.
   While waiting for interviews, salesmen should adhere to good business conduct and not try to impress their so-called importance on other salesmen. Obviously, the practice of "cutting-in" ahead of other salesmen and not waiting in turn is poor business and a breach of etiquette as well.

8. Although not necessarily a major cause of wasting time, buyers particularly dislike the idea of salesmen bragging about their personal relationships with top executives in the distributor organization for the purpose of influencing buyers into accepting the salesmen's proposals. As one experienced buyer remarked, "Buyers wish to be sold on the benefits and quality of the product and not on the relationship existing between the salesman and the buyer's boss."

Edward Weiss, President of the Edward Weiss Advertising Agency in Chicago, used motivational research to find out the details of the relationship which exists between the buyer and salesman. When the study was finished, Mr. Weiss reached two interesting conclusions: (1) the buyer is dependent upon the salesmen since they provide the kind of information that will make the buyer "look good", and (2) buyers depend on salesmen for "self-worth" because the time spent talking with salesmen makes buyers feel important, a center of attention--something all of us need.[3]

Selling at retail level. There are four main reasons why salesmen call on retail stores: (1) to secure distribution for products, (2) to get promotions or in-store displays, (3) to check on the amount of shelf space given to merchandise, and (4) develop good will with store personnel. The latter objective is the one which is often overlooked by salesmen, yet usually results in more favorable advantages for salesmen. There are many services salesmen can render to store managers on every store call. First, the salesmen can check the shelf prices to see that they are in line with competition; second, salesmen can reimburse store operators for damaged merchandise and coupons; and thirdly, market information can be presented which might have a bearing on the merchandising programs planned for the store; fourth, salesmen can acquaint store personnel with new products and their contribution to store sales and profits; and finally, salesmen render "shirt sleeve" service by erecting displays, stocking shelves, rotating merchandise

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[3]Edward H. Weiss, "The Buyer Needs the Salesmen." Supermarket Merchandising, Vol. 24, No. 2 (February,1959), p. 99.

on the shelf, and even revamping an entire section of a gondola in order to return higher sales and profits to the store operator by providing better selection and eliminating out-of-stock conditions.

Salesmen calls seem to fulfill a vital communication function in the case of the independent supermarket operator, particularly the small volume stores. Unfortunately, the small volume store operator seems to be burdened with more responsibility than in the case of the chain store manager. This is true where the operator is a "Jack of all trades." Most often, the operator can not find the time to devote paging through the numerous announcements and store bulletins sent from the wholesaler buying department. Fortunately, salesmen can bridge this gap by revealing promotional programs, introducing new products, discussing deals, and personally taking care of the operator's order.

One of the most serious problems confronting the independent grocer, today, is this failure to take advantage of the numerous deals and incentives offered by manufacturers. It seems that store owners have not found the time to absorb all of the deals presented in the wholesaler's ordering catelogue. It is not uncommon for salesmen to find grocers ignorant to the various deals and allowances which competitors are promoting vigorously. The time demanded of the grocer to keep the store operation going prevents him from adequately comprehending the many deals which are available.

Therefore, much of this responsibility of keeping the independent operators informed is left to the salesmen.

The "shirt-sleeve" service mentioned earlier, is an important service salesmen render to store operators. At times, store managers may be caught "short-handed" with personnel which keeps him from carrying out scheduled in-store merchandising programs. Perhaps a display has to be built, windows and over-hang wires decorated, shelves stocked, et cetera. In such instances, they welcome any assistance salesmen can give.

Certain manufacturers, especially baby food and cracker-cookie companies, instruct their salesmen to stock their brands on a regular basis. The baby food salesmen stock shelves, rotate stocks, maintain a clean shelf appearance, and order merchandise each week. There are a number of reasons for this service. First and most important, the baby food industry is so competitive that each company must offer the same "free labor." Second, baby food is sold in a number of varieties and personal attention to ordering will keep a satisfactory supply on hand at all times. Store managers admit that there are as many varieties and brands they would have a difficult time keeping the shelves filled, and are happy to let the salesmen manage the department. Finally, baby food jars require care in stocking. They must be stocked neatly and securely on the shelf to prevent them from falling and breaking. The glass jars must be dusted to keep them looking fresh and appealing. Also in the cookie industry, competition has prompted many cookie manufacturers to order salesmen to stock stores regularly.

Factors Restricting the Usefulness of Salesmen

Unions restrict the amount of "shirt sleeve" service salesmen can perform. The Grocery Clerks Union, a member of the AFL-CIO, frown upon salesmen stocking merchandise in stores and instruct all locals to bring pressure to force store operators to discontinue the practice. The union believes that such services deprive store clerks of work. Whether or not salesmen are prohibited from "stocking" merchandise depends upon how vigorously the unionized store employees enforce this code. In heavy unionized areas of the nation, such as Portland, Oregon, this also poses a problem for salesmen, since they are restricted from handling their merchandise in the stores. This could create problems as in the case of inexperienced union clerks not knowing how to construct particular displays designed to sell a large quantity of product.

In Chicago, The Retail Clerks International Association Union won a drawn out jurisdictional battle in 1959 to obtain the right to have union members do all of shelf stocking, including baby foods. The immediate result was to place upon the supermarkets the added costs of stocking baby foods, a cost formerly carried by the manufacturer when salesmen assumed the burden of keeping shelves filled with baby food. This posed a problem for the manufacturers, too, as to whether baby food products would be stocked and refilled as efficiently as formerly done by the salesmen, because of the high turnover rate and variety of baby food products. In an attempt to insure proper stocking, the baby food manufacturers in the Chicago market came up with an incentive offer in which they would pay the distributors 10 cents a case as "stocking cost." This decision on the part of the baby food manufacturers caused widespread alarm among suppliers for fear that in the not-too-distant future, all suppliers will be "forced" into making shelf stocking payments to distributors. Some suppliers refer to this situation as "shelf rental" merchandising. No manufacturer will discuss this situation openly for publication, but it is known that some suppliers feel that the recent developments in the Chicago market will spread into more product categories as well as geographical areas.[4]

The second stumbling block to salesmen activities in retail stores is the policy of some chains of restricting salesmen from calling on the stores. With an increasingly number of salesmen calling on supermarkets, store managers as well as store personnel are being interrupted from their work to talk with salesmen. Therefore, to eliminate interruptions, some chain operators have ordered salesmen to

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[4] Don Baines, "Suppliers Fear Shelf Rental," _Supermarket News_, Vol. 9, No. 23 (June 6, 1960), p. 1.

stay out of their stores and to discuss all business with the proper personnel at chain or branch headquarters. Unfortunately for manufacturers, there are too many salesmen who accomplish nothing on their calls, either for the store manager or the chain headquarters. Actually, store managers welcome salesmen and their ideas as to how to sell more merchandise, but it is the "time waster" who spoils it for all of the rest of the conscientious salesmen. This is the fellow who visits with the clerks about a variety of subjects, all unrelated to business or the clerk's duties. The store managers have many duties to perform and they cannot afford to be interrupted by salesmen who just want to talk about last night's ball game or the new auto models about to be introduced in Detroit. Yet these large volume supermarkets must be called on by suppliers in order to gain new product placements, favorable shelf positions for their brands, and even develop better relations with store personnel. The question is how?

Manufacturers can find the answer to more productive salesmen calls by approaching store level selling on the basis of how can a supplier contribute to the over-all objectives of the store operation, i.e., increasing store sales and profits. In addition, manufacturers should ask themselves the question how can salesmen help store managers move more volume which will benefit both the store and the manufacturer?

Most chain organizations realize that salesmen can contribute much in the way of merchandising ideas and information to warrant their calling on the stores, however, the majority of salesmen seem to be interested only in pushing the sales of a particular product rather than presenting programs which will boost store sales. As a result, it is not uncommon to find store managers spending a large portion of the day listening to salesmen's pleas for more shelf space for their products or begging for displays. Thus the only way to lessen these interruptions is to bar salesmen from talking to store personnel unless granted permission to do so by supervisors or other company officers.

In order to secure permission, manufacturers began to think in terms of the over-all objectives and problems of store operations and how product promotions could be made to fit into the chain's weekly merchandising programs. Unique display pieces which lent themselves to appropriate store impressions and merchandising programs were the tools manufacturers used to get salesmen into the stores. In addition to building displays, salesmen began to decorate store interiors with colorful merchandising material. The storewide promotion, as discussed in Chapter VIII, became an important part of the supplier merchandising programs. Suppliers found that once approval to call on the stores was received from company headquarters, store managers were glad to see salesmen and appreicated the fact that salesmen were contributing to the over-all merchandising program. Often times, better relations were developed with store personnel with resulted in occasional displays and favorable shelf positions for the helpful salesman's products.

Salesmen should use good judgment when calling on store managers. First, retail calls should be scheduled during slow shopping hours when managers have more time to devote to salesmen. Nothing is more disturbing to managers than to have salesmen waiting to be interviewed when the store is filled with customers. Many situations develop which require the manager's attention. When salesmen call on stores which are extremely busy, they should offer to assist the manager by seeing that the salesmen's merchandise is adequately stocked for peak shopping hours. There are times when stock boys are needed at the checkout counters to bag orders or carry groceries to the parking lot. When out-of-stock situations arise, managers may appreciate a salesman taking time to fill up the "holes" on the shelf.

Another rule of conduct should be observed by salesmen, i.e., to return as agreed to build displays. There are occasions when managers agree to a display on the condition that the salesman will return to built it. Nothing infuriates a manager more than having to build a display which the salesman agreed to build. This is particularly important in the case of large quantity displays which would not normally have been undertaken if the salesman had not promised to return to do the work.

Finally, salesmen should remember that all merchandise is the property of the store operator and should not be changed unless permission is granted by a responsible store employee. In their anxiety to increase their sales, some salesmen have changed the shelf arrangement to give their products a better shelf position for a bigger percentage at the expense of a competitor. This is one of the things which destroys good will, and as a precaution, all salesmen should be instructed accordingly not to change displays or shelf stocks unless permission is received from the manager. If a situation exists which handicaps a salesman's shelf arrangement on a particular brand, the salesman should call the manager and point out the discrepancy. Most likely, the manager will allow the salesman to change the discrepancy or order a clerk to make the change.

The Merchandising Committee of the National Association of Retail Grocers prepared a Code of Ethics for Salesmen calling on retail stores. The code contained many good points for salesmen to consider when calling on retail stores:[9]

1. Make sure you are contacting the person whom the store authorizes for buying, promotions, advertising, display, et cetera.

2. Bring to the store pertinent and timely information on present economic conditions, trends in the trade, supply possibilities, and other information of value and interest.

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[9] "Code of Ethics for Salesmen," prepared by the Merchandising Committee of the National Association of Retail Grocers, Chicago, Illinois, 195[illegible], p. 2.

3. Offer fresh, new ideas which have proven successful for promotions, displays, advertising, and merchandising.

4. Keep in mind that the retailer is in business to serve customers satisfactorily and well, and at the same time realize a reasonable profit (return on his investment and wage for his work).

5. Keep promotion-minded retailers advised of all company programs, along with full information on point-of-sale material available, but all on the basis of its value to the retailer (not to you or the company you work for).

6. Be careful not to call on a store at a very busy time, when everyone is working with customers, or when sales meetings are being held, or when buyer normally has other obligations.

7. Think in terms of merchandise sold to the consumer, not just in terms of getting so many cases sold to the retailer for his back room and shelf stock.

8. Remember that the average grocery store handles nearly 5,000 items (larger stores have many, many more) and that no retailer nor his personnel have time to spend just "gabbing." They are interested to work with salesmen who have ideas, suggestions, and plans for merchandising the products offered by those salesmen--and for other merchandise as well.

9. Make phone calls and visits short--consistent with time required to get across ideas and suggestions and information outlined above. Get to the point--and get along!

10. Aim to sell so well--from the standpoint of the return to the retailer--that he will be more anxious to buy than you are to sell!

11. DON'T--park your car in the best available location at any food store.

12. Avoid standing in the aisles while visiting or waiting when customers are trying to get through the aisle or to the display.

13. Avoid taking up the time of the store personnel--over coffee, a cigarette, or just visiting. No salesmen calling on a manufacturing plant would go into the shop, stop a man working on a machine and

talk with him, while waiting for the buyer or contact man. Today's modern food store is as busy or busier than a manufacturing plant. Don't slow down any personnel with visits, invitations for coffee, et cetera.

14. Offer gifts, prizes, samples, or other gratuities to any one of the store staff only if approved by management. A buyer might get an award which should rightly go to the sales people or others who had much more to do with the actual selling of the merchandise.

15. Sample only after the approval has been received from management. Be sure samples are furnished by the supplier and don't get them mixed up with regular shelf stocks.

16. Arrange stock on shelves, add or move merchandise, price mark items after full approval from management is received.

17. Refrain from "gossiping" about competitors for this makes retailer wonder what you say about him to his competitors.

18. Offer to pick up merchandise that has not sold for long periods of time only if this is definitely company policy.

19. Avoid embarrassing the owner and employee by "heavy" or "sticky" compliments of an employee in the presence of the retailer.

20. Do not solicit "dummy" orders which you know you will not be filled, simply to build a sales quota.

21. Refrain from telling the retailer what you want or what your company wants--but tell and show him how he can increase volume and profit by stocking the item, following merchandising suggestions and promotion programs. Not what you think but what you can prove has happened or will actually happen.

22. Don't try to start a conversation with such generalities as "how's business?"--or "what's cooking?"--or "just thought I'd stop by..." If it is a social visit, it should be made at the retailer's home, or at a civic club luncheon, or some other social event. His store is a place of business, where business is to be transacted.

23. Try not to begin your conversation on the several dollars your company is spending on advertising or sales promotion work--when the retailer knows he makes only a few pennies on each purchase of merchandise or item he sells in the store.

24. Put up signs, price cards, and display pieces only after approval has been secured from the owner or manager.

Developing relations between manufacturers and distributors is a two-way street. Each side should endeavor to consider how best to serve the other's needs. Attention has been given to the advantages to be gained by manufacturers when striving to be of assistance to the distributor. On the other hand, friendly relations with salesmen often result in a few intangible services for the distributor at both the central buying offices and at the store level. Salesmen usually have a good word to say about distributors who treat them well. Certainly, word of mouth publicity is bound to do some good for the distributor if mentioned in the "right" circles. Often times, the distributor's most faithful customers and supporters are salesmen. Also, it is not unusual for salesmen to make special efforts "beyond the call of duty" to see that a customer's order is shipped promptly particularly during times of unforeseen shortages created by abnormal or unexpected demand or emergencies.

Distributor Buying Decisions

Buying decisions have become an important part of distributor operations and have created many headaches for both the distributor as well as the manufacturer. Perhaps the least understood function of retailing to the manufacturer is the buying decision. Not only does the supplier fail to understand why decisions are made, but by whom as well. The tremendous increase in the number of products being offered to distributors will undoubtedly continue in the years ahead. Thus it behooves distributors to pass judgment on all products in an intelligent manner in order to ascertain what products will earn the greatest dollar sales and profits. This poses a problem for distributors since it is practically impossible to "guess" what products will be the "bread winners," especially since sheer physical limitations of supermarket selling areas prohibit each product being tested in the stores before making a decision. As a result, many products are not given due consideration which raises the wrath of the manufacturer who has spent time and money researching, market testing, and advertising new products.

The creation of the buying committee is an attempt by distributors to broaden the thinking about new product decisions by employing a number of people to make a decision rather than leaving it up to just one individual. On the other hand, this limits the effectiveness of the salesman's presentation since the buyer to whom the presentation was given cannot convey the same enthusiasm and approach before the buying committee as the salesman did when talking to the buyer.

This section will explore the procedures used by chains and wholesalers in buying new products and attempt to make an evaluation as to how both the salesman and distributor can work mutually to achieve an effective buying procedure.

<u>The buying committee</u>. Distributors organize buying committees to establish more effective means of judging products. Unfortunately, little factual information is available explaining the inner-workings of committees and how members arrive at decisions. However, the information the author has been able to gather should help the reader grasp a better understanding of buying committees.[6]

First, salesmen usually present a product to a buyer who acts as an interviewer. In some instances, the buyer may have the authority to accept or reject a new product without taking it into the buying committee.[7] However, in

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[6]The discussion on buying committees is based on the results of two separate studies conducted on buying committees, one by the Editors of <u>Supermarket Merchandising</u>, and the other conducted by William S. Nigut, a marketing and trade counsel.

Mr. Nigut sat in on buying committee meetings of 12 important chain store and supermarket companies during his study. Half of the 12 companies were among the nation's leading 20 food chains. Three were among the top ten, and two were among the top five. Of the other six companies, five each had an annual volume well in excess of $50,000,000. The smallest company had a volume of approximately $40,000,000.

[7]Buyers do not have the authority to accept supplier's offerings independent;y but 70% can give their buyers authority to reject them without submission to buying committees according to an article appearing in <u>Supermarket News</u> and discussed in "Notes on the Grocery Trade," a report published

most cases, the product is presented to the buyer, who in turn presented to the other members of the buying committee.

Buying committees are charged with the responsibility of buying products, selecting product promotions, and determining which products are to be displayed in the supermarket. In many distributor organization, buying committees review product sales figures and determine which items are to be discontinued. Products brought before the committee are not necessarily new items. Many are established items not carried by a distributor; items once carried, discontinued, and now reconsidered; established items available in a special deal or promotion; and established items in new sizes, new containers, or in new forms, colors, et cetera.

Buying committees vary in size from three to seventeen numbers. The average committee seems to contain seven members. The vast majority meet once every week and, depending upon the number of products to be considered, the meetings last from one to six hours. Usually nineteen items are considered at each session with approximately six minutes devoted to each one. No two committees are organized exactly the same way and many people with various functions in the organization comprise the group. Some of the people likely to be found on the committee have the following titles: Vice President in charge of Sales, Merchandising and Advertising; Vice President in charge of Store Operations;

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by the J. Walter Thompson Marketing Research Department, Bulletin 6-61, March 31, 1961. p. 3.

Vice President in charge of Purchasing; Director of Grocery Operations; Advertising Manager; Merchandising Manager; Sales Promotion Manager; and the following commodity buyers: grocery, meat, produce, frozen foods, health and beauty aids; liquor, wine, and beverages; housewares; and soft goods.

A number of reasons have been given to explain the creation of buying committees. However, there are six main ones:

1. To remove the buying decision from a highly charged emotional atmosphere; an atmosphere which at times in the past has been disadvantageous to both the seller and buyer.

2. To prevent a buyer's personal likes or dislikes from unduly influencing a buying decision. In this respect, most distributors believe that products and promotions get a better hearing from a committee than from an individual buyer.

3. To help store and field personnel to understand the buying operation at headquarters through their regular or rotating participation in committee meetings. The management of some chain organizations think this is extremely important because of the false and ridiculous stories about a company's buying policies told by supplier sales representatives to store and field personnel.

4. To capitalize on the collective knowledge and experience of buying personnel.

5. To provide for the orderly continuity of the buying operation and the perpetuation of a well trained and experienced buying staff.

6. To handle the horde of new products presented to distributors each week. The National Association of Food Chains estimated that, in 1956, as many as 6,000 items were offered buyers.

Buying Committee meetings proceed in the same manner with nearly all food distributors. Samples of products are passed among committee members along with such basic information as its cost, per cent profit, advertising program, point of sale material, promotional allowances, terms of sale, how item is packed, competing distributors handling product, comparable products, if any, handled by the chain, how shipped, and special features of the product. Most distributors require salesmen to complete product information forms containing the information, such as that listed above. Actually this sheet is a valuable sales aid for it allows salesmen to marshall all the pertinent information not limited to the product that the committee should have in arriving at a decision.

When considering a product, a committee usually tastes it, in the case of food items, compares its quality, color, appetite appeal, consistency, side by side with competitive products. Committees usually get reports on the item from quality research labs or the home economics department.

At times, the majority of the committee members do not approve of a new product, but, because of the buyer's faith in it, the committee agrees to test it in a limited number of stores. There seems to be a growing trend among committees to let a product prove itself at the point of sale whenever there is a doubt, et cetera. Some distributors have designed a test store group where such product tests are regularly scheduled, while in others, the buying committees select the stores at the time they agree on the test.

Finally, a vote is taken in a democratic process and if the majority approve, the product is accepted. The committee decision is binding in that buyers cannot over rule or ignore a committee decision. Usually when an item is turned down, distributors require manufacturers to wait at least sixty days before reconsidering the same item.

Manufacturers often ask the question, who should make the product presentation, the local sales representative or a salesman from the home office? According to Bill Nigut, most buyers prefer that the local salesman make the presentation. In this matter, buyers display a loyalty to and a sympathetic understanding for the salesman who "plugs away" at his job, week-in and week-out, faithfully performing his routine duties. They believe that when a manufacturer has a new product to be presented or some important information to be brought to their attention, the local salesman and not an official from the "headquarters" should be entrusted with the assignment.

Since buyers are the best judge of manufacturer sales practices and techniques, Bill Nigut listed some of the major errors that buyers believe manufacturers make in presenting their products and promotions. First, a manufacturer should never present a product that has not been properly conceived, properly tested, and properly marketed in the consumer's interest. Secondly, a manufacturer must "think retail." He cannot selfishly think of the supermarket simply as the point of sale for his product. He must recognize that a store is the point of sale for the retailer and develop his (the manufacturer's) marketing strategy and plans accordingly. Finally, manufacturers must find and develop new techniques for interpreting to buyers the short and long range significance of their national and local product advertising campaigns in terms of the buyer's interest. Far too many product presentations or "sales pitches" have been built entirely around product advertising. Buyers have become immune and indifferent to such presentations.[8]

Decisions of the buying committee. The decisions of the buying committee are just as confusing to manufacturers as the workings of the committee. This is a natural reaction to expect from a manufacturer whose product has been turned

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[8]William Nigut, "Buying Committees," Food Business, Vol. 6, No. 4 (April, 1958), p. 25.

down by a buying committee. Immediately, manufacturers question why it has been rejected, particularly those who spent time and money researching and test marketing a product. As mentioned in the preceeding discussion, manufacturers demand, and they have every right to know, why their product was turned down. Perhaps there is a good reason for the committee rejecting it, however, there might have been vital information withheld or even a quality demonstration forgotton which, if considered, could have encouraged the members of the committee to accept the item. Again, one never knows what goes on in the committee. Just as a salesman forgets to show a quality demonstration to a buyer, so might the buyer fail to reveal essential facts which are extremely important to the committee to consider in order to grasp a better understanding of the potential profit earning power of a product.

The one answer which buyers most often give a manufacturer seeking to find reasons for a product's rejection is the problem of space. With the shelves of the supermarket bulging to capacity, the question arises as to what item in the same category must be dropped in order to make space for the new one. This reasoning is logical at the moment, but hardly suitable for the distributor who wants to take advantage of the vast opportunities which are coming to him via new products. Perhaps a better approach should be taken to this problem of space and its influence on the acceptance of new products. When one thinks in terms of replacing one product for another within the same product category, he might be limiting the dollar volume and profit he can earn by making the switch.

For example, suppose a distributor was presented a napkin which was revolutionary in quality and designed to increase total paper napkin sales in the paper department. The distributor has the choice of buying the napkin and squeezing it into the paper department or else discontinuing another paper napkin brand. Most likely, the distributor elects to discontinue another brand rather than ad another product to an already crowded department. Again, it is this idea that something has to go if a new product is accepted. If all of the napkins are selling well, the distributor may be reluctant to discontinue any brands and may even decide to delay approval of the new napkin. This is discouraging to manufacturers who have gone great lengths to perfect products which will product sales and profit for distributors. Perhaps the fallacy lies in the distributor's reasoning that something has to go. Perhaps an alternative might be to enlarge the department or look to other product categories for possible discontinuance. Too many distributors do not go beyond the category in which the new product belongs to look for products to discontinue. There might be a possibility that the new napkin might earn more dollar profit per dollar invested than a certain brand of canned fruit juice, soap powder, dog food, or pack of candy. Since distributors are interested in increasing sales and profits, this searching out into other departments and developing a method of comparing profit contribution per dollar invested of all the products in the store, with any new product might be worth exploring.

An analysis of the Von's Study, published by Supermarket Merchandising in 1960, revealed that 361 items out of a total of 3,431 stocked in the grocery section accounted for 42% of the total gross profit per store per week.[9] This is only 11% of the total items stocked earning 42% of the profit. Perhaps the 3,431 items could be ranked according to dollar contribution to total profit starting from one and going all the way down to number 3,431. Then with this master sheet, buying committees could compare the potential profit contribution with similar items to determine whether a product should be discontinued, either within or without the category of the new product which has been approved. There are a few distributors who have installed electronic computers capable of ranking individual items by profit contribution, however, as yet these companies have not seen fit to use such analysis when making buying decisions.

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[9]The Editors, "The Fabulous Von's Study," Supermarket Merchandising, Vol. 25, No. 8 (August, 1960), p. 73.

There have been occasions when distributor buying committees turned down a new product for reason of space even though test market studies proved that a large per cent of the consumers initially bought and repurchased the item in the test area. Certainly satisfying consumers is always kept in mind when buyers judge new products, but the problem of where to put it on the shelf often over rules consumer demand.

It is interesting to note a survey taken by Supermarket News concerning buying committees which could possibly shed light on why distributors think in terms of discontinuing an item in order to take on a new one. This survey revealed that over two-thirds of the average buying committees consisted of committee members having responsibilities in buying and warehousing operations. Only 21% of the members were concerned with Marketing and Merchandising.[10] Perhaps this is an indication that not enough members responsible for Selling merchandise are represented on the committees. Sometimes, it is easy to evaluate store operations in a cold analytical term when actually distributors should be putting more emphasis on the Selling function. Perhaps the buying procedures are becoming too routine with too much emphasis being placed on space and not enough stress on sales. After all, it is the sales which is the paramount objective of

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[10]"Notes on the Grocery Trace," J.Walter Marketing Research Department, Bulletin 6-61, March 31, 1961, p. 3.

food distributors and all departments should be geared to support this goal. In some instances, might not the "tail be wagging the dog?" Certainly seems that way, judging from the buying committee decisions these days.

Mr. R. D. Arney, Vice President of the George A. Hormel Company, believes that manufacturers should be given the reason why buying committees reject products submitted for their approval. Many products presented to buying committees have been market tested, and, as a result, manufacturers feel confident that they will be successful. Mr. Arney advocates that buying committees tell manufacturers exactly why a product is rejected. He believes such action would do two things: buying committees would have to give the proper appraisal to the item before rejecting it, and secondly, the manufacturer would know that the proper time had been given his product, which he might have spent millions of dollars developing. This helps the manufacturer know what to do next.[11]

Mr. Harrison F. Dunning, addressing the 1961 National Association of Wholesale Grocers, urged that distributors should accept an obligation to become "market enlargers." In this role, distributors would make an effort to find the "right" new products to sell and promote and seize upon them as opportunities for extra volume and building customer

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[11]R. D. Arney, "A Proposal," Supermarket Merchandising, Vol. 22, No. 2 (February, 1957), p. 70.

traffic into the stores, rather than regard them as problems. He declared that manufacturers who do competent research and make large investments in product development are "entitled" to have this product see "the light of day" without so much resistance from buying committees and individual buyers.

Mr. Dunning suggested that distributors use representative stores for testing new items. "It seems to me," said the Scott Paper Company executive, that,

> in these new products lies a great deal of growth which distributors are looking for and which I think you can find within the confines of the supermarket and at a price which will keep costs and selling prices far lower than they are today when manufacturers literally have to "force" new products into distribution by expensive maneuvers.[12]

A novel approach to solve the lack of personal selling by salesmen during buying committee meetings was initiated by the Washington, D. C. branch of Safeway Stores. The branch experimented with the use of tape recorders to permit salesmen to be "heard" by the committee. Mr. J. A. Anderson, Vice President of the Safeway branch claimed that the tape recorder affords the salesman an opportunity to get his message before the buying committee, and at the same time bring Safeway management up to date on what is new in the food business. Mr. Anderson pointed out that discretion should be used with tape recordings, as it is impossible to listen to all sales presentations because of time

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[12]"Closer Supplier, Retailer Ties Stressed," Supermarket News, Vol. 10, No. 12 (March 20, 1961), p. 34.

limitations. Only when the item is considered to be of sufficient importance should a request be made to use the recorder. If this method is successful, perhaps other Safeway brances will find it advantageous to use the recorder.[13]

Aside from the shortcomings voiced about buying committees, they seem to be here to stay and manufacturers had better learn to live with them. If the number of new items continues to multiply and if the variety of products sold in the average supermarket continues to mount, it seems quite likely that the importance of the committee will become greater.

Since it was recommended that distributors view new products as opportunities not problems, then so should suppliers look at buying committees in the same frame of mind. Actually committees offer three unexcelled sales opportunities for manufacturers: (1) There is the opportunity to get a hearing for a product that is properly conceived, properly tested, and properly marketed in the consumers' interest. (2) The opportunity to capitalize on and get full value for the trade selling job that a manufacturer had done in the past five, ten, or fifteen years. If one manufacturer has worked diligently at creating warm trade relations and has

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[13]"Safeway Suppliers Taping Item Sales Presentations," Supermarket News, Vol. 10, No. 5 (February 1, 1961), p. 14.

a record of good service with supermarkets and chain store operators, then this manufacturer has no cause for concern. On the other hand, if a supplier has not done these things, then his competitors have an important advantage. (3) The last opportunity and challenge that buying committees offer is the modernization of sales methods. There are two areas in which manufacturers may be vulnerable and which require immediate attention: the training of the sales force--buyers report that many salesmen do not know how to sell, they beg, coax, and whine; and sales planning techniques. All supermarkets are not alike, neither are distributor organizations. They all differ from one another and because of this difference, they cannot be sold and are not being sold with the same tools and methods. For example, some buying committees are bored with the flip card and/or the slide-film presentations. Distributors want to be sold as individuals. If manufacturers are to be successful in the future, they must know the differences existing between distributors and how these differences can be adapted to the manufacturer's advantage.

The importance of buying committees can be summed up in the words of Richard G. Zimmerman, publisher of <u>Supermarket Merchandising</u>:

> No product or promotion can gain admission to at least 88% of the nation's supermarket's without the express consent of the buying committee. Yet no more than 800 of these buying committee members pass judgment on products that go through 7,241 stores involving annual sales of 7.5 billion according to the research

> sample studied by Supermarket Merchandising. . . . Here is the power to match that of the grocery manufacturers. Food retailing is no longer a loose federation of aproned grocers. It is a mass marketing industry just as the grocery manufacturer is a mass production industry. When the boards of directors of the name brand corporations of America deliberate on high policy, they would do well to consider the needs of similar high policy makers who sit on the buying committees. . . . In the last analysis, it is the buying committee which holds the lease on that consumer franchise.[14]

The Salesman in the Sixties--A Professional Salesman

Picture the dilemma of the food distributor, today. Manufacturers are marketing new products for sale at a rapid rate. This means that, in addition to the traditional tasks of buying and maintaining balanced inventories, buyers and buying committees must devote a lot of time to the evaluation of new products and the re-evaluation of the old ones, authorizing new items that will sell and make money, and, finally, discontinuing those that do not sell.

The Super Valu Study, published in Progressive Grocer in 1958, brings into sharp focus the new product picture a the buyer's level:

New Products	12 Weeks	Per Week
Number Offered to Super Valu	1125	96
Number Accepted	288	24

During the twelve week period, 1,152 new products were offered to Super Valu. Projecting this fifty-two weeks, this

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[14] Richard G. Zimmerman, "Inside Buying Committees," Supermarket Merchandising, Vol. 22, No. 2 (February 7, 1957), p. 60.

means about 5,000 offerings a year or a figure nearly equal the average number of items the average supermarket sales, today. If Super Valu or any other organization were to accept every new item offered, store and warehouse size would have to double each year. Obviously, all 1,152 products were not accepted but 288 items were. Projected over a year's time, Super Valu adds about 1,250 new products to their pre-printed order book. This is the dilemma facing salesmen in the sixties.[15]

A sign hangs in the office of Ken Kanton, buyer for Super Valu's branch in Minneapolis, which aptly describes the salesman's approach to modern selling: "If you want to sell your product to this company, outline your plan in such a way that it will show us how we can run a better business, and so that we will be more anxious to buy than you are to sell."

Certainly this sign accurately points the direction which salesmen must follow if they are to be successful in the 1960's. The salesman's role will be a difficult one, and obtaining the goals and objectives will require much study and determination. Perhaps the selling function can be broken into two main areas: providing pertinent data and information upon which distributors can make sound

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[15] The Editors, "Super Valu Study," Progressive Grocer. January, 1958, p. 6.

buying and merchandising decisions and initiating ideas which will add sales and profits to the distributors' business. Buyers and buying committee members of the nation's leading food distributing organizations are executives, and, as such, are expected to make decisions. They are trained to avoid emotional thinking and stick to the facts. Before any skilled executive makes a decision, he must first feel confident that he has sufficient facts on which to base a decision. After he has made a decision, he must be sure that he made the correct one. As a result, the modern food executive wants and needs help in making decisions. Herein lies the salesman's primary challenge.

Today's salesman must be an expert. He must be a consultant to his customers on practically everything from financing to shelf management. He must be qualified to present and discuss every detail about his product, his program, shipping date, prices, discounts, et cetera. He should be able to show why his products are profitable for the distributor to stock and feature them. Finally, the salesman should be qualified to offer ideas that will build sales and increase consumer traffic through the stores; suggest high margin tie-in items that can be featured with his particular products; and provide creative promotion and advertising ideas and other helpful services.

Salesmen can help buyers structure the buying situation when they make buying decisions. They can present pertinent information to help buyers feel confident to make sound decisions. Eventually, buyers will learn to "lean" on salesmen who help them solve their most pressing problems by presenting facts and data and so structuring the situation so that buyers can intelligently analyze their possible courses of action.

The question arises, what do buying committee members believe to be the most important factors they themselves must bear in mind when conducting their business activities? First, there is the growth factor. The entire food industry has a positive mania for growth and individual distributors are no different. All decisions must have a direct bearing on the growth of the organization. Second, keeping pace with competitors is an essential factor. Food retailing seems to be a frantic business with quickly changing competitive conditions. Food distributors do not like to fall behind in anything they consider important to their operation, therefore, decisions must be made which enable distributors to keep ahead of competitors. Finally, when assessing new products or promotional programs, buying committees evaluate the program in terms of its value to the consumer. They want to compare it with competitive offerings. In essence, they want the facts upon which to base sound decisions. Herein lies the fundamental concept of professional selling.

Actually professional selling is not new; it is simply a refinement of the most basic aspects of selling. The approach a salesman uses when presenting his sale is important, as well as proper timing when closing the sale and asking for the order. Equally as important is the ability of the salesman to handle objections. In other words, the basic steps of a sale, i.e. the approach, developing interest, creating a desire to buy, and closing the sale, still apply in professional selling. The one thing which professional selling does is to make an adjustment to the "executive climate" of modern consumer. It is essentially a "fact and figure" approach designed for "fact and figure" food executives.

Fundamentally, there are five steps involved in professional selling:

1. Knowledge--All kinds of knowledge. A salesman must know all the facts about his product, market, consumer buying habits, customers, et cetera, before he can effectively sell distributor executives.

2. Setting objectives and goals. Salesmen must know their own problems and what must be done to solve them.

3. Planning steps to achieve these objectives which involves applying knowledge to these objectives. To the professional salesman, this usually involves preparing a visual, written presentation for buyers.

4. The sales presentation must be made to the "right" people, in the right mood, in a business-like manner, with an air of confidence.

5. The follow-through is the final step. This involves calling on executives to make certain that each understands the program and the part each plays in it. This may include coordinating the program with store personnel as well.

The success of professional selling depends upon the manufacturer's ability to furnish salesmen with pertinent information to be incorporated into sales presentations and written reports. Some manufacturers use sales planners throughout various sales divisions to maintain and provide essential facts and data to the field sales force. Some planners even prepare individual customer reports of a confidential nature for presentation by divisional sales managers.

One word of caution should be injected at this time on "fact and figure" selling. Reports are selling tools and not a panacea or cure-all. When working with facts, it is easy for salesmen to concentrate entirely on the data and forget the human or emotional side of selling. Salesmen must remember to avoid giving buyers the impression that the report is "gospel." They should not try to impress buyers that they know all the answers. It is important to bear in mind that the buyer makes the decision, and the facts are to assist in making decisions. There have been instances where buyers actually turned down a salesman's proposal even though the written report contained information to justify the salesman's recommendation, on the grounds that the salesman's attitude was of an arrogant nature when presenting the report. Buyers are human and need to be treated with respect and consideration. If they do not personally care for a salesman or his tactics, no written report or factual information will receive the attention it deserves. Salesmen should learn to get along with buyers first, then develop skill in using facts and figures as one of the many selling tools to successfully sell his customers.

Just as important as facts and figures, is another selling tool which the professional salesman knows how to use effectively--the product. Many reports and studies have revealed how little salesmen actually demonstrate their products. Time after time, buyers are quoted as saying how ineffective salesmen are, particularly when they do not even bother to demonstrate a product's relative advantages. While working in the headquartesr of Super Valu Stores in Hopkins, Minnesota, the author had the opportunity to observe and listen to quite a large number of salesmen presenting products and programs to Super Valu buyers. It was shocking to listen to the quality of the average presentation that was given the buyers. Most of the salesmen were simply not prepared to adequately present their products with any conviction, because they did not appear to know anything but the simple facts about items of theirs and competitors.

None of them ever suggested how their product might add additional sales dollars to the chain's business. Furthermore, there was not one presentation during which the salesman even bothered to open the package so buyers could taste or test his products. After hearing such inadequate sales presentations, one could understand the growing tendency of chains to by-pass the salesman by keeping their contacts as often as possible to the phone. The buyers, and particularly the promotion managers, are just too busy to have their valuable time taken up by idle conversation and ineffective presentations. The quality approach has become non-existent. Salesmen readily quoted deals, promotion allowances, premiums, and other incentives, but no one really sold the product's quality advantages to get the buyer interested in selling it in the first place. As pointed out in an earlier chapter, deals rarely build a consumer franchise for a product. It is the quality of the product which attracts consumer purchases and adds additional profit and sales to the distributor's business. Therefore, quality and product characteristics should be sold first before presenting deals and allowances. Most likely the buyer will be "sick and tired" of hearing about deals anyway and would welcome a quality demonstration.

Commenting on quality presentations, R. W. Mueller, Editor of <u>Progressive Grocer</u>, thought that the time is ripe for salesmen to tell the quality story about their products.

Many distributors do not really know too much about quality, performance, and characteristics of the many items they sell daily. They are fairly well informed about consumer advertising, consumer sampling, coupons, deals, discounts, allowances, and everything under the sun except how good it is. Mr. Mueller believes the public is again becoming value and quality conscious and distributors are the first to realize it. He said:

> The public wants automobiles that run, TV sets that aren't delivered with missing parts, clothes that wear, toys that won't fall apart. The same value and quality consciousness also applies to food and grocery products. Perhaps this is a good time for manufacturers (and retailers) to strengthen their modern sales methods by talking about the quality and value of their products and stores.[16]

A humorous story, yet appropriate for salesmen to remember, was related by Charles R. Boyle, Executive Secretary of the Missouri Valley Food Distributors Association. There once was a successful, experienced salesman who, given a package of a new soap powder, dutifully carried it in his sample case--but never took it out--never showed it to a customer. Finally on one call, a customer went through this man's sample bag--discovered the package of soap and said, "Do you carry this item; I've been looking all over for it; why didn't you show it to me? Send me five cases--I know it will sell."[17]

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[16]R. W. Mueller, "How Good Is It?," Progressive Grocer, Vol. 37, No. 10 (October, 1958), p. 6.

[17]Charles R. Boyle, Bulletin No. 2, Missouri Valley Valley Food Distributors Association, June 6, 1961, p. 5.

Professional selling should be used at both the headquarters and store level. Grocery manufacturers should develop a sales force equal to the task of making key contacts with distributor executives in order to meet the demands of modern food distribution. Mr. Everett Smith, Director of the McKinsey markeging research firm, pointed out in a speech before the Forty-ninth Annual Meeting of the Grocery Manufacturers of America that today's district sales manager earning $8,000 a year was hardly able to form a relationship with a distributor executive earning $30,000 and that manufacturers should place executive caliber salesmen in the field capable of dealing with problems on an executive level.[18]

E. H. Anderson, Vice President of General Mills, had this to say about executive type personnel running the nation's largest supermarkets:

> Here's one area that can put money in the pockets of the manufacturer. Take a good hard look at your coverage and the men who are calling on the large supermarket operators. The managers are big business men, not corner grocers. It takes a different language as the Super Valu study pointed out to do business with these executives. It is imperative that salesmen be equipped to talk the language supermarket operators understand today.[19]

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[18]"Curb Costs, WOO Public GMA Told," Supermarket News, November 19, 1957, p. 36.

[19]Ibid., p. 36.

Manufacturers are beginning to realize that fewer yet more highly trained personnel will be required in food distribution tomorrow. Mr. J. O. Peckham, Vice President of the A. C. Nielsen Company, declared at the Annual Meeting of the Grocery Manufacturers of America in 1958 that a mere 12% or 44,500 stores in the United States do nearly 70% of the nation's food business and estimated that by 1960 fewer stores,or about 38,000, will do even a greater share of the food business. (This estimate approximates the 1960 figures listed on page two, Chapter I of this thesis.) Therefore, manufacturers will not need and cannot afford to cover thousands of stores represented in the 88% of the stores doing only 30% of the food sales volume.[20]

Sidney Johnson, writing in Food Business, agreed with Mr. Peckham by stating that suppliers will probably restrict their store coverage to the top supermarkets and reach the remaining stores through wholesalers and thus greatly reduce their cost of selling.[21]

The cost of maintaining a sales force requies constant surveillance if manufacturers intend to control selling costs. A study conducted by Dun's Review and Modern Industry

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[20] J. O. Peckham, "Planning Your Marketing Operations for 1959 and Years Ahead," Address before the 50th Annual Meeting of the Grocery Manufacturers of America on November 11, 1958 at Waldorf-Astoria Hotel, New York.

[21] J. Sidney Johnson, "More Complementary Mergers,Fewer Salesmen Due in Next Ten Years," Food Business, Vol. 3, No.7 (July, 1955), p. 16.

in March, 1957, estimated that each salesman's call on a food store cost the manufacturer $17.24. Today, this figure is closer to $20 per call.[22] There are too many stores whose sales volumes are too small to warrant a salesman's call. Manufacturers want salesmen to spend more time calling on the larger supermarkets where merchandising services performed by salesmen result in greater sales, thereby justifying the cost.

Obviously, if manufacturers intend to employ the professional approach to selling, they will need better trained and more skilled salesmen than they have now if they are to secure distribution for their products and keep the interest of food distributors controlling most of the nation's food sales.

William Applebaum, in an article appearing in The Harvard Business Review, states that less selling will be necessary in the retailer-wholesaler and supplier relations of the future. The "Drummer type salesman" will be replaced by a retail merchandiser who will work out special displays and promotions for store operators.[23] Tom Raser wrote in his book, Selling Groceries Retail, a statement which is similar to Mr. Applebaum's reasoning. Mr. Raser believes

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[22]Thomas Kenny, "Of Time and the Salesmen," Dun's Review and Modern Industry, Vol. 65, No. 5 (March, 1957), p. 46.

[23]William Applebaum and David Carson, "Supermarkets Face the Future," Harvard Business Review, Vol. 35, No. 2 (March-April, 1957), p. 131.

that the future salesman will become a distribution expert, trained and equipped to show key distributors how to sell merchandise more profitably and in greater volume. Most salesmen will be able to set up complete product departments as well as compelling displays in supermarkets. Turned out to pasture will be the old "drummer" whose stock in trade was the latest crop of funny stories with a final appeal for an order "just to prove he'd been around."[24]

This decline in "hard" selling or high pressure techniques associated with the drummer type salesmen is not only characteristic of the food industry but for the economy as a whole. A number of important marketing procedures, attitudes, and tools have been developed or perfected in the decade since World War II. The media of television, use of improved package design, motivation research, supermarket marketing philosophies, mathematical concepts and methods, expansion of operations research, and availability of date processing equipment are major factors in de-emphasizing "hard" selling.[25]

Salesmen need to be well trained to qualify as merchandising experts. The selecting and training of the right calibre of men is a difficult task. Charles T. Lipscomb,

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[24]Tom Raser, Selling Groceries Retail (Philadelphia: The Curtis Publishing Company, 1955), p. 30.

[25]"Is Hard Selling Out of Date?," Management Review, XLVI, No. 1 (January, 1957), p. 38.

Jr., President of the J. B. Williams Company, revealed that each mistake in hiring salesmen costs the company about $6,000. Add to this figure an estimated $30,000 difference in sales between an experienced man and the "mistake" and the total cost of one mistake approximates the yearly salary of a top executive.[26] Mr. Lipscomb believes, as do many top management executives, that one of the most important objectives for top management is the proper selection of men for key jobs and proper development within these jobs. Business boils down to manpower. Since management is getting things done through people, the success of management is based on the caliber of the people employed.

When setting up training development programs, manufacturers should endeavor to emphasize the "service concept" to salesmen according to Sidney Johnson. Mr. Johnson thinks salesmen must understand how to increase the sales of an entire commodity group in which their product falls and not merely present retailers with promotions or merchandising ideas which emphasize only their own brands. Salesmen should be trained to assume a "selfish unselfish" attitude so they can understand problems of supermarket operators regarding brands and offer ways to eliminate them.[27] Salesmen who can present promotions built around a

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[26]Ed Walzer, "Significant Food Business," Food Business, Vol. 4, No. 1 (January, 1956), p. 21.

[27]J. Sidney Johnson, "How to Overcome Distributor Antagonism," Food Business, Vol. 3, No. 12 (December, 1955), p. 28.

variety of products designed to achieve maximum sales and profits for distributors will undoubtedly play a more important role in tomorrow's supermarket than those salesmen offering promotions whose only purpose is to increase the sales of a particular supplier's merchandise.

Norman Rabb, Vice President of Stop and Shop, Inc., described the salesman's role in one sentence, "Distributors are human beings, and they respond with appreciation to considerate treatment on the part of those salesmen who see their problems and try to help them solve them."[28]

Bringing this section about professional selling to a close, it is fitting to discuss the observations of Harrison Dunning of the Scott Paper Company. Upon assuming the duties of Vice President in charge of marketing for Scott Paper, Mr. Dunning traveled five months throughout the United States talking to countless heads of retail food organizations, merchandising men, supervisors, head buyers, store managers, and stock clerks. He found that the rapidly growing chains and independent groups contain sound, solid, hard headed business men who want to conduct their affairs on a high level of honesty, fairness, quality, and profit. Their patience is worn thin by the hours wasted on the so-called "order taker" salesman who call every week for an

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[28]Norman S. Rabb, "What Stop and Shop Expects of Salesmen," Food Business, Vol. 4, No. 2 (February, 1956), p. 6.

order, use thirty to forty-five minutes of the buyer's time and rarely if ever offer a constructive new idea to help distributors do a better job.[29]

Mr. Dunning advocated that the following actions be taken by suppliers to develop more effective salesmen to better serve distributors:

1. Manufacturers should select and train salesmen to become overall marketing men who understand the distributor's merchandising problems and present intelligent solutions for them.

2. Salesmen should be trained to multiply their effectiveness by eliminating routine calls on customers merely for the sake of receiving an order which could be mailed to their homes or office.

3. At every opportunity, salesmen should seek out the "do something" persons in the distributor organization who make buying and promotional decisions. These individuals should be sought not on the usual basis of, "Say Mac, I'm in a red hot contest--can you help me out with an extra car?" but on the basis of, "Here's an idea that can help you to increase store traffic, speed up slow moving items, or make more profit for you."

4. The new era marketing men should be able to discuss intelligently the inter-relationships between product turnover, shelf space, warehousing, promotional point of sale material, and national advertising campaigns.

5. Salesmen need to be finding ways to be of service to distributors to make or exceed sales quotas or earn greater bonuses. They need to sell quality, faith, philosophy, and a concept.

Mr. Dunning concluded that the waiting rooms of distributors are full of salesmen waiting for orders which

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[29]Harrison F. Dunning, Vice President of Scott Paper Company, an address to the mid-year meeting of the Grocery Manufacturers of America, White Sulphur Springs, West Virginia, June 24, 1957.

most buyers would prefer to mail to the salesman's home or office. But the smart men, the management minded men, the "result getting" men are not in these offices at all. They are seeking the "do something" person somewhere else; they are giving him an action idea to help him; and they are thinking of new ways to help distributors solve their problems, give better service, and realize more profit. With the advent of a relatively few large retail organizations supplanting a multitude of little stores, a new era will develop offering new challenges to salesmen. Such challenges cannot be met by continuing to sell as salesmen did twenty, or ten years ago, or even yesterday.[30]

The salesmen in tomorrow's food industry will, by training and necessity, be creative. The era of the stereotype or standardized promotion at retail level is quickly passing away. The man with ideas backed by sound promotional plans custom made for each customer will most likely get the business. The salesman's primary objective will be to work in harmony with distributors to better merchandise his products.

The Moral Obligation of the Salesman

Through the ages, selling has been little understood and has been severely criticized. A long line of philosophers from Drogenes to Thoreau and Mahatma Gandhi have proclaimed

[30] Ibid.

the doctrine that it is better to want little than to have much. Homer in Book XV of the Odyssey expressed the contempt of the Greeks for the greedy merchant men of Phoencia who were bent on increasing the standard of living of the Greeks through trading. Plato considered tradesmen to be the lowest order of society. Napoleon contemptiously referred to the English as a race of shopkeepers. Saint Thomas Aquinas wrote into canonical law a philosophy of contempt for trading and rules to circumscribe it, both of which have affected enormously the attitude toward trading people in the Western civilization. Indeed, before the advent of modern trading and commerce, the struggle of the church and of the princes against the growing powers of the traders is well known and documented.

Even today, a large percentage of the population of the United States has a deep suspicion that selling is a wasted economic activity, at least a necessary evil. Predatory activities of vendors have prompted the consumer to view selling with a jaundiced eye.

Properly understood, selling is a human effort which can be applied to desirable ends. Salesmanship, the art of stimulating trade through the creation of wants and through economically serving them, is needed today. Selling performs the task of transferring the title of goods. The salesman is the intermediary in the transaction. As a function of marketing, selling is a productive process. The creation of the utilities of time, place, and possession are involved.[31]

Groups of thoughtless sellers, eager for pecuniary gain have developed practices which are socially undesirable, but to critize the whole field of personnel selling on this basis is hardly justified. Therefore, salesmen must uphold the high standards of their profession and seek to gain respect of the public by striving to further the advance of civilization and make America a better place in which to live.

The good practioner of the art of salesmanship endeavors to understand his customers' aspirations, wants, needs, motivations, and habits. He tries to alter these in such a way that the customer will crave greater satisfactions. However, the good salesman knows that the customer will crave greater satisfactions. However, the good salesman knows that the customer must be the judge of the satisfactions and not the salesman. Salesmen should possess certain traits to become a success. Many people have analyzed the successful salesman in an effort to precipitate these characteristics. Of the multitude of qualities discovered, most can be narrowed down to two: faith and dedication. Captain Eddie Rickenbacker believes faith to be the one outstanding quality found in many successful

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[31]Russel Doubman, Salesmanship and Types of Selling (New York: Appleton-Century-Crofts, Inc., 1939), p. 44.

salesmen. Faith not only in the sectarian sense, but faith in the salesman's country, competitive system, company, products, and himself. For these, the salesman must have faith in God.[32]

Successful selling can be defined as those men who dedicate their lives to better serve not only their customers but family, community, and God as well. Owen Ellis writing in Printer's Ink, profess, "After a lifetime of selling, I can tell you that the thing which gets results is doing something for others."[33] The Golden Rule is just as applicable in salesman-customer relationship as elsewhere.

One very successful salesman remarked, "That when you meet people, you must be sincere in trying to help them in any way you can without seeking their business. If you are sincere to yourself as well as to others, you will not have to sell--people will buy from you."[34]

To distributors, the salesman is "the company" for many never get an opportunity to meet other company men. It is not uncommon to find distributors forming opinions about a manufacturer strictly on the basis of their relationship with salesmen. Manufacturers are cognizant of this,

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[32]Capitan Eddi Rickenbaker, What A Salesman Should Know About Himself (Chicago: The Darnell Press, 1956), p. 4.

[33]Owen Ellis, "Advertisers Profit Most Who Serve Best," Printer's Ink, Vol. 246, No. 6 (February 5, 1954), p. 86.

[34]G. M. Loeb, "Sincerity--Basis of Salesman's Techniques," The Commercial and Financial Chronical, Vol. 178, No. 5272 (November 12, 1953), p. 1851.

and strive to select individuals who will portray the company image. However, selection of the so-called "right man" is not the complete answer. This selectee must be properly guided in his daily endeavors. This moral guidance should come from the company--from the president through the salesman's immediate supervisor. Members of management are responsible for setting the proper policies and examples. Whenever a sales manager or company official receives a compliment from a distributor about one of the company salesmen, they, too, should justly feed proud for more than likely such compliments are their rewards for setting high standards of business conduct and behavior.

Conclusion

Of the many professions and occupations through which men fill their places in our economic system, selling is one of the most important but often least understood. Not too long ago the success of a salesman rested on his capacity to do the things formerly associated with salesmen--a glib tongue, a vast store of jokes, a warm handclasp, and a hearty slap on the back. In fact, the goal of the "old school" salesman was merely to get the goods into the customer's hands and the money into the salesman's pockets. There are still salesmen whose experiences originated in those days, and they still try to win by luck rather than by careful application of selling principles.

Today's professional marketing man has an entirely different attitude about his profession. He realizes that the very essence of salesmanship is persuasion--which implies voluntary participation by the person persuaded. To him, salesmanship is the power or ability to influence people to buy, at a mutual profit, that which he has to sell.

Selling may be classified as a trade, or a job, or a profession, depending on the skill, knowledge, and attitude of the person doing it. Selling as a job or trade is simple and commonplace, but as an analytical and advisory service, it has the standing of a profession. The question as to whether, in any buyer-seller relationship, it reaches the professional level is up to the individual salesman.

The salesman starting out in search of success in the food industry should bear in mind that the proper mental attitude is essential to success. The proper mental attitude in selling is simply this: when the salesman brings another person something that contributes to that person's well-being, the salesman renders him a service. The degree of success a salesman attains will be in direct proportion to the amount and kind of service that is given. In other words, salesmanship and service go hand in hand.

Thus today's salesman is a painstaking, well trained individual who considers himself in a profession just as much as a doctor, engineer, or lawyer. His goal is to create and satisfy his customers' wants, and he reaches this goal by a carefully planned series of professional procedures involving extensive planning, promotion, and presentation.

Modern salesmanship is based on the principle of customer satisfaction. It considers the salesman not only as an instrument of the sale but actually as a part of the picture, for along with the product, a customer buys the services of the salesman and the manufacturer.

Salesmanship is a profession established on the basis of service. When the concept of the salesman is that of giving the maximum of satisfaction through service to his customers, he is rendering a prefessional usefulness in life. When every sale must be mutually profitable, then sound and lasting relations between the customers and the salesmen representing his company are established and the salesman serves his customers and his company fully by brining them together in a continuing favorable relationship.

Modern food retailing requires salesmen who are merchandising specialists trained and equipped to show distributors how to sell more profitably and in greater volume. Salesmen must strive to understand the distributor's aspirations, wants, needs, problems, and motivations in order to better serve them. Manufacturers who are successful in impressing the service concept upon their salesmen will reap the benefits of distributor cooperation and a lasting friendship as well as justify the existence of salesmen.

The American way of life has given people greater opportunity, greater security, and the highest standard of living ever achieved by any people in the world. It has taken the cooperation of workman, farmers, industrialists, inventors, scientists, and the consumers to make this possible. But the spark so necessary to motivate all these groups to action is supplied by the PROFESSIONAL SALESMAN.

CHAPTER X

CONCLUSIONS

The need for developing better manufacturer-distributor relations in the food industry has never been more urgent. Both have a responsiblity to the nation as well as to each other to effect the finest food distribution system in the world. As America hurls itself into the "soaring Sixties" and new horizons in science, economics, and world relations manifest themselves into reality, it is imperative that America successfully meets the challenges she will encounter. Each facet of our diversified economy must be prepared to make its contribution to this nation's continued growth. The United States food distribution mechanism, known to be the finest in the world, will be called upon to further the growth of America's prosperity by perfecting an even better method of distributing food to all Americans at the lowest possible cost. Certainly this responsibility to America can be accomplished with manufacturers and distributors working side by side to achieve these goals.

The supermarket industry has made many outstanding contributions to the growth of this nation. It has provided the American people with the most food for the smallest share of their disposable income in history. It has given Americans unheard of quality in fresh foods and perishables;

it has opened for farmers and manufacturers increasingly broader markets; it has lavished the American women a range of choice, convenience, and values that is the envy of the world; and it has enriched the food industry employees with better wages, more benefits, and broader opportunities. Yet, tomorrow all of these accomplishments will be yesterday's dreams come true. But what about tomorrow's hopes? They must come true, too. They can, if suppliers and distributors work together to bring about still greater innovations. When the President of Supermarket Institute, Richard Waxenberg, addressed the Twenty-fourth Annual Convention of the Institute in May of 1961, his remarks pretty well sums up the need for each company to contribute still a finer performance in the years ahead. Mr. Waxenberg said:

> Being average isn't good enough. . . . After all, the average is merely the best of the worst and the worst of the best. . . . This is an industry that has always scorned the average. It's an industry where the uncommon man, with an uncommon idea, sought the uncommon way to success. It doesn't propose to settle for the so-so way or the status-quo way, no matter how tough conditions are. . . . Beginning with above average management, planning and leadership, we must eternally seek to increase the productivity of people, capital, and facilities to the end that we may bring more and more people under the tent of the good life, that there may be more for all.[1]

Both distributors and manufacturers are cognizant of the need for mutual understanding and the ability to get

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[1]"The Need to be Better Than Average," The presidential message delivered by Richard Waxenberg, before the 24th annual convention of the Supermarket Institute on May 7,1961, Chicago, Illinois.

along with each other. In 1958, the Annual Meeting of the President's Conference of the National Association of Food Chains brought together the presidents of manufacturers and the top executives of the supermarket organizations to discuss how better relations could materialize. This meeting was known as the "summit meeting" as industry leaders met and talked, many for the first time, about their particular problems. The results were reported to be dramatically successful.[2]

The 1959 Annual Meeting of the National Association of Food Chains provided a manufacturer-distributor panel to exchange ideas and express dissatisfaction with some marketing practices in the industry. The speakers all voiced the hope that continued interchange of ideas between the two industry levels would lead to gradual improvement of industry practices.[3] The Annual Meeting of the Grocery Manufacturers of America in 1960 also provided a distributor-manufacturer panel to further the opportunity to exchange ideas for the benefit of those attending the meetings.[4]

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[2]Tipen and Stone, "Joint Industry Talks Hels Successful," Supermarket News, Vol. 7, No. 10 (March 10, 1958) p. 1.

[3]"NAFC Annual Meeting Report," Supermarket News, Vol. 8, No. 46 (October 26, 1959), p. 1?.

[4]Leaman and Tobias, "Marketing Ideas Needed." Supermarket News, Vol. 9, No. 44 (October 31, 1960), p. 46.

The question as to how manufacturers can help distributors with their operations and thereby promote better relations was brought out in the preceeding chapters. The subjects covered at the various inter-industry conferences and panels mentioned above highlighted the material presented in this thesis. Manufacturers are aware of the need to create a warmer, friendlier relationship with distributors and many have already given the attention to distributor needs when developing marketing policy.

No longer can manufacturers think in the strict term of selling but must emphasize marketing. The difference between marketing and selling was pointed out in an article appearing in the Harvard Business Review which stated that,

> Mass production does indeed generate great pressure to move the product. But what usually gets emphasized is selling, not marketing. Marketing being a more sophiscated and complex process, gets ignored. The difference between marketing and selling is more than sematic. Selling focuses on the needs of the seller, while marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and consuming it.[5]

Perhaps the best contribution manufacturers can make in the years ahead is to start thinking about improving their marketing operations so that they can meet the challenges of the '60's. Fifty years ago, selling was

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[5]Theodore Levitt, "Marketing Myopia," Harvard Business Review, Vol. 38, No. 4 (July-August, 1960), p. 50.

essentially personal salesmanship. An understanding of people and their motivations is still essential for successful marketing management. But in the 1960's, the sales manager must operate in a totally different environment. Markets have broadened and product lines have lengthened. Competition has increased and consumer problems have become more difficult and complex. The sales manager of today must be a competent executive with a well rounded concept of business as well as have a complete understanding of his products, his markets in which he is selling, and his customer's problems.

Mr. Thomas B. McCabe, President of The Scott Paper Company, recommends that leading manufacturers set up what in effect would be an institute of marketing communications to improve existing techniques of every kind and develop new ones throughout the entire range of marketing activities. The development of improved technology in marketing will lead to a broader understanding and a more effective use of effective use of marketing research findings. Mr. McCabe proposes that the institute be staffed on a full time basis primarily by educators in the social sciences and mathematicians recruited from our great universities and from industry. The fundamental findings as developed would all be published. Everything published would be available to all business firms, just as all medical discoveries are available to the medical profession. The institute would be associated with one of the nation's leading universities.[6]

With the need to be better than average and the necessity to develop marketing improvements, manufacturers have been making sustained strides in the field of customer relations. Already, manufacturers are consulting distributors about their needs and problems in an effort to tailor marketing programs mutually acceptable to both manufacturer and distributor. Perhaps the one outstanding organization which has spearheaded the drive for better cooperation in the food industry is the Grocery Manufacturers of America, whose dynamic President, Paul Willis, has taken the initiative to establish liaison with distributors and determine how both levels of the industry could mesh more smoothly. Speaking before the Twenty-fourth Annual Super Market Institute Convention, Mr. Willis emphasized that "Teamwork among manufacturers and between manufacturers and distributors is an important key to continued growth of the food industry." He cited specific milestones of progress gained through united efforts such as The Trade Practice Recommendations developed by the Grocery Manufacturers of America and six national distributor organizations; the recently developed eight point program for

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[6] "Marketing in a Changing Economy," an address given by Thomas B. McCabe before the Sales Managers Association of Philadelphia at the celebration of its 50th anniversary, January 11, 1960, Philadelphia, Pennsylvania.

improving couponing practices; and the National Food Conference program to achieve a better public understanding of good eating for better living.[7]

Further steps of gaining cooperation from distributors have been taken by a few manufacturers through the establishment of a Director of Trade Relations. The rise of the director of trade relations in corporate circles has aided the trend of greater supplier sensitivity toward the retailer and wholesaler. The men who hold this post are working full time to seek out the problems that stand between their headquarters and the effective marketing of their products by the distributor. The job has been paying-off for many companies in the form of better trade relations. In addition, the information gained from distributors has produced added sales and profits with more effective retail marketing of the products these executives represent.[8]

One of the greatest pitfalls in selling that many manufacturers encounter in the food industry is determining distributor problems. The Scott Paper Company found that they could not do this on their own so they decided to initiate distributor seminars where both the distributor and Scott Paper Company could exchange ideas. The seminars,

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[7]"Willis: Teamwork is the Key to Growth," Chain Store Age, Vol. 37, No. 6 (June, 1961), p. 70.

[8]"Conscientious Supplier Effort to Fulfill Requirements Noted," Supermarket News, Vol. 9, No. 1 (November 7, 1960), p. 28.

a three day concentrated course in human relations patterned after the advanced management course at the Harvard Business School, were held at the home office of Scott Paper Company with several of the company executives in attendance. The groups were kept purposely small with from eight to twelve distributor executives attending. Scott Paper Company feels that these distributor executives know more about their problems than the manufacturer and by helping to solve their problems, this helps to find answers to some of Scott Paper Company's problems as well.

Mr. James Rankin, President of Foremost Daires, Inc., feels that there is a definite need for inter-communication between manufacturers and distributors just like the kind developed by the Scott Paper Company seminars. Mr. Rankin believes that distributors should make an effort to go to the manufacturers to outline their marketing objectives with the hope that understanding will encourage manufacturers to design marketing programs which fit distributor marketing plans.[9]

The author has attempted to discuss various subjects which have caused distributor discontent together with recommendations by both distributors and manufacturers as to how these problems can be solved. The necessity for working together to solve disagreements as well as planning for greater successes in the food industry has never been

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[9]"NAFC Annual Meeting Report," op. cit., p. 17.

greater. Leaders in the food industry are proud of their accomplishments. Food store sales continued to rise in 1960 reaching a new high of 52.6 billion dollars. This was an increase of 4.5% over 1959 and nearly double the amount recorded in 1949.[10] However, greater achievements must be the rule than the exception in the years ahead.

This thesis can be summed up with a rousing quote from one of the industry's outstanding pioneers, a dynamic individual who served many years as President of the National Association of Food Chains--Mr. John A. Logan, Keynoting the Annual National Association of Food Chain's Meeting in 1959, Mr. Logan declared, "Shouldn't we all go after a larger share of the consumer's dollar for food? This, it seems to me, is the real challenge of the new decade."[11]

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[10] Robert W. Mueller, "Grocery Sales Up 4.5% in 1960, Reach All Time High of 52.6 Billion," Progressive Grocer, Vol. 40, No. 4 (April, 1961), p. F1.

[11] "NAFC Annual Meeting Report," op. cit., p. 1[illegible].

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APPENDIX

APPENDIX A

Are your dollars of investment in merchandise inventories earning a gross profit? Here's how to analyze your operations in order to make a determination.

Lets say you are doing an annual volume of ... $520,000.00
Have an average inventory of................ 30,000.00
Have a gross margin of 18%
Or an annual gross profit of $520,000 x 18% or 93,600.00

To gross $93,600, each dollar invested in inventory (30,000) must earn you $3.12 per year ($93,600 divided by $30,000) if you are to gross 18%. With 52 weeks in a year, each dollar of inventory investment must earn 6¢ ($3.12 divided by 52) per week.

To be stated in other words, each dollar's worth of inventory must yield 6% per week in order for you to gross 18% annually.

Any dollar of investment then, in any item--whatever its markup--which fails to earn 6¢ per week--is NOT PAYING ITS WAY.

Grocers are very often dissatisfied with items which they sell having a markup of 10% or less.

Let's measure what happens when a dollar is invested in a fast moving, say 8% item when measured against the above formula.

Weeks in Stock		Must Earn Per Week		During Period This Inventory Dollar Must Earn	Actually Grossed ($1.00 x .08)	Gain or Loss Over Required 6¢
1	x	6¢	=	6¢	8¢	+ 2¢
2	x	6¢	=	12¢	8¢	- 4¢

When the item was "turned" in the first week, it earned 33-1/3% more than required--but failes to pay its way if held in stock for two weeks or more. Conversely, some grocers are perfectly satisfied in carrying an item in inventory which has a markup well above their "Cost of Doing Business," but which could very well be losing money.

For instance, let's assume a 25% markup but a turnover of only once in every seven weeks:

Weeks in Stock		Must Earn Per Week		During Period This Inventory Dollar Must Earn	Actually Grossed ($1.00 x .08)	Gain or Loss Over Required 6¢
7	x	6¢	=	42¢	25¢	-17¢
6	x	6¢	=	36¢	25¢	-11¢
5	x	6¢	=	30¢	25¢	- 5¢
4	x	6¢	=	24¢	25¢	+ 1¢
3	x	6¢	=	18¢	25¢	+ 7¢

The item, per the example, should rotate once each four weeks in order to be . . . PAYING ITS WAY!

Held in inventory for a greater period, it is actually losing money even though its markup is well above the "Cost of Doing Business."

APPENDIX B

THE ROBINSON-PATMAN ACT

(Act of June 19, 1936, Chap. 592, 49 Stat. 1526:15 U. S. Code, Secs. 13, 13a, 13b, 21a.)

AN ACT to amend section 2 of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 15, 1914, as amended (U.S.C., title 15, sec. 15, and for other purposes).

(Amending Section 2 of Clayton Anti-Trust Act)

(Section 1.) That section 2 of the act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 15, 1914, as amended (U.S.C., title 15, Sec. 13), is amended to read as follows:

(Price Discrimination and Quantity Discounts)

Sec. 2. (a) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or indirectly, to discriminate in price between purchases of commodities of like grade and quality, where either or any of the purchases involved in such discrimination are in commerce, where such commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the juristiction of the United States, and where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them: Provided, That nothing herein contained shall prevent differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such commodities are to such purchasers sold or delivered: Provided, however, That the Federal Trade Commission may, after due investigation and hearing to all interested parties, fix and establish quantity limits, and revise the same as it finds necessary, as to particular commodities or classes of commodities, where it finds that available purchasers in greater quantities are so few to render differentials on account thereof unjustly discriminatory or promotive of monopoly in any line of commerce; and the foregoing shall then not be construed to permit differentials based on differences in quantities greater than those so fixed and established: And provided further, That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade: And provided further, That nothing herein contained shall prevent price changes from time to time where in response to changing conditions affecting the market for or the marketability of the goods concerned, such as but not limited to actual or imminent deterioration of perishable goods, obsolescence of seasonal goods, distress sales under court process, or sales in good faith in discontinuance of business in the goods concerned.

(Burden of Rebuttal--Meeting Competition)

(b) Upon proof being made, at any hearing on a complaint under this section, that there has been discrimination in price or services or facilities furnished, the burden of rebutting the prima-facie case thus made by showing justification shall be upon the person charged with a violation of this section, and unless justification shall be affirmatively shown, the Commission is authorized to issue an order terminating the discrimination: Provided, however, That nothing herein contained shall prevent a seller rebutting the prima-facie case thus made by showing that his lower price or the furnishing of services or facilities to any purchaser or purchasers was made in good faith to meet an equally low price of a competitor, or the services or facilities furnished by a competitor.

(Brokerage Commissions)

(c) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to pay, grant, or to receive or accept, anything of value as a commission, brokerage, or other compensation, or any allowance or discount in lieu thereof, except for services rendered in connection with the sale or purchase of goods, wares, or merchandise, either to the other party to such transaction or to an agent, representative or other intermediary therein where such intermediary is acting in fact for or in behalf, or is subject to the direct or indirect control, of any party to such transaction other than the person by whom such compensation is so granted or paid.

(Payments for Services and Facilities Furnished by Customer-Advertising Allowances.)

(d) That it shall be unlawful for any person engaged in commerce to pay or contract for the payment of anything of value to or for the benefit of a customer of such person in the course of such commodities as compensation or in consideration for any services or facilities furnished by or through such customer in connection with the processing, handling, sale, or offering for sale of any products or commodities manufacturered, sold, or offered for sale by such person, unless such payment or consideration is available on proportionally equal terms to all other customers competing in the distribution of such products or commodities.

(Furnishing Additional Services or Facilities)

(e) That it shall be unlawful for any person to discriminate in favor of one puerchaser against another purchaser or purchasers of a commodity bought for resale, with or without processing, by contracting to furnish or furnishing, or by contributing to the furnishing of, any services or facilities connected with the processing, handling, sale, or offering for sale of such commodity so purchased upon terms not accorded to all purchasers on proportionally equal terms.

(Unlawful to Induce or Receive Discrimination)

(f) That it shall be unlawful for any person engaged in commerce, in the course of such commerce, knowingly to induce or receive a discrimination in price which is prohibited by this section.

APPENDIX C

The following is the full text of the Federal Trade Commission's guides for advertising and other promotional payments and services; compliance with sections 2(d) and 2(e) of the Robinson-Patman Act.

What The Guides Are Meant To Do

These guides can be of great value to businessmen who want to avoid violating the laws against giving or receiving improper promotional allowances, including advertising or special services, for promoting products. The guides will make possible a better understanding of the obligations of the sellers and their customers in joint promotional activities.

The Commission's job is to obtain compliance with these laws. It has a duty to move against violators. However, as an administrative agency, the Commission believes the more knowledge businessmen have with respect to the laws enforced by the Commission the more likelihood that the laws will be complied with.

For the Commission to do its job properly and for business to stay out of legal trouble requires that every effort be made to give individual businessmen a better understanding of these law. This, of course, does not mean that a business man must become a legal export, but it will help him and the Commission's law enforcement efforts--if he has a good general knowledge of what he can and cannot do in the field of promotional allowances.

If a businessman knows that the legal pitfalls are, he can steer his business policies to avoid them. Furthermore, such knowledge is most useful in determining when competitors are trying to use legal methods. In other words, it pays for a businessman to know what his rights are as well as his obligations.

These guides are designed to be both practical and understandable. They contain carefully considered suggestions, or general rules of thumb, which business will find very useful in preventing unintentional violations. They highlight the requirements of law and offer means for complying with it without any attempt to suggest ways for skirting along the border line between what is legal and illegal.

What They Are Not Meant To Do

It should be made clear too that the guides are not meant to do several things:

(1) They are not meant to cover every situation. Decided cases dealing with unusual situations are not covered. Nor are situations which have not been considered by the Commission or the Courts.

(2) They are not meant to tell how to skirt illegality. Clever people can undoubtedly devise practices not mentioned in the guides, but they may still violate the law.

(3) They are not a substitute for sound legal advice.

(4) They do not offer either new interpretations of the law or change or amend the laws as determined by the Commission or the Courts. They should be read as a non-technical explanation of what the law means; not as a legal restatement.

What The Law Covers Generally

The Robinson-Patman Act is an amendment to the Clayton Act. It is directed at preventing competitive inequalities that come from certain types of discrimination by sellers in interstate commerce. Sections 2(d) and 2(e) of the Act deal with discriminations in the field of promotional services made available to purchasers who buy for resale. Where the seller pays the buyer to perform the service, Section 2(d) applies. Where the seller furnishes the service itself to the buyer, Section 2(e) applies. Both Sections require a seller to treat his competing customers on proportionally equal terms.

Other Law Covered

In two places, the guides go beyond Sections 2(d) and (e):

(1) A seller who uses a promotional scheme to cover a price discrimination by paying for services that are not rendered may thereby violate Section 2(a) of the Clayton Act, as amended by the Robinson-Patman Act. (See paragraph 11)

(2) A customer who improperly receives payments, services or facilities may thereby violate Section 2(f) of the Clayton Act, as amended by the Robinson-Patman Act, or Section 5 of the Federal Trade Commission Act. (See paragraphs 11 and 16).

THE GUIDES

1. When Does the Law Apply?

Sections 2(d) and (e) apply to a seller of products in interstate commerce, if he either (a) pays for services or facilities furnished by his customers in connection with the distribution of his products (Section 2(d)) or (b) furnishes such services or facilities to his customers (Section 2(e)).

2. Who Is A Seller?

"Seller" includes anyone who sells products for resale, with or without further processing. Selling corn syrup to a candy manufactureris an example of a sale for resale with processing.

3. Who Is A Customer?

A "Customer" is someone who buys directly from the seller or his agent or broker. Sometimes, someone who buys from the customer may have such a relationship with the seller that the law also makes him a customer of the seller. In these guides, the word "customer" which is used in Section 2(d) of the law includes "purchaser" which is used in Section 2(e).

4. What Is Interstate Commerce?

This is something that whole law books have been written about: you cannot define it in a few words. Legal decisions tend to interpret the term quite broadly. If there is any part of a business which is not wholly within one state, (for example, sales or deliveries of products, their subsequent distribution or purchases or deliveries of supplies or raw materials) the business may be subject to the Robinson-Patman Act. Sales in the District of Columbia are covered by the law.

5. What Are Services Or Facilities?

This term has not been exactly defined by the statute or in decisions. The following are merely samples--the law also covers other services and facilities.

a. The following have been held to be services or facilities covered by the law where the seller has paid the buyer for furnishing them:
   - Any kind of advertising,
   - Handbills,
   - Window and floor displays,
   - Special sales or promotional efforts for which "push money" is paid to clerks, salesmen, and other employees of the buyers,
   - Demonstrators and demonstrations,
   - Collecting of orders from individual stores,
   - Furnishing complete distribution of seller's line.

b. Here are some examples that have been held to be services or facilities covered by the law when the seller furnished them to a customer:
   - Any kind of advertising,
   - Catalogs,
   - Demonstrators,
   - Display and storage cabinets,
   - Display materials,
   - Special packaging, or package sizes,
   - Warehouse facilities

Accepting returns for credit,
Prizes or merchandise for conducting promotional contests.

In these guides, the term "services" is often used as short for "services" and "facilities."

6. Need For A Plan

If a seller makes payments or furnishes services that come under these sections, he must do it under a plan which meets several requirements. Although this plan need not be written or formal, this may be advisable, particularly if there are many competing customers to be considered or if the plan is at all complex. Briefly, the requirements are:

a. The payments or services under the plan must be available on a proportionally equal basis to all competing customers. (See paragraph 7.)

b. The seller should take some action to inform all of his customers who compete with any participating customer that the promotion is available. (See paragraph 8.)

c. The plan must either allow all types of competing customers to participate or provide some other means of participation for those who cannot use the basic plan. (See paragraph 9.)

d. The seller and customer should have a clear understanding about the exact terms of the offer and the conditions upon which payments will be made for services and facilities furnished. (See paragraph 10.)

e. The seller must take reasonable precautions to see that the services are actually furnished and also that he is not overpaying for them. (See paragraph 11.)

7. Proportionally Equal Terms

The payment or services under the plan must be made available to competing customers on proportionally equal terms. This means that payments or services must be proportionalized on some basis that is fair to all customers who compete. No single way to proportionalize is prescribed by law. Any method that treats competing customers on proportionally equal terms may be used. Generally, this can best be done by basing the payments made or the services furnished on the dollar volume or on the quantity of goods purchased during a specified time.

8. Seller's Duty To Perform

The seller should take some action to inform all his customers competing with any participating customer that the plan is available. He can do this by any means he chooses, including letter, telegram, notice on invoices, salesmen, brokers, etc. However, if a seller wants to be able to show later that he did make an offer to a certain customer, he is in a better position to do so if he made it in writing.

9. Covering All Competing Customers

The plan must allow all types of competing customers to participate. It must not be tailored to satisfy the needs of a favored customer or class, but must be suitable and usable under reasonable terms by all competing customers. This may require offering all customers more than one way to participate in the plan. The seller cannot either expressly, or by the way the plan operates, eliminate some competing customers. Where the seller has alternative promotional plans, his customers must be given the opportunity to choose among plans.

10. The Need To Understand Terms

There should be a clear understanding between the seller and each participating customer as to the exact terms of the offer and the conditions upon which payments will be made for services and facilities furnished.

11. Checking Customers Use Of Payments

The seller must take reasonable precautions to see that the services he is paying for are furnished and also that he is not overpaying for them. Moreover, the customer must expend the value received in full solely for the purpose for which the allowances were given. If the seller knows or should know that what he pays or furnishes is not being properly used, the payments or services must be discontinued. It should be noted that payments by the seller where the customer performs no services may result in legal action against the seller under section 2(a) of the Robinson-Patman Act and against the customer under section 2(f) of that law. Likewise, a seller may not properly pay, nor may a customer properly receive and retain, any amount in excess of that actually used by the customer to perform the service.

12. Competing Customers

The seller is required to provide in his plan only for those customers who compete in the distribution of the promoted product with the customer who is participating in the promotion. Therefore, the seller can limit the area of his promotion to that in which participating customers sell.

13. Indirect Payments

Payments by the seller, through an agent or broker or to a third person, for the benefit of the customer may violate the law.

14. Meeting Competition In Good Faith

A seller charged with discrimination in violation of section 2(e) may defend his actions by showing that the services were furnished in good faith to meet an equivalent service furnished by a competitor. However, this is a very technical defense subject to important limitations. The

Commission has held that the defense of meeting competition in good faith is not available to a seller charged with discrimination in violation of Section 2(d).

15. Cost Justification

It is no defense to a charge of unlawful discrimination in the payment of an allowance or the furnishing of a service for a seller to show that such payment, service, or facility, could be justified through savings in the cost of manufacture, sale or delivery.

16. Customer's Liability

Sections 2(d) and (e) apply only to sellers and not to customers. However, a customer who knows or has reason to know that he is receiving payment or services granted or furnished when the seller violates Sections 2(d) and (d) may also be proceeded against by the Commission under Section 5 of the Federal Trade Commission Act, which prohibits unfair methods of competition.[1]

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[1]"Complete Text of FTC Guide," Supermarket News, Vol. 9, No. 23 (June 6, 1960), p. 18.