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**A STUDY OF ADMINISTRATIVE
POLICIES AND PRACTICES
IN FOOD DISTRIBUTION
PART I**

By

ROBERT T. CLOAR

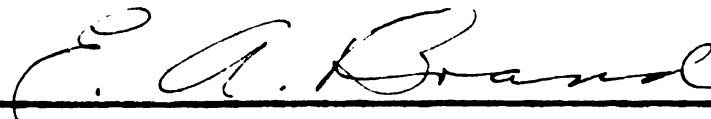
AN ABSTRACT

**Submitted to the College of Business and Public Service
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MASTER OF ARTS

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ABSTRACT

Because of increased competition within the food industry, management has had to reduce the margin of error to continue to operate profitably. The information obtained from marketing research studies provides a basis from which management can make a more intelligent decision about marketing problems. Simply stated, marketing research is any activity concerned with finding out how to do things better.

The problem of selecting new food products is becoming increasingly difficult because of the lack of shelf space, increased interest rates on borrowed capital, and the lack of consumer acceptance of many new products. As new methods of preservation are developed from scientific research, changes in equipment, merchandising procedures, and sales trends of individual products will be experienced by the food industry.

As a result of increased volume and wide areas of geographical operation, management has become divorced from the actual operation at the store level. To obtain the necessary control of operations, management has had to rely more upon accounting and operating reports. The internal auditing department has also provided an excellent means of obtaining control and reporting follow-through on company policies and procedures.

The question of leasing versus purchasing of real estate and equipment must be answered in view of the special

circumstances of each organization. An organization can not hope to successfully follow the policies of another company because of the many differences in operation. Leasing offers an opportunity to liquidate capital that is invested in fixed assets and also increase the ratio of current assets to current liabilities. However, other factors should be considered before a decision is made to lease real estate and equipment.

The formulation of operating policies is necessary if an organization is to realize success over a long period of time and to develop a consistent personality for the company. Competition will be an important factor to consider in developing policies affecting price, but competition should not determine the internal pricing structure of an organization. The proof of an effective operating policy is in the desirable results obtained through actual performance.

The newspaper has continued to be the number one advertising medium by which super markets have distributed the selling message to the consumer. An important reason for this is the fact that the newspaper reaches the public at a lower cost per individual than does any other advertising medium. However, waste circulation is a factor that must be given serious consideration by many super market operators when utilizing the newspaper as a means of distributing the selling message.

Radio and television have proved to be an effective means of supplementing primary sources of advertising such

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as newspapers. Thus far many food retailers have not utilized television advertising because such problems as cost and programing have prevented this advertising medium from being an effective means of promoting sales and profit.

In the development of any advertising program, management should remember that : (1) advertising can not sell merchandise that people do not want to buy, (2) advertising can not succeed unless used continuously, and (3) an advertising program can not succeed without the support of the entire store personnel.

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PREFACE

This study is divided into two sections, Current and Future Trends in Food Distribution and Merchandising and Sales Promotion Policies. The material in both sections has been discussed from the administrative point of view.

In Section I, Current and Future Trends in Food Distribution, the writer has presented current information affecting some of the major phases of food distribution. Through a view of current situations and developments, the student and the food retailer can have a better foundation from which to judge the future progress of the food industry.

Section II, Merchandising and Sales Promotion Policies, is concerned with the administrative concept of sales promotion and related policy areas.

The aim of this study is to provide a supplement to students enrolled in General Business 437, Food Chain Administration. Because of the scope of subject areas pertaining to this study, the writer has been forced to avoid a detailed discussion of each topic in itself. The purpose of this study is to provide a more extended survey of administrative practices and policies rather than to develop an exhaustive study on a specific subject area in this field.

The writer chose this study because an opportunity was afforded to obtain further knowledge from a broader subject area. This study also presented the opportunity to acquire information concerning administrative practices and policies in the field of food distribution. The information obtained from the research associated with this study should be invaluable as the writer plans a career in this field.

Due to the lack of continuity in subject matter of the chapters, separate introductory headings have been utilized.

SECTION I

CURRENT AND FUTURE TRENDS IN FOOD DISTRIBUTION

CHAPTER I

CONTRIBUTIONS OF MARKETING RESEARCH TO THE FOOD INDUSTRY

Introduction

The retail food industry has grown into a highly technical and competitive industry in the past several decades. Increased competition has contributed to the declining net profit margins in the food industry. As net profit margins have decreased, food chains have had to reduce their margins of error to continue to operate successfully and profitably.

"Because efficient distribution and marketing will be vital to the producing of profits, business generally is being driven to a quest for facts as a sound basis for solving its urgent problems."¹

Marketing research studies have contributed immeasurably to help solve problems associated with business activities. What problems can be studied through marketing research? An answer to the preceeding question may give the reader some idea as to the scope and value of marketing research in a food chain. In the latter pages of this chapter the writer will describe some of the marketing research activities of food chains.

¹Donald M. Hobart (ed.), Marketing Research Practice, (New York: The Ronald Press Company, 1950), p. 9.

Marketing Research Defined

The American Marketing Association defines marketing as "those business activities involved in the flow of goods from production to consumption."² From this definition the reader can begin to visualize the scope of the marketing function.

With the preceeding definition of marketing in mind the writer would like to define marketing research. The American Marketing Association defines marketing research as, "The gathering, recording, and analyzing of all facts about problems relating to the transfer and sale of goods and services from producer to consumer."³

Market Research vs. Marketing Research

To clear any misunderstanding of terms, a differentiation between market research and marketing research is essential.

The difference between these two kinds of research must start with a definition of the first word in each term. Market is defined as a group of individuals willing to buy a product and service and able to pay for it. Marketing refers to the methods of getting the product to the consumer.

This means that market analysis [or research] is the procedure of evaluating the desire of a group of people to buy, its ability to buy, and the effect that distribution methods have upon making the goods available to the market.

Marketing analysis [or research], on the other hand, is the type of study in which the methods of marketing are considered. These may include such

²Ibid., p. 3.

³"Report of The Definitions Committee," The Journal of Marketing, Vol. XIII, (October, 1948), p. 210.

points as advertising effectiveness, the effectiveness of methods of retail selling, etc.⁴

Analysis of Business Records

To some, the term marketing research automatically means making surveys. Contrary to some opinions, marketing research is also the critical comparison of census, trade association, or other published data to the internal figures of a specified business.

Many food chains are conducting marketing research unknowingly. An analysis or comparison of accounting records is still very much a part of marketing research.⁵ When management analyzes business records as compared to norms for the industry, an integral part of marketing research is being conducted. Analysis of past and present business records provides a base for determining the presence of trouble in an organization. Whether such analyses and comparisons are made by company personnel or marketing consultants, the result is still marketing research.

Any analysis of business records usually follows two or three steps: (1) the computation of ratios and other statistical measurers is the first; (2) the comparing of these

⁴Myron S. Heidingsfield and Albert B. Blankenship, Market and Marketing Analysis, (New York: Henry Holt and Company, 1947), pp. 9-10.

⁵Robert J. Holloway, "Marketing Research is More Than Surveys," The Journal of Marketing, Vol. XVII, (January, 1953), p. 298.

measurements with standards or 'normal' figures for the industry; (3) further research if necessary.⁶

A single figure or measure has little or no value to the analyst. Only when business figures are compared to other data can any significant measurement be taken. For example, a sales figure of one million dollars for a super market is of little value unless other internal figures of the company or store are known. To obtain any significance from the sales figure, other data such as profit, size of store, sales per customer, industry averages, etc. need to be known.

One word of caution--when comparing internal figures to other measurements, the comparable data must measure the same elements. For example, X food chain reports an advertising expense of nine-tenths of one percent. Y food chain reports an advertising expense of two per cent of gross sales. Regardless of the difference in reported advertising cost, both companies may have approximately the same advertising expense if accounting practices were standardized. X food chain subtracts advertising allowances from the cost of advertising. Y company enters advertising allowances on the account records as purchase discounts. Y company charges the labor cost of the advertising department to the advertising expense and X company does not charge the labor cost of the advertising department as advertising expense. Through

⁶Ibid., p. 39.

this difference in accounting procedures, internal figures can vary greatly from chain to chain.

Limitations of Marketing Research

The data obtained from research studies will not solve marketing problems unless the information is intelligently analyzed. Management should remember that one of the most important functions of marketing research is "to provide a basis of judgement so that management can maximize profits and minimize risk in the field of distribution in an economy in which price is one of the determining elements affecting choice."⁷

Marketing research can not substitute for mature judgement. The data collected from research studies are simply important management tools from which more intelligent decisions can be made by mature, experienced people. The information obtained from marketing research should be analyzed and studied so that management can make better decisions. Better management decisions can be made after the facts provided by accurate marketing studies are analyzed rather than relying on experience and impressions unsupported by specific information. The information obtained from marketing research studies does not prove a right way or a wrong way, rather the specific data obtained from marketing studies give management a basis from which more intelligent decisions can be made.

⁷Willard M. Fox, How To Use Market Research For Profit (New York: Prentice-Hall, Inc., 1950), p. 3.

Marketing Research Activities of Food Chains

William Applebaum classifies the marketing research activities of food chains in four major classifications: management, merchandising and sales promotion, store operations, and miscellaneous. Other types of marketing research are conducted but these four major classifications include most marketing studies used by food chains. Many marketing research studies can be classified under more than one of these categories. For example, marketing studies concerning special displays may include elements of merchandising and sales promotion and studies concerning the cost of erecting the display may be classified under store operations.

A sample of some of the marketing studies of food chains classified under the four categories of management, merchandising and sales promotion, store operations, and miscellaneous are as follows.⁸

I. Management Studies

Store Sales and Profits. Annual analyses of trends in sales and profit of individual stores are made. Stores are classified by sales volume, type of store, location characteristics, etc., from these reports a basis can be made for planning locations, remodeling stores, and changing patterns of operations for individual stores.

⁸Information from: William Applebaum and Richard F. Spears, "Marketing Research Studies in a Grocery Chain," Journal of Marketing, Vol. XVII, (July, 1952), pp. 53-55., and Class Address given by Mr. William Applebaum, May 21, 1957.

Evaluation of Competitive Super Markets. Marketing researchers analyze trends in population, food sales, number and type of food stores, new store openings, closing and remodelings. Information obtained from these studies gives management a criterion upon which to judge their competitive position within the trading areas. These studies also give management a basis to estimate the sales of competing super markets. These studies in addition to census and sales tax figures, will reveal the percentage of the food dollar that each food chain is receiving in a given trading area.

Competing super markets can be checked for quality, price, and value of perishable merchandise. Information obtained from these checks may influence a decision to raise or lower prices on similar merchandise. These checks can help to keep management informed of competitive merchandising and operating practices. Decisions should be made on a sound business basis rather than follow competitive practices and policies.

New Store Locations. Marketing research studies have been used by many food chains to serve as a basis for estimating sales potential of proposed site locations. Information obtained from studies can serve as a basis for management to evaluate the advantages and disadvantages of proposed site locations. Because of the competitive situation in many trading areas food chains must approach the problem of site selection on a more scientific or systematic basis than in the

past. Gone is the day when the successful operator could select a site for a new super market from a city map or an automobile. Granted, there is no true "scientific" method of selecting new store locations, but marketing research studies can provide basic information to management that will reduce the margin of error in selecting new locations.

Observations on Management, Store Operations, and Merchandising Developments. Marketing researchers are able to exchange ideas and techniques with non-competing food chains. By exchanging confidential information on a mutual basis, marketing personnel can recommend changes in management, store operations, and merchandising procedures based on the experience of the other cooperating food chains.

Recommendations and changes in operations can be based on the cooperative research figures of the National Association of Food Chains and Super Market Institute. However, for competitive reasons, chains are reluctant to divulge confidential information to the cooperative programs of trade organizations. A group of non-competing food distributors can exchange specific and confidential information that can be of great benefit to the members of the "gentlemen's pack".

II. Merchandising and Sales Promotion Studies

Some of the areas in which marketing research studies have been applied in the field of merchandising and sales promotion are:

Special Displays and Shelf Displays. Experiments undertaken independently and in cooperation with manufacturers help

to ascertain the effectiveness of special displays in the super market. Results of studies show display effectiveness for each product tested and for combinations of products, by type of display, length of display period, store volume groups, and product sales results following immediately after the tests.

Special Promotions. Food chains can analyze the cost and return (in sales volume and attraction of customers) for special "deals" and promotions. Special "gimmicks" can be very effective in creating extra sales, but the cost of promotions such as coupons, contests, free merchandise, etc. must be analyzed from a pre-determined objective (sales volume or attraction of customers) to accurately measure the results of the promotion.

Commodity Analysis. Studies of specific products to determine trends in sales and gross profits on a store and company basis have been made. These analyses form a basis for: (1) decisions on extent of lines carried, (2) allocation of selling space, and (3) sales and profit quotas for individual stores.

Pricing Studies. Controlled experimentation on the effects of varying retail prices on sales and profits of specific product groups can provide a basis from which management can formulate pricing policies. Management can determine the price that will yeild the highest dollar profit through controlled studies in the stores. Marketing studies can also

reveal the effects of multiple pricing on the sales movement of a product.

III. Store Operation Studies

Food chains operators have increased productivity and established more efficient work methods through research studies within their own companies and with the assistance of the United States Department of Agriculture. Areas of research study classified under store operations by William Applebaum would include:

Productivity Analysis. Analysis of sales per man hour, sales per square foot, sales per cash register, etc. has given management a basis to estimate productivity. Marketing research studies of labor productivity provide food executives a basis from which to evaluate personnel performance, personnel training programs, operating and merchandising decisions.

Through marketing research studies, executives of food chains have obtained more insight into the sales effectiveness, operating efficiency, investment and expense of store equipment and fixtures. The advantages and disadvantages of various makes of store equipment are studied in order to recommend the equipment best suited for the operation of the food chain.

Accuracy and Efficiency of Checkers. Studies have been conducted concerning the total time each customer spends in the store and how that time was divided between shopping,

waiting in line, and actual check-out time. The findings of such studies provide a basis for improving the check-out operation.

Studies evaluating the performance of checkers can disclose their weaknesses and mistakes. After analyzing the weaknesses of the checkers, training programs can be established for periodic checkups and corrective training.

IV. Miscellaneous Studies

William Applebaum classifies all marketing research activities not related to management, store operations, and merchandising under the category of miscellaneous. Some of the studies classified in this group would include:

Customer Buying Habits. Marketing studies have been very successful in determining the origin of customers, frequency of store visits, and mode of travel to the stores. Other detailed information such as the size of purchases, items purchased, and departments patronized can be determined from marketing research studies. With this information, management can develop a foundation for planning store layout, selecting store location, and allocating shelf space.

Packaging Studies. One of the controversial subjects in the food industry today is that of centralized packaging vs. store packaging. Management has turned to marketing researchers to analyze the cost of packaging at various segments of the distribution channel. Studies of specific items or commodity groups are being conducted to determine whether

packaging in consumer units should be handled at the store, at a central point for a number of stores, or by other concerns. Sales tests of items packaged at various points are being conducted in coordination with the cost analysis. From the information obtained from these studies, managements can determine the most economical methods of packaging for their particular organization.

No attempt has been made to list all the areas in which marketing research studies have contributed to more successful operations in food chains. Rather the writer has presented a brief sample of some of the marketing research studies in order to give the reader more insight to the contributions and scope of marketing research in the food industry.

Summary

Research is nothing more than trying to find out today how to do things better tomorrow, through systematic gathering, recording and analysis of facts. When good research is intelligently used, it can help business operate at a profit--this year, next year and in the years after. Good research is an ingredient essential to business health.⁹

Simply stated, marketing research is any activity concerned with finding out how to do things better. William Applebaum states that the food industry needs marketing research because problems are multiplying faster than the members of the food industry are solving them. Mr. Applebaum

⁹William Applebaum, "The Concept of Industry Cooperative Marketing Research," A Plan for Cooperative Marketing Research in the Food Distribution Industry, (Chicago: Super Market Institute), p. 7.

continues by stating that a well planned marketing research program is an important tool that management can use to raise net profits without increasing gross profit margins.¹⁰

The information obtained from marketing research studies is not conclusive. Such information gives management specific facts to serve as a basis for intelligent decisions. Marketing research is a management tool to help provide information about what the situation is, what the situation should be, and what changes or corrective action can be taken with what probable effects. "The best research in the world does not mean a thing, unless it is used with understanding and a proper appreciation of its limitations and its true functions."¹¹

The contributions received from marketing research studies thus far emphasize the future role that marketing research holds to the progress of the food industry. Because of increased competition, there will be narrower margins for error and narrower limits for unsound judgement. The need for basic information or scientifically determined facts will be even greater in the future than in the present.

¹⁰Speech given by Mr. William Applebaum to Food Distribution Curriculum, Michigan State University, May 21, 1957.

¹¹Fox, op. cit., p. 54.

CHAPTER II

CURRENT AND FUTURE TRENDS IN STORE SIZE

Introduction

No appraisal of the food industry's progress is complete without a picture of the rate at which super markets¹² are being constructed. The rate of construction holds the key to the trends of future development in the food retailing industry. Because of conflicting data from trade surveys as to the number of super markets constructed last year, this study accepts the balanced figure of approximately 2250 new super markets erected last year.¹³

Are super markets reaching the saturation point? This question is often raised by marketing men, financiers, and others watching the rapid expansion of the food industry. Are super markets becoming too large in size? This question is of

¹²The writer's definition of a super market is: A departmentalized retail establishment having the four basic departments--self-service grocery, meat, produce, and dairy--with total minimum sales of \$375,000 yearly. Super Market Merchandising and Progressive Grocer classify any store, chain, or independent, with a minimum sales volume of \$375,000 per year, as a super market.

¹³Progressive Grocer estimates that 2500 new super markets were constructed in 1956. "Twenty-fourth Annual Survey of Food Retailing," Progressive Grocer, (April, 1956), p. 60. Super Market Merchandising estimates that some 1980 new super markets were constructed in 1956. "Super Market Boom," Super Market Merchandising, (April, 1957), p. 107.

vital concern to many food store operators and chain executives.

Research reveals that the number of families available to each super market has definitely been declining. In 1940 there was one market for every 5659 families. In 1950 there was one super market for every 3014 families. And in 1956 there was one super market for every 2129 families. These figures do not imply that each super market had a corresponding number of families as customers, rather they indicate the ratio of super markets to families in the United States. These figures do indicate the increasing number of super markets in the United States. However, the super markets did not control such a large share of the food sales in the United States in 1940. In 1956, 27,100 super markets, chains, and independents, controlled 62 per cent of the food sales for a total of 26.4 billion dollars. Whereas, in 1940 there were 6,175 super markets controlling only two billion dollars of the food sales. Naturally, the number of families available to each super market would be more in 1940 because there are some three times as many super markets now as there were in 1940.¹⁴

The writer has presented the above figures concerning the ratio of families available to super markets for three reasons: (1) to prove the fact that super markets have not reached a saturation point, (2) to show the growth of consumer

¹⁴Figures from "Twenty-fourth Annual Survey of Food Retailing," Ibid, p. 61 and "Super Market Boom," op. cit., p. 104.

acceptance of super markets, and (3) to show that statistical data often reveal more information that is outwardly presented to the reader.

Dimensions of the 1956 Super Markets

The super market structure has continued to grow in size. The new units built in 1955 averaged 12,000 square feet. Of the stores constructed in 1955, about 35 per cent contained 15,000 square feet or more. But in 1956, 43.6 per cent of the new super markets constructed had at least 15,000 square feet. (See Figure I for a breakdown of the new super markets built in 1956 according to size).

Size of Market	Per Cent of New Markets	Average Size in Sq. Ft.	Average Selling Area
Small (under to 5000 sq. ft.)	5.5	3990	3170
Medium (5000 to 10,000 sq. ft.)	24.7	7150	5350
Large (10,000 to 15,000 sq. ft.)	26.2	12,030	8920
Extra Large (15,000 to 20,000 sq. ft.)	23.7	16,700	12,010
Colossal (20,000 sq. ft. and over)	19.9	28,130	17,460

FIGURE 1*

*"Super Market Boom," op. cit., p. 110.

A more complete breakdown shows that chains with over 100 units concentrated overwhelmingly 71.7 per cent on the 'large' and 'extra large' units. This means that almost 72

per cent of the new markets built in 1956 by food chains with over 100 units ranged in size from 10,000 to 20,000 square feet.¹⁵

Some operators express the opinion that some super markets are being constructed too large to facilitate customer convenience. Admittedly, no one can say with accuracy how large a super market has to be before it becomes an inconvenient shopping unit. What is the right size? Will markets the size of Eavey's in Fort Wayne, Indiana become predominate by 1967? Rather than prognosticate on the future, the writer has gathered current information on the dimensions of super markets constructed in 1956 to help the reader make a more intelligent decision concerning store size in the future.

¹⁵Ibid., p. 124.

CHAPTER III
CURRENT AND FUTURE TRENDS
IN STORE LOCATION

Introduction

All retail food store organizations, whether they be chain or independent, are faced with the location problem. Regardless of the size of a planned new store, the location must be a good choice because the sales and profits realized depend to a large extent upon the nearness to living units and availability to automobile traffic. Another way of stressing the importance of location is: Although good locations can offset deficiencies in management, poor locations can very seriously handicap the most skillful merchandisers.

Construction Expense

Regardless of the tight money situation and increased competition for the food dollar, the grocery chains have continued to expand at a vigorous rate. Reports show that in 1956 a total of \$509 million was expended for super market construction, modernization, and equipment. These expenditures were up 14.4 per cent from record figures of \$445 million expended in 1955.¹⁶

¹⁶S. O. Kaylin, "Retailing's Role in America's Progress," Chain Store Age, (January, 1957), p. 205.

The importance of proper location can be be illustrated by the tremendous investment required for the average super market opened in 1956. "The average size new super market opened in 1956 cost around \$200,000 to \$250,000 to build and required an over-all investment of around \$350,000 to \$400,000."¹⁷ Such factors as current and future population trends, competition, traffic patterns, construction cost, current food purchases of families within a market area, and other pertinent problems must be carefully analyzed in order to make a more intelligent decision affecting such a large investment of capital.

Where Are New Stores Locating?

Approximately one-third of the new super markets opened in 1956 were located in shopping centers. Progressive Grocer estimated that 27.5 per cent of the super markets built in 1956 were located in new shopping centers.¹⁸ Chain Store Age reveals that 35 per cent of the new supers went into shopping center locations,¹⁹ and Super Market Institute estimates that about half (48 per cent) of the new super markets in 1956 were part of a new shopping center.²⁰ Since suburban population is

¹⁷Don Parsons, Executive Director, Super Market Institute, "Competition Within Trade Intensifies," Chain Store Age, (January, 1957), p. 203.

¹⁸"Super Market Boom," op. cit., p. 124.

¹⁹S. O. Kaylin, loc. cit.

²⁰Don Parsons, loc. cit.

growing six times faster than urban population, the trend to locate super markets in shopping centers and other suburban locations can expect to increase even more in the future.

Chain Store Age estimates that food chains will open approximately 2500 new stores in 1957, of which about 900 will be located in shopping centers. Available data do not exist as to where the remaining 1600 planned stores for 1957 will be located. However, trends seem to indicate that the vast majority of these planned units will be located in suburban areas, rather than in downtown locations.

Downtown Locations

Many food chains are abandoning downtown locations. Limited parking, excessive traffic, and rapid development of suburban communities have forced many food chains to discontinue plans for new downtown locations, except in new apartment development areas. Many food chains are closing downtown units. Already some food chains report that their downtown locations have been closed in some cities. The shopping center is here to stay. Food chains can be expected to follow the trend of locating new super markets in suburban and neighborhood locations.

The super market has already captured a large market in suburban shopping areas. In the last few years there has been a great change in the selection of locations for new super markets. Super market operators can be expected to continue to locate near new residential areas.

Summary

The selection of locations for new super markets is becoming an increasingly important facet of food retailing. A final decision affecting the location of a new store will involve an investment of approximately \$400,000 or more. No amount of layout, design, equipment, or managerial ability can create a successful store in a poorly located area. Food chains are approaching the problem of site location on a more systematic basis so that the shopper of the future will be provided with better shopping facilities. Accessibility and parking facilities are already a must.

Population and construction growth in suburban areas combine to pose a bright future for the planned shopping center. Continued growth of shopping centers and other suburban locations is inevitable.



CHAPTER IV

CURRENT AND FUTURE TRENDS IN NEW FOOD ITEMS

Introduction

Just as population, income, and employment have increased steadily for the last 20 years, so have the number of new food items. This increase is a reflection of the progress made by manufacturers and retailers of food products.

Why has there been such a great increase in the number of new food items? Does the retailer want new food items? Any answer to the above questions is sure to incite controversy from members of the food industry.

If the industry is to continue to receive the same proportion of the consumer dollar, the addition of new food items is necessary. Another important reason for the development of new food items is the consumer acceptance of convenience food items. As income and economic levels have risen, the eating and cooking habits of the American family have also changed. Would the consumer have accepted frozen concentrates, cake mixes, and canned gravies twenty years ago? Even though frozen meats and dehydrated potatoes have not been accepted to the greatest extent today, there is a possibility for greater consumer acceptance in the future.

Aggressive food store operators are aware of the increased business derived from new food products. However, not all new products win enough consumer acceptance to maintain a steady volume of sales. Because of this fact, food retailers must be selective in the addition of new products.

Growth of New Food Items

"The National Association of Food Chains estimates as many as 6000 new items were offered to individual buyers of food chains in 1956."²¹ However, many of these items were non foods such as household items.

Several factors contribute to the "age of innovation in new food products" in the food industry. The first important reason for the growth of new food items is the favorable consumer acceptance of convenience, novel, and quick-cook foods. Another important reason for the present trend of increased food items is the manufacturer's need for new products to keep a proportionate share of the competitive market.

The modern housewife is constantly searching for time-saving conveniences. Only with the introduction of new food items did the housewife realize she could save a considerable amount of time in the preparation of meals. The post-war housewife has constantly been looking for new food items that will offer the family variety and new adventure in eating.

²¹"The Mid-Century of New, New Products," Super Market Merchandising, (February, 1957), p. 69.



"Only eight years ago a housewife's daily food preparation time for an average family took two hours and twenty minutes. Today, because much of the food she buys is prepared to one degree or another, that time has been cut exactly in half--one hour and ten minutes."²²

The A. C. Nielsen Company conducted a survey to determine the sales increase from 1952 to 1956 of food products classified into three categories: (1) products with major built-in conveniences, (2) products that experience some important changes and (3) products that had few new developments.

Importance of New Food Items

Manufacturers were possibly aware of the importance of new food items before food retailers were. "Whether for food or household products, the story is the same--from new items comes new life. The president of Colgate-Palmolive Company said probably 70 per cent of present sales volume comes from new products that did not exist ten years ago. The same will be true ten years from now".²³

According to the survey taken by the A. C. Nielsen Company, items classified as having major built-in conveniences registered a 33 per cent increase in dollar sales from 1952 to 1956. In the same period, product groups which

²²Ibid.

²³ "The Mid-Century of New, New Products," loc. cit.

experienced some important changes such as additional types, flavors, sizes, etc., experienced a 30 per cent increase in sales. On the other hand, products that had few new developments gained only 11 per cent in sales.²⁴

Direct Effect of New Items on Brand Leadership

A further analysis by A. C. Nielsen Company discloses that since 1940, 31 per cent of the top grocery brands lost their leadership and another 21.5 per cent watched their consumer franchise dwindle.²⁵ Why did 31 per cent of the top brands in 1940 lose leadership by 1956? J. O. Peckman in an address to the Grocery Manufacturers Association said that, "23 per cent of these brands lost leadership because of competition from a radically new product, 31 per cent because of an improved product, another 23 per cent because competing products were able to provide new developments in the form of flavors, colors, sizes, etc., and only 23 per cent because of being out-advertised and out-promoted."²⁶

What does the above statistical data mean to the food retailer? Theoretically, a retail food store that failed to stock new food items to satisfy current consumer wants could

²⁴A. C. Nielsen, Jr., "How Long Should You Live With A New Product," Super Market Merchandising, (February, 1957), p. 73.

²⁵Nielsen, op. cit., p. 72.

²⁶Statement by J. O. Peckman, Reprinted in "The Mid-Century of New, New Products," op. cit., pp. 69-70.

have realized a 31 per cent decrease in business since 1940, assuming no other factors contribute to an increase or decrease of business.

Problems Created by New Food Items

New food items have created many problems for retail food chains. The matter of accepting or rejecting a new food item has not been simple. Yes, progressive food distributors want new food products if the products can develop a consumer franchise. However, many grocery manufacturers are guilty of introducing new products because someone else has the product or without conducting adequate market research to determine consumer acceptance of the product.

Almost as fast as new items are taken on, old ones are discarded. According to a survey of eight food chains by McCall's Magazine, 15 per cent more items were added than discontinued in a recent two year period. The eight chains added 4292 grocery items and discontinued 3725 grocery items in the same two years.²⁷ Nearly 8000 decisions were involved in deciding what items to add and discontinue. This does not include the countless number of decisions required to decline new products or keep older ones.

The problem of inadequate shelf space must be considered when making decisions affecting new products. A policy followed by many food chains is that an old item must be

²⁷"Slow Movers Can Build Traffic," Super Market Merchandising, (February, 1957), p. 55.



discontinued if a new product is accepted. This means that manufacturers often face a double jeopardy when they introduce a new line. Some of the problems manufacturers face in introducing new food items are: (1) they must be prepared to accept the suicide of older, established products and (2) they must gamble on the success of new ones. As a result, many grocery manufacturers have begun to conduct extensive research before submitting a product to the retailer.

Super Market Merchandising asked several manufacturers how much time is necessary before a new product is established. There seemed to be a general agreement that a new product requires three years to reach maturity. Also a period of six months to a year is required to get national distribution for a new product.

Food chains and their buying committees have the responsibility of selecting only those new items with proven consumer acceptance. As a result, manufacturers have begun to introduce new products on a more scientific basis. Granted, there is no "scientific" way to insure consumer or retailer acceptance, but market research provides a more logical approach to the introduction of new products.

Life of a New Product

The A. C. Nielsen Food Index Report groups new products into four classifications, according to the length of time needed to determine the ultimate sales directions. (See Figure II).

The products in group "A" are not likely to develop the consumer acceptance necessary to maintain a high sales volume and are usually recognized by the buyers as having poor sales potential.

"The greatest pitfall to the retail buyer or the buying committee lies with products which fall into group "B" in the chart."²⁸ These products seemingly have a sales potential with encouraging initial sales. At the peak of the introductory period, the sales volume declines rapidly. The products in this classification do not develop enough consumer acceptance to receive repeat purchases. What characterizes such products? One of the most important factors is that the product fails to live up to the customer's expectations. Strong advertising claims in relation to the actual performance of the product is also a contributing factor for the poor performance after a brief period of success.

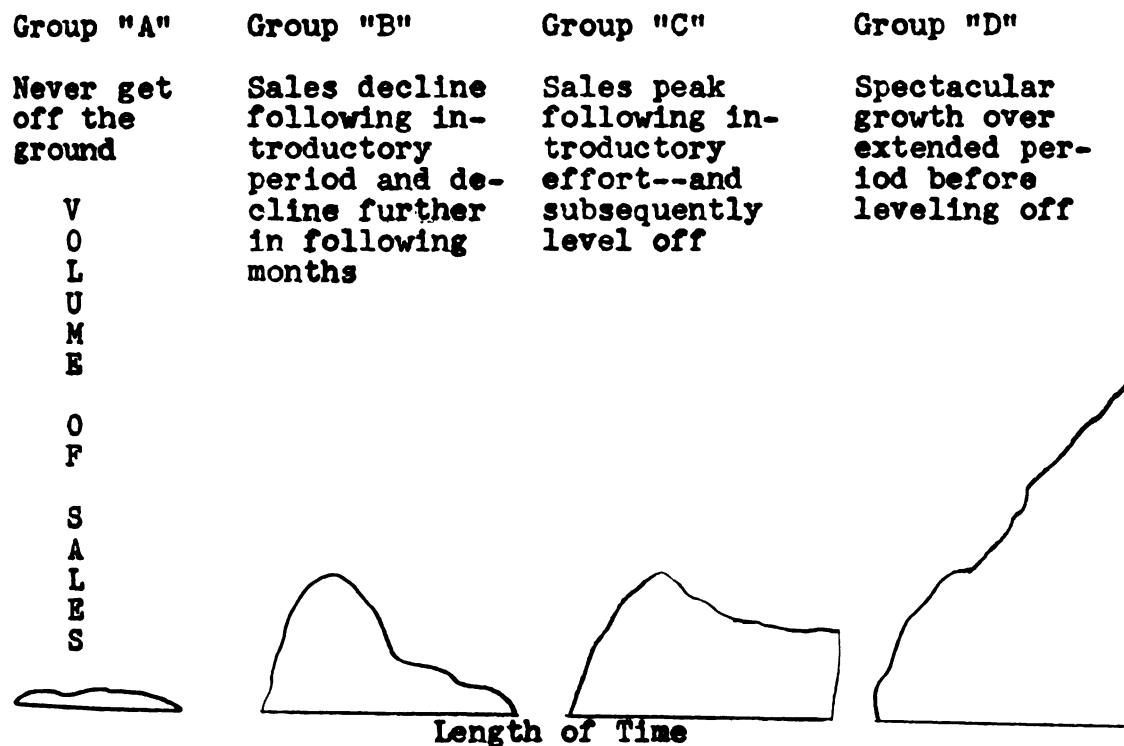
New products which subsequently level off as shown in group "C", usually fail to show large volumes. However, the products in this group offer less risk to the retailer because the inventory investment and shelf space allocation can be reduced gradually to adjust to the leveled-off sales volume.

The brands in group "D" are the most successful new products that enjoy a spectacular growth before the sales volume levels off. An example of products in this classification is Tide detergent which has enjoyed steady sales over

²⁸Ibid., p. 73.

a period of years. These are the brands that retailers feature in weekly ads because of the consumer acceptance.

Regardless of the number of new food items introduced weekly, monthly, or yearly, the vast majority ends up in groups "A" and "B". A few can be classified in group "C" and a very, very few in group "D".



This chart summarizes the general trends of hundreds of new products introduced in recent years as measured by Nielsen Food Index Reports.

FIGURE 2*

GENERALIZED EXPERIENCE OF NEW PRODUCTS

*Nielsen, loc. cit.



Direct Effects of New Food Items on the Food Industry

Estimates reveal that approximately 75 per cent (by weight) of all food eaten by Americans required some refrigeration between production and the time of eating. Facilities for such preservation are often inadequate. According to one survey, spoilage of fruits and vegetables at the retail level and in the home ranged from 18 to 35 per cent. Other losses are less evident, for instance, deterioration of flavor, attractiveness and food values.²⁹

The influx of perishable and non perishable food items will necessitate more equipment at the retail level. Refrigeration, shelving, and storage facilities will have to be increased if new food items are developed at the rapid pace as evidenced from 1952 to 1956.

Research and development to improve the preservation of perishable foods will also result in new food products. The new food products developed from scientific research will bring about revolutionary changes in food distribution. Many of the innovations in the preservation of perishable food products will help decrease food prices to the benefit of the consumer as well as the food industry. Other developments will increase the quality of foods. Still other scientific developments will shift a proportion of the final preparation of food products from the consumer back to the manufacturer.

²⁹"Marketing," The Yearbook of Agriculture, (Washington: Government Printing Office, 1954), p. 378.

Some of the areas in which scientific development is being conducted include:

Frozen Foods. "Previous to World War II, frozen foods were still novelities, but by 1955 frozen foods (excluding ice cream) accounted for over four per cent of total super market sales. Industry leaders believe that sales may reach eight to ten per cent by 1960. More than half of present dollar volume stems from fruit juices and vegetables."³⁰ The expansion experienced in frozen foods has already affected food chain administrative policies greatly. New equipment, merchandising procedures and new concepts in stores size have resulted from the fast growth and development of frozen foods. The future is unlimited for frozen foods. Further expansion can be expected in prepared foods, prepared meals, and speciality foods. Scientific research is constantly experimenting with food lines that are not obtainable in a frozen state at the present time.

Dehydration. The future of dehydrated products is uncertain. Hitherto, dehydration processes have not developed a satisfactory taste in the finished product. "The perfection of various dehydrated processes now being developed in government and private laboratories will reduce the cost in food preservation, packaging, transportation, and storage."³¹

³⁰William Applebaum and David Carson, "Supermarkets Face the Future," Harvard Business Review, (March-April, 1957), p. 126.

³¹Ibid.



Antibiotics. Scientific and developmental research is being conducted in the field of antibiotics. The development of one antibiotic, subtilin, is believed to have strong possibilities for improving the taste and appearance of canned vegetables. Antibiotics have been developed to prolong the shelf life of poultry and fish. Future developments in the field of antibiotics may help the food chain sell perishable foods at a lower cost to the consumer.

Irradiation. One of the most recent innovations to improve the preservation of perishable foods is irradiation. Scientific research indicates that the exposure of food for a few seconds to the proper amount of atomic radiation will destroy the bacteria which cause decay. There is a possibility that food treated by atomic exposure may stay fresh for weeks, months, or even years without refrigeration. Off-flavor, off-color, and objectionable odor are still to be overcome; however, researchers express a bright future in the field of irradiation.

If and when technology in irradiation is perfected, how will retail food distributors be affected? Surely, revolutionary changes in equipment, merchandising procedures, and sales trends will be experienced when perishable foods will become, within limits, imperishables.

Summary

The problem of seeking a balance between variety of merchandise and limitations in super market shelf space and



inventories has become of utmost importance to food chains. New products, countless brands, a multiplicity of sizes, flavors, and price varieties necessitates that management initiate buying policies adequate to cope with the increasingly difficult problem of selecting new food products.

Progressive food chains are aware of the importance of new food items but the "death rate" of new products requires that management carefully evaluate the pros and cons of a new food item before tying up capital and shelf space.

Scientific research is constantly being conducted to open new fields in food processing. With the development of irradiation, food chains can expect to reduce refrigeration expense both in handling and at the store level. Frozen food sales may decrease considerably when irradiated foods are developed.

New food items can not be accepted or rejected solely on the basis of sales and profit, because "Only about 30 per cent of the items carried in the average super market sell at least one unit a day. The other 70 per cent may sell anywhere from one unit in two days to one unit in two months."³² Many of the so-called "slow movers" are necessary to build and maintain customers who want variety and assortments in their food stores.

New food items with sales potential and those with little merit will continue to be marketed by manufacturers.

³²"Slow Movers Can Build Traffic," loc. cit.

Management of food chains must anticipate customer wants and future trends to help make a more intelligent decision concerning the addition or discontinuation of new food items.

CHAPTER V

CURRENT AND FUTURE TRENDS IN PACKAGING

Introduction

The development of packaging and package merchandise has been one of the most significant trends in modern merchandising. The packaging of goods formerly sold in bulk has resulted in benefits to the consumer and has provided a means of establishing product identification and achieving mass distribution.

The broad levels of achievements in packaging today represent many years of gradual advancements in the development and improvement of packaging material, methods, and equipment. How have the new developments been applied to the food industry? How have new developments in packaging helped to advance mass distribution and make for more efficient selling in the super market? How has the impact of new developments in packaging been felt in the food industry? What changes will be made in the food industry as a result of future developments in packaging? This chapter on packaging will deal with the answers to these questions.

The Role of Packaging in Today's Super Market

The increase of self-service in today's modern super markets puts most of the burden of selling on the package and the point-of-sale material. However, under today's

merchandising conditions there is less and less possibility of using manufacturer display material. Now the package itself must attract the customer, identify the brand, and close the sale.

Today the self-selling package is widening out into a number of distinct and meaningful types--the convenience package, dispensing package, unit package, strip package, multiple package, fractional package, picture package, visibility package, re-use package and working package. Each is finding a bigger and better niche for itself in taking on and helping build profitable markets in such booming fields as those designated by the terms convenience foods, do-it-yourself, leisure, hobbies, the baby market, the gift market, the homemaker and gardener groups, the teenagers, the oldsters market, etc.³³

There is a tendency to think the advances in self-service packages have developed suddenly. To the contrary, the development of self-service packages has been a slow process just as consumer education has taken a long time to build to a level where self-selling packages could function to the best advantage.

The Convenience Package. Convenience packages like convenience foods and similar products are closely tied in with a trend that has been going on for many years but has greatly increased during the post-war years. The convenience product and the convenience package could scarcely exist one without the other. The convenience package has proven to be equally effective as a sales producer for non foods.

³³"Packaging in Today's Market," Modern Packaging Encyclopedia Issue (1955), p. 14.

Recent examples of outstanding packages in the convenience field would include: frozen dinners, soft drinks in throw-away metal cans, corn bread mix in aluminum baking pans, aerosol window cleaner, a popcorn package in which the corn is popped, and lemon juice for salads in a unit-of-use polyethylene squeeze container.

Some of the above packages could be classified as a working package. Many packages such as the frozen dinner container and the pop-it-in-the-package container for popcorn provide protection and sales facility, but the package provided a plus element, the working package. This type of package is one of the most important entries to the big and growing special merchandising field. The package is designed to be used by the consumer in the preparation of the product. Recently, designers have begun to develop packages that will work for the retailer also. New innovations such as better stacking closures for glass jars and various wax containers and shipping containers with easy-opening, tear-strip devices have greatly assisted the food retailer in the job of distributing food.

The Merchandising Responsibility of the Package

"The first and still the most important contribution a package can make toward the successful merchandising of a product is adequate protection of the product throughout the expected normal span of distribution and packaged use. All other merchandising considerations must be predicated on the



assumption that the package will deliver the product to the ultimate consumer in a desirable condition."³⁴ On the other hand, once adequate package protection has been established, the designer is free to concentrate on the merchandising aspects with regard to distribution and competitive sale of the product.

"A package to be an effective merchandising instrument must clearly identify brand and/or product. At the same time the package must be so constructed and designed so as to perform one or more of the following functions: arrest attention, stimulate buying impulses, facilitate satisfying product use, and encourage repeat sales."³⁵

The self-service method of distribution which predominates in super markets today requires the package to be designed to fit the type of display that is most likely to be used in the sale of the product. The appeal of the package after the shopper has picked up the product for close examination is one thing, but more important is the ability of the design to attract the shopper in the first place and to identify the product under any and all types of display conditions.

Package designers have begun to establish brand identity on several sides of the package. A manufacturer who continues

³⁴"The Package and It's Target," Modern Packaging Encyclopedia Issue, (1955), p. 21.

³⁵Ibid.



to design the package without regard for the retailer's cramped shelving may find the product being displayed without concern for proper product identification. Thus far, there has been no over-all standard for super market shelf height and depth. Dimensions differ between stores of a single chain and they differ between the departments or sections within a store. Manufacturers have begun to design packages so as to present a selling message regardless of the display position.

The Lily-Tulip Cup Corporation, which sells paper beverage cups by the millions through food stores, found their package design was not giving the proper merchandising aid at the point-of-purchase. The standard package is six cellophane-wrapped, nested cups with printed or applied paper labels on the wrap. When the package was first introduced, Lily-Tulip expected the food stores to display the cups in stacks right-side up on the shelf, and consequently the label was placed accordingly. However, dealers soon found that the stacks would stand more firmly when placed up-side down on the broad top of the cup, rather than on the tapered end of the base. No amount of reasoning from the Lily-Tulip Corporation convinced dealers to discontinue displaying the cups up-side down. Unsuccessful in changing the display procedure, Lily-Tulip corrected the situation very simply by merely reversing the label. Now the label reads right-side up when the cups are up-side down.

The previous example is one of the many cases of package design to facilitate dealer convenience of handling and stocking.

New food items were discussed earlier, and closely connected with the acceptance of new products are the merchandising responsibilities, characteristics, and sales potential of a package design. Below are some merchandising check points of packages that buyers, buying committees and other food store executives should analyze while considering new products.

I. Buying Habits

- A. What are retail habits or practices with respect to products of this character?
 1. Unit of purchase?
 2. Storage prior to placing on sale?
 3. Display on shelf, counter or window?
 - a) Is shape and size of package adapted to mass display?
 - b) Is single unit attractive?
 - c) Will package be seen above and below eye level? Which panel displayed?

II. Size Considerations

- A. Are package sizes properly adapted to--a) Distribution methods?, b) Consumer habits?
- B. How would changes of size affect--a) Consumer convenience?, b) Quantity of purchase or use?

III. Competition

- A. How does product compare with competition, direct and indirect?
- B. How does package compare--a) materials used?, b) sizes and shapes, colors and designs? c) features--desirable or undesirable?

IV. Package Appearance--for identity:

- A. Are all necessary features incorporated and are they treated properly with respect to relative position and emphasis?
- B. Is brand name unmistakable in position, style?
- C. Does package adequately feature trade name?



- D. Is product name (as distinguished from brand) featured to give immediate product identity?
- E. Does the package reflect the outstanding qualities of the product?
- V. Package Appearance--for inviting attention:
 - A. Are colors and design--
 - a) In good taste?
 - b) Appropriate for product, retail outlet and consumer?
 - c) Comparable with competition?
 - B. Does the package make a strong impression--
 - a) From a distance?
 - b) From a closer view?
 - c) On shelf?
 - C. Does package carry a self-selling story?
 - D. Does the package have remembrance value?³⁶

Growth of Packaging in the Food Industry

"The food industry is the oldest and largest consumer of packaging. No industry has more zealously exploited the use of packaging in every conceivable way."³⁷ Food sales reached a new high of \$42.5 billion in 1956 which represented an 8.7 per cent increase over 1955.³⁸ This increase in food sales was accomplished through increased population, new products, new built-in services, new packages, and new promotions.

A recent survey taken by Modern Packaging indicates that food manufacturers on the average spend 24 cents of every sales dollar on packaging.³⁹

³⁶"Merchandising Check Points," Ibid., p. 23.

³⁷"Still Room to Grow," Modern Packaging, (November, 1955), p. 4.

³⁸"Twenty-fourth Annual Survey of Food Retailing," op. cit., p. 57.

³⁹"What Does Packaging Cost?," Modern Packaging, (March, 1954), p. 127.

Emphasis on Display Value

Another survey of the grocery manufacturing industry taken by the Folding Paper Box Association indicated display value or customer attention was the most important factor in accepting or rejecting a new package design.⁴⁰ The emphasis placed on display reflects the trend for food manufacturers to consider such factors as proper shelf sizes, display facings, recipes, related-item selling deals, and special offers.

Developments Directly Affecting Food Packaging

The grocery manufacturing executives interviewed in the Folding Paper Box survey revealed some significant trends that will change consumer packaging in the food industry. Nearly one-fourth (23.1 per cent) believe that the use of "giant or large" sizes and "multi-unit" packs will influence changes in consumer packaging. One out of seven executives (13.9 per cent) feel that the desire for more attractive packages will cause changes in existing packages. A trend to smaller sizes is predicted by 8.8 per cent of the executives interviewed.⁴¹

When the executives were asked the question, "what forces package changes", only about one-sixth (16 per cent) stated that their newest package was adopted as a result of requests or meeting the requirements of retailers. The

⁴⁰"Behind the Packaging Decision," Modern Packaging, (July, 1956), p. 167.

⁴¹Figures from Ibid., p. 78.

greatest majority (75 per cent) feel the consumer plays a more important role in food package planning than does the retailer.⁴²

A greater variety in sizes of packages is expected in the future for the retail food store. Laminated one-ounce polyethylene-cellophane packets of lemon juice have helped to develop a broader market for Sunkist products.

Food canners are now packing a greater variety of sizes than ever. Some grocery manufacturers have already marketed a 46 ounce can of pork and beans. The trend toward "king-size" packages will develop even more because of larger family groups. The soap industry has already experienced the addition of "king-size" and "home-laundry size" packages. Other industries will design smaller packages in order to find a larger market for their products. One company has already tested a one-pound unit of flour.

Film bags have been developed that can withstand extremely low temperatures for frozen foods and high temperatures for cooking. Foods packaged in a new polyester-laminate bag can be cooked in the original bag, simply by dropping the bag into boiling water.

Aluminum foil containers will be utilized by an increasing number of grocery manufacturers in the future.

⁴²Ibid., p. 167.

Laminated glassine pouches, which are heat-sealed, have been developed for individual servings of puddings and cocoa.

Realistic reproduction by means of modern printing developments will give new life and sales appeal to both new and old packages alike.

Kraft bags with polyethylene linings have been developed for packers of dried fruits.

Summary

Some retailers and consumers contend the "built-in kitchen services" as provided from convenience foods and food packaging have raised the price of all convenience food products. Such items as frozen orange juice, baby foods, and cake mixes have reduced rather than raised consumer cost. Two-thirds of the drop in raw farm food prices since 1952 have been passed on to the consumer through the creation of new markets and mass distribution obtained from new products and packages.⁴³

Through developments in self-service retailing, the package now has an added responsibility, that of selling. For a package to be an effective merchandising instrument, several functions must be performed: arrest attention, stimulate buying impulses, facilitate product preparation, and encourage repeat sales.

⁴³Paul S. Willis, "Background For Packaging," Modern Packaging, (May, 1956), p. 40.

Because of cramped shelving, various display methods, and lack of standards in shelving dimensions, products must have multiple identity surfaces on the package. Packages are being designed to present a selling message regardless of the display position of the product.

As new developments are being made in other facets of the food industry, so is progress being achieved in the packaging field. New methods and materials are being utilized by grocery manufacturers to present products of higher quality to the consumer.

The food store can look for a greater variety in sizes and types of packages offered to the consumer in the future.

CHAPTER VI

REFINED CONTROL TECHNIQUES

Introduction

In today's economy, in which many companies have expanded in both size and volume, management has become more and more divorced from the actual operation. As a result of voluminous and "far-flung" operations, management must rely more and more on accounting and operating reports in which to formulate policies and procedures.

Through control techniques, management must be able to correct a condition found to be in error or prevent such a condition from arising.

"Many food chains have grown beyond the size where they can be managed by decisions arrived at through direct observation alone."⁴⁴ These large chain organizations need to use control techniques. Control to guide the action of the organization and control to give timely and adequate information that will help management "keep their fingers on the pulse of the organization".

Internal Auditing

"Internal auditing in its most restrictive sense is auditing carried on by persons who are employees of the

⁴⁴Arnold F. Emch, "Control Means Action," Harvard Business Review, Vol. XXXII, (July-August, 1954), pp. 97-98.



company being audited."⁴⁵ Internal auditing was almost unknown in the food industry ten years ago, but today is recognized as an important adjunct of the food chains because of the money that has been saved through an internal audit system.⁴⁶

The term "internal auditing" does not describe the scope of the activities which are properly included in a system of internal auditing for food chains. Auditing is a methodical system of accounting for assets, both fixed and current. However, in the food chains, management has found that the internal auditors provide an excellent means of follow-up on company rules and policies. Because of the increasing complexities of food chain operation there has developed a need for a system to insure that company policies are understood and accurately followed. One author amply defined internal auditing as:

The organized activity on the part of management to assure itself of proper adherence to company procedures and policies, and to secure the benefits of a systematic and objective verification and constructive analysis and appraisal of the accounting, financial, and other aspects of the company's operation.⁴⁷

⁴⁵Victor Z. Brink, Managerial Control Through Internal Auditing, (Chicago: La Salle Extension University, 1949), p. 1.

⁴⁶Bertram D. Shepard, "Developing an Internal Auditing Department," Fourth NAFC Controllers Conference, (June, 1954), p. 3.

⁴⁷Brink, op. cit., p. 9.



Internal Auditing and Internal Control - Internal

auditing is sometimes referred to as internal control.

Internal auditing developed from management's endeavors to make the internal operations of the corporation as efficient as possible.

The activities of the internal auditor soon became varied in order to give management the functional control needed at the store level. The activities of the internal auditor usually recognized today may be classified as follows:

1. Verification of financial and operating data.
2. Analysis
3. Compliance
4. Protecting company assets
5. Detection of fraud and error
6. Appraisal
7. Training company personnel
8. Miscellaneous⁴⁸

Each of these functional activities will be briefly discussed to show the reader the importance of the internal auditing system to management.

1. Verification of financial and operating data.

Internal auditing of the store operation provides an excellent opportunity to establish the reliability and accuracy of the store's financial data. Infrequent checks by an internal auditing team not only helps to uncover fraud and dishonesty, but are most useful in verifying the financial position of the company assets. Through infrequent audits

⁴⁸Ibid., p. 10.

of the store inventory and cash, management can keep posted as to the efficiency of the store manager.

2. Analysis. In many cases analysis is part of the method by which verification is accomplished. The important contribution of the internal auditor in this area is to study the accounting and operating procedures which are being verified.

3. Compliance. Management, to an increasing extent, is being separated from the actual store operations because of increased size and geographical breadth of the business organization. Because of the lack of understanding, inclination, self determination, improper training, or inadequate supervision, many instructions or policies are not carried out in the manner in which management desires. The compliance activities of the internal auditor gives management some means of knowing the extent to which policies and rules are being followed.

4. Protecting company assets. In all internal auditing operations the auditor seeks to protect the financial interest of the company. The internal auditor is also assigned the responsibility of making visual checks on company property and equipment.

5. Detection of fraud and error. Modern accounting systems with controls and cross-checks can do much to prevent fraud and error. Internal auditing therefore works in coordination with the accounting system to make fraud and error more and more improbable and unlikely.



6. Appraisal. Through close observation of the accounting procedures in the store, the internal auditor can give suggestions for easier and improved methods of accounting.

7. Training company personnel. The internal auditor can contribute a great deal to make employees more efficient in accounting and control techniques. Trainees and new store managers often need assistance in preparing the weekly sales report and other weekly accounting necessities. The internal auditor can be invaluable in giving assistance to these employees.

8. Miscellaneous. Internal auditors can check to see that merchandise is priced accurately. Through infrequent visits the internal auditor may be able to give suggestions for improving store cash security.

The Physical Inventory

Primarily, internal auditors were introduced in the food industry to record physical inventories of individual stores and to verify cash reports.

Most food chains have experienced the era of laborious, time-consuming inventory procedures. Managers and district managers, with years of tenure in the food business, frequently mention the nights and week-ends spent in recording an inventory with pencil and paper. As stores and chains increased in size and volume, management recognized the need to employ full-time employees to record the physical inventories of stores on a more frequent and consistent basis.

New advances in tabulating equipment have mechanized the inventory process to a considerable extent. Frieden calculators with movable tables have greatly speeded up the process of recording the physical inventories in the stores.

Management soon found that the store auditors provided an excellent means for auditing cash, payrolls, and records while the physical inventory was being recorded. In addition to auditing, management soon added another important function and responsibility to the store auditors. Store auditors provided an excellent means of reporting follow-through on pricing and other company policies.

While the store auditors record the physical inventories, all shelf prices are checked for accuracy. The check of shelf prices has a two-fold purpose: (1) to discourage and prevent store managers and department managers from increasing prices to disguise faulty operations and (2) to reveal errors or mistakes in pricing or stamping in order that corrective action may be taken. Most food chains require errors in pricing be corrected before the internal auditors leave the store.

Some chains do not notify their store managers in advance of an inventory, but schedule visits on an infrequent basis. The chains that follow this procedure feel that the auditors are able to observe and record conditions that are typical for each store. Store auditors have also been assigned the responsibility of making infrequent checks in the stores to verify cash.



No attempt has been made to describe all of the detailed activities of the store auditors. Through the activities described, the reader can better understand some of the control techniques employed by management.

Cash Control

The construction of larger stores has brought about expanded sales volume and larger amounts of cash to be handled in each store. Extended store hours and a shorter employee work week have necessitated that more employees handle the cash in each store. As a result, management has had to employ procedures that will maintain the necessary cash control at the store level.

The cash register readings from which gross sales are determined provide the first element of cash control. By adjusting gross sales for voids, refunds, and cash adjustments, the net sales can be obtained. After the net sales have been determined, they must be accounted for either in cash, deposits, coupons, payouts, or accounts receivable. Since cash, deposits, coupons, payouts, and accounts receivable represent net sales, there must be some method of controlling each area to insure accurate records and balances. To achieve maximum control, responsibility for each of the elements must be assigned to the store manager, or an employee designated by him. The store manager is usually responsible for the over-all cash security of the store, but most operations permit the manager to delegate responsibility within the store for the security and control of cash.



Voids and Refunds. "Proper control of voids and refunds is essential, as any laxness in this area can lead to serious loss."⁴⁹ The manager, or someone designated by him, should approve all voids and refunds. The primary reason for approving voids and refunds is to reduce the opportunity for checkers to falsify refund and over-ring reports, since net sales are partially accounted for through void and refund reports. Unless a system of checks and controls is initiated at this point, cash shortages can be concealed by falsification of void and refund reports. Anyone other than the manager authorized to approve voids should not be allowed to operate a register. Proper control measures in the area of voids and refunds can help to eliminate loss from fraud, error, and carelessness or lack of system which can result in considerable financial loss.

Management must continue to develop methods which will enable the store manager to keep a better control of cash with the least amount of technical advice. The controls developed and given to the store manager must serve the control needs at the store level and still provide adequate information to management concerning cash security.

Close accounting of the funds is necessary to minimize mistakes and peculations in cash handling. Because cash is

⁴⁹Richard M. O'Keeffe, "Latest Techniques in Control of Store Cash," Fifth NAFC Controllers Conference, (May, 1955), p. 45.

the most vulnerable of assets, there must be air-tight protection over cash receipts.

Control forms are an important tool in the functioning of an accounting system. Well planned accounting forms will not only help in controlling cash but will serve as a basic accounting record and provide information management must have to run a business intelligently. Such information would include up-to-date sales records, information from which to predict future sales and budgets, and sales figures from which to declare estimated weekly profits.

Accounting Control. Data obtained from cost accounting records have aided management in interpreting business activities in such a manner that greater knowledge and control is available for all operations. Basically, cost accounting "deals with the processes of measuring, classifying, recording, reporting, and interpreting business cost in such a manner that unit cost of products or services may be obtained."⁵⁰ Through an analysis of various costs pertinent to a particular segment within a food chain, the well-trained executive can quickly reveal operating discrepancies.

By virtue of cost information in the hands of key executives, corrective action may be recommended immediately

⁵⁰Theodore Lang, Walter B. McFarland and Michael Schiff, Cost Accounting (New York: The Ronald Press Company, 1953), p. 5.



to save further unnecessary expense. To obtain any benefits from accounting data, management must be able to analyze and interpret factual data into a meaningful evaluation of operations. For example, the mere fact that the labor cost for X store is 9.5 per cent is of little value unless management can take this information and analyze the significance of this figure under existing conditions. As a result of an intelligent comparison of normal cost to existing cost, management can quickly recommend corrective action if necessary. Thus, top management is able to obtain the necessary control without detailed association with operational tasks of the business. The example previously cited is an extreme case but conveys the need for intelligent interpretation of factual data to obtain maximum control from management.

Other kinds of decisions arise in the operation of a food chain which call for other types of accounting information. These decisions or questions are essentially--What will happen to cost if methods of operation were changed in a certain way? The proposed change may be the addition of new equipment, the remodeling or closing of a store. In each case, management must choose between alternative courses of action. By comparison of present cost and profit to the expected results of each alternative, management can choose the course of action which promises to be most advantageous. With information obtained from accountants and controllers, management can hope to control the successful operation of the business through intelligent decisions.

Summary

As a result of voluminous and "far-flung" operations, management must rely more and more upon accounting and operating reports to obtain the necessary control of operations.

One area of control used by management is the internal audit team. A good internal audit department goes beyond the "counting of cans" and checking of cash and accounts. The audit team should inquire into the operating and accounting procedures as outlined through policies by top management. Through observations on inventory conditions (over or under stocks, obsolete merchandise, etc.), pricing and general store security by the internal auditor, management can obtain unbiased reports concerning the follow-through of company policy .

Extended store hours, shorter work week and increased store volume, have resulted in more employees handling the cash in each store. Because cash is the most vulnerable asset to fraud and dishonesty, management must maintain proper cash controls to prevent losses. A well planned control form will not only help in controlling cash but can also provide the basis for other pertinent information.

Through factual data obtained from accounting reports, management can make critical comparisons of specific operating cost so as to obtain a maximum of control within the business.

CHAPTER VII

LEASING OF REAL ESTATE AND EQUIPMENT

Introduction

The primary purpose of this chapter is to evaluate some of the factors to be considered before a decision is made to lease real estate and equipment. The information in this chapter is intended to give the reader a criterion for evaluating the relative advantages and disadvantages of this marketing tool, leasing.

For this study leasing is defined as ". . . an agreement between two contracting parties, whereby one party, the lessor, gives to another party, the lessee, the use of his property for a stipulated period of time on a rental basis. The title of the property remains with the lessor; use and possession pass to the lessee."⁵¹ The lessor's compensation, sometimes referred to as rent or fee may be either fixed or on a contingent basis. When the rent or fee is fixed, the lessee agrees to pay an annual rental or fixed monthly payments to the lessor.

One of the main reasons why the lessor chooses to rent on a contingent basis is the desire to obtain a higher rental

⁵¹W. Baynard Taylor, Financial Policies of Business Enterprise (second edition; New York: Appleton, Century, Crofts, Inc., 1956), p. 592.



figure than could be obtained from a fixed rental schedule. Also if there is uncertainty as to the value of the property to the lessee, the rental terms may be on a contingent basis. The contingent charge for real estate is usually based on a percentage of gross sales. In the case of equipment the rental charges are usually based on the volume of production, number of miles, etc., if there is no fixed charge.

Capital Factors Influencing the Decision to Lease

For purposes of this study, the definition of working capital as found in A Dictionary for Accountants will be used. Working capital is the "capital in current use in the operation of the business: the excess of current assets over current liabilities; net current assets."⁵² From this definition one can conclude that any capital that is circulating, or any current asset that is not fixed would be considered as working capital.⁵³

The amount of capital that is readily available for investment purposes will be an influencing factor affecting the decision to lease. "There must be an alternate opportunity to use money at an attractive profit return before a food chain should lease rather than own."⁵⁴ This may be a sound "rule of

⁵²Eric L. Kohler, A Dictionary for Accountants (New York: Prentice-Hall, Inc., 1952), s. v. "Working Capital".

⁵³For a more detailed study on working capital see F. W. Mueller, Jr., "Corporate Working Capital and Liquidity," The Journal of Business, Vol. XXVI, (July, 1953), pp. 157-172.

⁵⁴Theodore J. Whitacre, "The Financial Aspects of Owning vs. Leasing," Fifth NAFC Controllers Conference, (May, 1955), p. 9.



thumb" procedure but the capital which management can free by liquidating its investments in real estate and equipment and convert to working capital may aid the company in obtaining outside money for capital investment. ". . . The presence of ample working capital is likely to result in more advantageous interest rates because of better credit rating. Or . . . public issues will be more rapidly underwritten and purchased more widely when backed by a firm which enjoys the kind of credit rating that is possible if there is ample working capital."⁵⁵

Another valid reason for leasing is the need for increased return on the capital invested in the business. Leasing offers an opportunity to acquire the equivalent of investment capital at a fixed rate of return in the form of rent. If the business earns a higher rate of return than the rate charged by the lessor as rent, a higher net rate of return is earned by the business. However, if the business is able to acquire investment capital at a lower rate of interest than owners of real property charge for the use of the property, owning will be more economical and a better rate of return on working capital will be the result.

Some of the factors that management should carefully evaluate in order to intelligently answer the problems of leasing are:

⁵⁵ John W. Rollins, "Trend to Fleet Leasing," Harvard Business Review, Vol. XXXII, (July-August, 1954), p. 114.

I. Cost Considerations

- A. Will current operating cost be reduced?
 - 1. Office equipment
 - 2. Real estate
 - 3. Transportation or distribution facilities
- B. Are there tax advantages from income tax deductions, including additional deductions from accurate depreciation?
- C. Can depreciation be accurately reflected for real estate and various types of equipment?
- D. Can accounting cost and bookkeeping overhead be reduced?
- E. Can insurance cost be reduced?
- F. Can reductions be made in the "invisible" costs?
 - 1. Employee man-hours saved
 - 2. Accident reduction from use of new equipment properly maintained

II. Investment Considerations

- A. Will leasing be a sound source of working capital?
- B. Will there be more liquidity, greater financial flexibility?
- C. Will there be a better credit rating due to increase in ratio of current assets to current liabilities, thereby facilitating further financing and expansion?
- D. Will the profit return of working capital, obtained by liquidating investments in fixed assets, be greater than through ownership?⁵⁶

By answering these questions, management can reach a more orderly and intelligent decision on the question of leasing. Unique situations in each food chain requires further appraisal by top management before a decision to lease is reached.

Advantages of Leasing

"The lease permits a corporation to expand without burdening its financial structure or sinking its own capital

⁵⁶Rollins, loc. cit.



in fixed assets which may prove unprofitable."⁵⁷ Often times more profit can be realized if working capital is invested in a circulating asset rather than a fixed asset. For example, more gross profit and a higher rate of return might be obtained if capital was invested in inventories for new stores rather than in a fixed asset such as real estate.

One of the important advantages of leasing buildings and equipment is to liquidate capital that is invested in fixed assets. "One good source of interest-free working capital can sometimes be found right in the fixed asset side of the balance sheet by liquidating equipment and replacing it with leased facilities. Often in fact, the ratio of current assets to current liabilities will be two or three times greater as a result."⁵⁸ Many food chains have found that leasing real estate offers the greatest chance of expansion because less investment capital is required. The capital normally required to own the real estate can be used to stock and equip other stores if a lease agreement is used.

A recent survey conducted by Super Market Institute revealed that 74 per cent of the new super markets are leased, with the remaining 26 per cent owned by the chains themselves.⁵⁹

⁵⁷Taylor, loc. cit.

⁵⁸Rollins, op. cit., p. 113.

⁵⁹"Owning vs. Leasing," Facts About New Super Markets
Opened in 1954, (Chicago: Super Market Institute), p. 4.



These figures clearly indicate the acceptance of leasing real estate in the food industry.

Many corporations lease certain types of equipment to minimize the risk of ownership. Various types of equipment are subject to a greater risk of ownership because of losses incurred from rapid technological advances. Rather than absorb the loss on equipment that becomes obsolete before its mechanical life is used up, many chains have begun to lease rather than own certain types of equipment.

Financially, the leasing of tabulating equipment will not justify itself.⁶⁰ However, the rapidity with which certain pieces of tabulating equipment become obsolete due to technological advances, some form of insurance is necessary for the depreciation losses incurred from ownership. Leasing agreements place the risk of ownership with the lessor.

Invisible Costs. Through leasing arrangements some companies can reduce some of their "invisible costs". The term, "invisible cost" refers to the costs that are usually difficult to allocate to any particular subdivision of company activity. Included would be accounting and bookkeeping costs, unproductive man hours due to faulty equipment, etc.

Leasing agreements can reduce some of the accounting overhead within a company. For example, when a company operates its own fleet of trucks, they are usually conducting

⁶⁰Whitacre, op. cit., p. 10.



a transportation business within a business. This means that the accounts and records of the transportation department be carried twice, once for the entire operation and once for the transportation operation. When leasing, much of the transportation accounting overhead disappears. Under most leasing contracts, transportation costs are clear and conclusive thereby eliminating much of the record-keeping accompanied with ownership.

Disadvantages of Leasing

Regardless of the advantages of leasing agreements there are sound reasons why corporations choose to own real estate and equipment. Frequently, leasing may not be advantageous because of the availability of low interest investment capital. In some areas the real estate values and construction rates are relatively cheap. Because of this factor some chains prefer to own rather than to lease their real estate. Also the absence of interested lessors in certain areas may force food chains to own their own real estate. "The unavailability of the right leasing plan, adaptable to the company's particular problems, may make ownership the wiser course."⁶¹

Under the terms of many leasing contracts the lessor assumes the responsibility for the maintenance and repair of the leased property. Trucks, automobiles, and other types of equipment are frequently leased under a lessor maintenance

⁶¹Rollins, op. cit., p. 114.

contract. This type of contract tends to encourage abuses and wasteful tendencies from many lessee parties. As a result, the lessor must charge for the normal amount of abuses through increased rental charges. Unless some plan is devised to protect the careful user, he is penalized for the abuses of other reckless users. Without some form of compensation to the lessee that is a careful user, ownership of such equipment may prove more profitable.

Another disadvantage of leasing is the revised depreciation schedules on capital equipment in the tax law of 1954. The old schedules, figured on a fixed straight-line write-off each year of the depreciable life, did not recognize the fact that machinery and equipment lose their value fastest in the early years--the years of its greatest earning capacity. "The new law permits this straight-line depreciation but now offers several faster, graduated schedules which permit big depreciation in the early years and scaled down deductions as the term progresses. These new schedules now permit depreciation expenses every bit as advantageous as rental expenses charged under lease programs."⁶²

Many food chain operators prefer to own rather than lease because the user has no rights to the property after the

⁶²W. J. Rekstis, Jr., "Pay-As-You-Depreciate Is Superior to Leasing," The Commercial and Financial Chronicle, Vol. CLXXXIV (July 19, 1956), p. 282.



leasing agreement.⁶³ Some feel that true leasing is a form of long-term financing--with the disadvantage that the user has no rights to the property after the leasing period. Thus, after paying the equivalent of the purchase price, the lessee still does not own the property.

Some food chain operators prefer to own their own real estate to escape the long-term lease agreements now predominate in leasing contracts. Many operators do not want to risk high rental payments for such an extended period of time. Many favor the ten year lease period, but financial institutions are now requiring fifteen to twenty year leases.⁶⁴ A survey taken by Super Market Institute revealed that the typical lease for new super markets opened in 1956 extended over a twenty year period as compared to fifteen years in 1954 and 1955. One out of five new super markets paid rent amounting to more than one and one-half per cent of sales in 1955 and one out of three super markets paid rent amounting to one and one-half per cent of gross sales in 1956.⁶⁵

⁶³The writer is referring to a true lease--the long-term lease. This type of lease means that there is no purchase option, either written or implied. At the end of the lease period, the lessee has no rights whatever to the property. Types of leases that allow the lessee to take title to the property at the end of the rental period are not considered true leases.

⁶⁴Whitacre, op. cit., p. 27.

⁶⁵"1956's 'Typical' New Super 21,200 Square Feet," Progressive Grocer, (May, 1957), p. 74, citing 1956 Super Market Institute Survey.

Through the formation of separate realty subsidiaries, some food chains have financed their own real estate. Some of the reasons why food chains have organized separate realty subsidiaries are:

1. A chain is already in the real estate business to some extent through the negotiation of leases, etc. The formation of a separate realty subsidiary prevents confusion of the main interest of the business, selling, and merchandising.

2. Separate subsidiaries prevent the drawing of working capital from the merchandising operation.

3. In the long run a corporation will acquire substantial real estate equities as the mortgages are amortized through rental payments to the separate realty subsidiary.

4. Frequently lower rentals are obtainable through owned realty subsidiaries than through other lessors.

5. Some companies invest profit sharing and pension funds in the separate realty subsidiary. The separate subsidiary finances new store locations with these profit sharing and pension funds. As a result, the employees are part owners of many of the buildings in which they work. Thus the employees tend to cooperate more in the care and maintenance of the real estate.

6. Some executives feel that the realty corporation⁶⁶

⁶⁶Most realty subsidiaries are owned or controlled by the parent company, but are incorporated and issue separate financial reports.



can obtain maximum mortgage loans from insurance companies or other mortgage finance institutions.⁶⁷

For these reasons many food chains have increased their ownership equity in real estate properties through rental payments to a separate realty corporation that is owner or controlled by the parent company.

Conclusion

That the prospective buyer will examine comparative cost of purchasing versus leasing in relation to his special circumstances is greatly to be desired. Furthermore, before reaching a conclusion, the buyer preferably should have determined that there is a need in his particular case for the many extra services and other privileges available under leasing, because all these factors are reflected in the rental schedule if it is actuarial valid.

Another note of caution is sounded lest the buyer pay a premium for insurance against uncertainties which either may be remote in his case, or may be faced more economically by accepting them through outright purchase than by hedging unnecessarily through a lease, or may be resolved entirely if the buyer makes an honest effort to understand them. The buyer misuses the lease in those cases where necessary analysis and decision are conveniently shirked or postponed by seeking escape through the adoption of the lease.⁶⁸

⁶⁷"To Own Or To Rent," Chain Store Age, Vol. XXXII, (July, 1956), p. 448.

⁶⁸Russell B. McNeill, "The Lease As A Marketing Tool," Harvard Business Review, Vol. XXII, (Summer, 1944), p. 430.



SECTION II

MERCHANDISING AND SALES PROMOTION POLICIES



CHAPTER VIII

OPERATING POLICIES

Introduction

"An important element in effective consumer relations is the intelligent interpretation of sound policies by retail store management."¹ The formulation of policies is vital in the planning of work for specific areas in a food chain organization. An organization may realize success over a short period of time without the formulation of policies, but for long range success, management must initiate policies that will build a consistent personality for the company.

What Is A Policy?

A policy is "a systematized course of action that can be applied to a given problem or group of problems"² and can either be written or implied.³ Policies enable the executive team to control and direct the activities of the organization in order to achieve the planned objective of the company.

An important function of policies within an organization is to give uniformity of operating procedures throughout an

¹Wenzil K. Dolva and Donald K. Beckley, The Retailer (New York: Prentice-Hall, Inc., 1950), p. 280.

²Fred Hooson, "You Cannot Escape Store Policy," Journal of Retailing, Vol. XXIV, No. 2, (April, 1948), p. 77.

³Paul H. Nystrom, Fashion Merchandising (New York: The Ronald Press Company, 1932), pp. 195-196.



entire company. Through the initiation of policies, management can give the employees a basis from which to make decisions about the work situation. For example, management may establish the limits in which a work situation may be executed. Thus, management is able to obtain a considerable degree of uniformity throughout the entire operation.

Rules vs. Policies

To clarify terms, a distinction should be made between rules and policies. A rule prescribes a definite solution or course of action in a given situation. "A rule tells exactly what to do or what not to do. In contrast a policy is relatively broad in scope and indicates the areas in which the activity should be carried out."⁴ For example, the rule that no produce will be bought at the store level from outside vendors provides only one course of action, namely that produce will be ordered through the distribution center only. Whereas, a policy would not determine the precise solution.

If the preceding rule was converted to a policy, the statement might read as follows: Produce will be ordered through the distribution center, however, if local conditions are such that home-grown produce will equal or excel the quality and freshness standards of the company, then local purchases may be made upon the approval of the store manager. Local purchases must be sold at a price in accordance with competitive price

⁴G. R. Terry, Principles of Management (Homewood, Illinois: Richard D. Irwin, Inc., 1956), p. 171.



levels and yet return at least the average mark up of the produce department. Local purchases may be merchandised for extra profit if the selling price does not exceed competitive price levels.

Management frequently initiates rules, yet calls them policies. There is an important psychological reason why specific rules are often referred to as policies. Rules seem to infer what people "can not do". There is usually a negative approach associated with rules. However, the same rule can be labeled a policy and avoid some of the negative reaction. For example, a company policy on check cashing may be stated as follows: According to company policy, personal checks in excess of fifty dollars shall not be cashed. (From the previous definition, the preceeding statement is actually a rule, not a policy). However, by labeling the previous rule as a policy management is able to avoid some of the negative approach of the following statement. X Company - Rule Number 42: Do not cash personal checks in excess of fifty dollars.

The Relationship Between Operating Policies and The Clientele Of The Shopping Area

In large market areas a super market can not expect to appeal to all of the buying public. Differences of nationalities, religions, and income brackets create various segments within the food buying public. Management must select a segment or segments of the food market, analyze their shopping



habits, and initiate operating policies that will enable the organization to better serve the consumers to whom the selling efforts are directed.

Management will need to know the shopping habits of the clientele of the market area then develop policies in accordance with the characteristics of the consumers in the shopping area. A national chain with wide distribution can obtain uniformity of store appearance, standards, and work methods and still have enough flexibility in policies to adjust to local conditions. For example, a super market located in a high income suburban development area would operate differently than a super market located in a rural community. Policies affecting quality, variety, service, and price would be different even though both super markets belonged to the same chain.

Operating Policy Areas

Broadly speaking, food store operating policies would relate to the following areas:

1. The quality of merchandise to be sold.
2. The extent of variety and assortment within the retail store.
3. The importance of freshness within the retail unit.
4. Friendliness.
5. Cleanliness.
6. The amount of service offered to the consumer.
7. The importance of honesty and fair dealings with the customers.

8. Internal and external appearance of the store.
9. The emphasis placed upon price.

Quality - One of the most important areas in any operating policy is that of quality. Policies affecting the quality of merchandise to be stocked are a determining factor in developing a store personality. Management must evaluate the habits of the clientele in the shopping area and adopt policies consistent with the desires of the people to be served.

To operate successfully a food chain can not establish a policy affecting quality without regard for the clientele to be served. One exception, however, is when a retail outlet follows a given policy in all of their locations. For example, Robert Hall Clothing Stores do not alter their policies affecting quality in any of their locations. The policies of this company are designed to serve a particular consumer group for all of their locations.

Many food chains are flexible in that the same quality standards are not maintained for different geographical locations. Other chains are consistent in their quality standards and attempt to locate in areas where there is sufficient acceptance from a particular segment of the market. Chains following both policies have continued to operate successfully.

Variety - Policies affecting variety are closely connected with those of quality. For example, the customers attracted from a policy to carry only top quality merchandise would probably demand complete variety also.

Policies affecting variety are initiated to meet the desires of the clientele to be served and also to guide the action of buyers within the organization. Thus, we say that operating policies affect both internal and external (the employees and the consumers) relationships. A policy affecting variety becomes an important nucleus around which a store personality develops. At the same time such a policy serves as a basis for the employees to make decisions about the work situation.

Freshness - "In and of itself, a policy possesses no force to produce results."⁶ Policies directed at maintaining high standards of freshness are only as effective as the follow-through procedures of management. Why do some food stores appear to have high standards of freshness while other markets are only mediocre in freshness standards. The answer lies not in the lack of policies, but the extent to which they are enforced.

Any food store operator realizes the importance of maintaining fresh products at all times. However, the lack of enforcement from top management reduces the effectiveness of existing policies on freshness.

Another important phase concerning freshness policies is the standards required of suppliers. Many food chains will not accept perishable products regardless of price concessions, unless certain freshness standards are maintained. Some food

⁶Terry, op. cit., p. 183.



organizations will lower their freshness standards to purchase merchandise at a discount. Buyers of food chains should always consider company policies on freshness when contemplating special purchases from over-loaded suppliers.

Friendliness - The effectiveness of policies concerned with friendliness toward the customers are primarily a matter of the degree to which they are emphasized.

Management is quick to realize the benefit of maintaining friendly relations with the customers. However, friendly relations are not maintained merely by the initiation of a policy. Meetings, contests, reminders, bulletins, and pamphlets are a few of the ways in which management can emphasize the importance of maintaining friendly relations with the customers. Two of the best ways that management can facilitate friendliness is to be selective in recruiting procedures and give the employees good working conditions.

Cleanliness - Another important operating policy in retail food stores is that of cleanliness. If management has demonstrated through the formation of policies that cleanliness is an essential feature of food store operation, then standards must be developed to stress the importance of this area. For example, a policy or rule affecting cleanliness could specify that, (1) windows be washed once a week, (2) floors be cleaned and waxed twice a month, (3) refrigerated cases washed once a week, etc.



Management can stress the importance of cleanliness through clean-up contests, infrequent cleanliness inspections, and comments during store visits concerning cleanliness.

Service to the Customer - Management must decide upon the extent of service to be offered to the customer. Additional customer services are becoming more predominate in food retailing. Management must evaluate the cost of these additional services with regard to such factors as (1) attraction of customers, (2) retention of old customers, (3) additional mark-up required to pay for the new services or, (4) loss in net profit to administer extra services.

Not only must management be concerned with new customer services, but other factors such as (1) easy-to-reach shelves, (2) easy-to-read prices, (3) speed and accuracy of check-out operation, (4) uncluttered aisles, etc. must be considered in policy formulation.

Honest and Fair Dealings - Management must convey the importance of honesty and fair dealings with the customer through the initiation of strict policies. The employees must realize that the customers are to receive every ounce that they pay for. In the quest for additional profit, management sometimes fails to emphasize that every dollar must be an honest dollar.

Weak employees will sometimes resort to dishonest tactics in an effort to maintain profit margins. Management must be firm in insisting that the customer (receive sixteen ounces in every pound".



Internal and External Appearance of the Store - Management is able to obtain a great deal of uniformity among stores by developing policies concerned with the internal and external appearances of the stores. Because of different sizes, locations and ages of store buildings, all features can not be uniform in appearance. However, a store personality can be developed through the formulation of policies affecting such factors as: (1) use of window signs, (2) display procedures, both inside and outside, and (3) standard procedure of product groupings. These are a few of the ways in which management can establish a uniform store personality through policies.

Price - "Determining the price at which the product or products are sold is one of the most significant policy-making functions. Price affects the gross and net income, customer relationships, public relations, sales, stability of employment, and the competitive position of the company."⁷

Numerous price questions must receive consideration in policy formulation, some of them are:

1. Determination of a pricing policy during a period of advancing or declining prices.
2. A decision on the question of underselling competition and on the wisdom of adopting a "we shall never be knowingly under sold" policy.
3. The number of price lines to be carried.

⁷ R. N. Owens, Introduction to Business Policy (Homewood, Illinois: Richard D. Irwin, Inc., 1956), p. 171.



4. The relationship between prices on comparable merchandise in the various units operated.

5. The effect of competition on internal pricing policies.

The answers to the above questions must be solved through the formulation of policies best suited for the operational needs of the company. One organization can not hope to successfully follow the pricing policy of another company because of the difference in the cost of operation, marketing channels, organizational structure, and other operating factors.

Granted, competition is an important factor to consider in setting prices, but competition should not determine the internal pricing structure.

Conclusion

Effective operating policies can serve as a basis for answering many problems within an organization. The proof of an effective operating policy is in the desirable results obtained through actual performance.

Management must develop policies that will direct the efforts of the organization to serve the needs of the customers. In formulating policies, management must ask the question, "does the policy help the manager to perform his job, or does the use of the policy result in confusion, aimless wondering, and futility?"⁸

⁸Terry, loc. cit.



With the passage of time a policy may become outmoded, in that the policy no longer accomplishes the intended purpose. A periodic appraisal of policies in view of the original objectives may necessitate the abandonment or modification of the policy to better serve the current needs of an organization.



CHAPTER IX

FUNCTIONS OF THE MERCHANDISE MANAGER

Introduction

The growth and expansion characteristic of many food chains have necessitated the addition of an executive to handle many of the added responsibilities. As the chains grew larger a need developed to have an executive to coordinate and supervise the merchandising operation. The name given to the executive holding this position was merchandise manager.

Because of the differing concepts and functions of the merchandise manager within different organizations, the writer will relay the specific functions and responsibilities of the merchandise manager as outlined by the Kroger Company. These are :

1. The merchandise manager is responsible to the divisional vice president for maximum sales and gross profit consistent with sound merchandising practices.
2. The merchandise manager coordinates and augments the functions of the grocery sales manager, meat sales manager, produce sales manager, advertising sales promotion manager, and traffic manager.



3. The merchandise manager is responsible to the division vice president for the continuous development of long range merchandising programs, as well as immediate or short range plans.

4. The merchandise manager is responsible to the divisional vice president for a continuous program to improve the caliber of the merchandising organization. He also aids and counsels in the selection of new personnel for the merchandising department with the thought in mind of selecting people who have top level management potential. Other responsibilities in this area would be to aid and counsel in the improvement of existing personnel.

5. Of importance, is the responsibility to the divisional vice president for supplementing and coordinating the efforts of all merchandising members to further the reputation and acceptance of the company in existing trade areas. One of the prime responsibilities is to implant the thought in the customer's mind that the company name is synonymous with value and fair treatment.

6. Another important function of the merchandise manager is to anticipate new trends in merchandising in hopes of giving the company a competitive advantage.

7. The responsibility of developing "firsts" to the customers, such as: passing on market breaks of worthwhile commodities quickly, more items that register value with the customer, and special customer services and extra conveniences.

8. The coordination of regular weekly merchandise meetings, period meetings, special "sales event" meetings, and emergency merchandising meetings is an important function of the merchandise manager.

9. The responsibility for coordination of tests on special and new items or ideas, such as: outside bakery products, soft goods, hardware and vending machines is vested with the merchandise manager.

10. The merchandise manager is responsible to the divisional vice president to initiate quick action in order to reverse unsatisfactory sales or profit trends. The merchandise manager must also have the ability to coordinate promotional plans for problem stores, remodeled stores, or new stores.

11. The merchandise manager is also responsible to the division vice president for channeling general information important to the over-all business through proper channels. Some important areas would include: (1) public relations information, (2) possible new store locations, (3) information concerning unusual competitive activity, (4) new competition, and (5) stamp plan acceptance.

12. The responsibility for close coordination of purchasing and selling effort is also an important function of the merchandising manager. As available space in stores and warehouses shrink due to the tremendous increase of new items, this responsibility becomes increasingly important. High



interest rates and the lack of space are two factors that are forcing food chains to keep inventories at a minimum. The merchandise manager is responsible for both the buying and the selling functions. Since the people performing these two functions report to the merchandise manager, their activities can be directed in a more organized manner.⁹

Conclusion

The specific duties and functions of the merchandise manager will vary in accordance with the needs of a food chain. Organizational charts of various food chains reveal that the merchandise manager usually reports directly to the top executive of the distribution office, who is the divisional vice president, branch manager, divisional manager, etc.

The functions of the merchandise manager goes beyond that of planning and coordinating. His effort must be directed also at communicating the results of plans as they affect personnel in the follow-through or action phase of the operation. The merchandise manager's function as the coordinator is not only in the planning stage, but also by the nature of communication in setting the plan into action.

The above description of the functions and responsibilities of the merchandise manager are not inclusive for any one company or the food chains. Since the position of merchandise

⁹C. Olaf Talla, Vice-President, Detroit Division, The Kroger Company, "Merchandise Manager's Responsibilities," (Personal Correspondence).



manager is relatively new among the food chains, some companies have not outlined his specific functions. Rather, many of the functions and responsibilities attached to the job are in a direct relationship with the ability and capacities of the individual. The executive position of the merchandise manager is becoming even more important as chains increase in size and volume. The executive in this position must be able to coordinate various activities to increase the efficiency of the organization. Above all, this executive must have an intimate knowledge of those activities for which he is responsible.



CHAPTER X

FUNCTIONS OF THE SALES PROMOTION MANAGER

Introduction

According to John Aspley there are two main operating divisions in retailing, they are: (1) sales planning and administration, and (2) sales promotion and advertising.¹⁰ "While the two divisions are closely interwoven, they call for different aptitudes, techniques, and experiences. The executive responsible for sales may, and usually does, delegate the advertising and sales promotional operations to others skilled in the use of those techniques."¹¹

The sales promotion manager is a coordinator of the advertising, merchandising, and selling operations. Because of this duty the sales promotion department is usually recognized as one of the more important segments in food retailing. A definition of this broad term, sales promotion, may aid in a better understanding of the importance and responsibilities of this department. Sales promotion has been defined by the American Marketing Association as "Those sales activities that

¹⁰John Cameron Aspley, The Sales Promotion Handbook (Chicago: The Dartnell Corporation, 1955), p.1.

¹¹Ibid.

supplement both personal selling and advertising, coordinate them and help to make them more effective."¹²

Some people do not think of sales promotion as an effort to develop an effective selling program on a continuing basis. When the term sales promotion is mentioned, some people automatically think of a single sales campaign. Granted, sales promotion embraces the activity of developing periodical sales campaigns. However, the sales promotion department is also concerned with improving and assisting the selling program on a day-to-day basis.

Kroger's Philosophy of Sales Promotion

"One of the outstanding sales promotional activities is that of Kroger Company, operating a national chain of food stores."¹³ The Kroger Company supplies to every employee in upper management a pocket card which sums up the company's philosophy of sales promotion. The cards reads as follows:

1. Create the value.
2. Plan distribution so the product is a value at the point of sale and at the point of use.
3. Present the value to the organization and to the customer.
4. Follow through to maintain the value at point of sale and point of use to continue successful sales.¹⁴

An important phase of this philosophy of sales promotion is that of selling the value to the organization. Concerning

¹²"Report of the Definitions Committee," op. cit., p. 214.

¹³Aspley, op. cit., p. 32.

¹⁴Ibid., p. 33.

this factor, Steven A. Douglas, Director of Sales Promotion for the Kroger Company says:

We think of sales promotion as a concept rather than a department of the business. We sell everyone on our company, its policies, and its products just as hard as we can, and usually before we sell the consumer. We never expect any employee to promote or sell anything by instruction or direction. We sell the employee on the idea first, and arouse his enthusiastic desire to in turn sell 'Mrs. Smith', as we refer to the customers in all our promotions. This 'sell the man who sells the customer' idea is carried through all our promotions. Ours is a highly competitive industry and we believe that our success during the coming years will require the same accent on real value, well distributed and with careful follow-through, that successful selling has always required, only more of it.¹⁵

Importance of Sales Promotion Department

Pinpointing the exact functions of the sales promotion department is difficult because of the differing management concepts as to its purpose.

Sales promotion steps in to utilize advertising, to condition the sales force, to inspire and inform the distributor, the retailer, and the consumer. The final step is to create the right atmosphere at the point of sale; and the clincher is to get the consumer to open his wallet and buy. The anti-climax is to be sure the consumer stays sold and becomes a booster for your product long after he made his purchase.¹⁶

In the sales promotion department of companies the specific functions of the sales promotion manager may vary. However, the United States Employment Service gave the following job description of a sales promotion manager.

¹⁵Statement by Steven A. Douglas, Aspley, loc. cit.

¹⁶"Sales Promotion Defined," Printer's Ink, (January 28, 1955), p. 77.

Sales Promotion Specialists (56.4.20)

Sale promotion specialists plan and direct sales, that is they predetermine the sales effort needed and control the sales effort during the course of the operations. They also control advertising campaigns and expenditures. The best kind of formal training for specialists in this field appears still to be the subject of some doubt. It is clear, however, that special knowledge of advertising, marketing, programing, and scheduling, together with detailed familiarity with the particular product is required.¹⁷

Sales promotion is any or all of the following component parts.

Sales letters	Bag stuffers	Testing selling themes
Inquiry answering letters	Catalog savers	Store demonstrations
Follow-up letters or post cards	Catalog sheets	Store displays
Direct mail	Mats <u>for</u> advertising	Other types of advertising, both in store and by other media
Slide films	Radio Commercials	
Visual presentations	T.V. Commercials	
Distributor promotion	Consumer direct mail	
Sales organizers	Packaging	
Product evaluator charts	Market research ¹⁸	

Sales Promotion Planning

Such a broad listing indicates the many variables that can be included in a sales promotion program. Regardless of the various jobs included in this department, there are ten basic steps to be followed in sales promotion planning.

¹⁷Reprinted in Aspley, op. cit., p. 56.

¹⁸"Sales Promotion is a Management Problem," Printer's Ink, (January 28, 1955), p. 73.



1. Definition of the problem and establishment of specific objectives to be realized.
2. Review of past experience.
3. Setting up the necessary budget.
4. Development of basic promotional idea.
5. Review of available media and application of basic promotional idea.
6. Assignment of basic responsibilities.
7. Schedule of follow ups.
8. Progress reviews.
9. Final review and presentation of the finished plan.
10. Review and write up the results after the event.¹⁹
The follow-through on this step is important to serve as a guide for future promotions/.

Sales Promotion Organization

The organizational structure of the sales promotion department is usually determined by the size and the way in which a company distributes its products. Thus, a local or regional chain operating from one office or distribution center would require a different sales promotion setup than larger food chains such as A & P, Safeway, and Kroger.

"A study of sales promotional organization of several hundred companies in various industries shows two different approaches. One group centralizes all sales promotional activities in a home office organization, responsible for planning, production and the execution of all undertakings of a promotional nature. Others decentralize sales promotion so far as planning and execution are concerned but centralize production."²⁰ Where a company operates several

¹⁹C. M. Edwards and W. H. Howard, Retail Advertising and Sales Promotion (New York: Prentice-Hall, Inc., 1946), pp. 489-493.

²⁰Aspley, op. cit., p. 53.

regions, divisions, or branches each unit may develop its own sales promotion department to best serve the needs of the market and yet receive suggestions and other services from the central office.

Each super market operator is striving to obtain a greater proportion of the food dollar spent in his trading area. The problem of determining the exact point at which the right amount of quality in the product, coupled with the right price to return the highest net profit is in part performed by the sales promotion department. One of the functions of the sales promotion department is to interpret and transfer to management the buying habits of the consumer. "Present retail sales promotions are based on two objectives-- (1) to reach a larger market, and (2) to cultivate those markets more aggressively."²¹

Sales Promotion and Merchandising Policies

Intelligent promotion begins with a thorough analysis of basic merchandising appeals and objectives of the particular food store organization. For example, the general character of the organization determines the type of advertising used. While an aggressive organization favors sensational and highly promotional types of advertising, a well established retailer may utilize a more conservative type of advertising.

²¹ Edwards and Howard, op. cit., p. 480.

"Various kinds of sales research yield information pertinent to promotion planning. Advertising effort is most effective when used to announce and feature wanted merchandise that sells readily. Maintenance of a best-seller list reveals goods that warrant special promotions."²² In return, the buyers need to have a knowledge of items that are not moving satisfactorily. Thus, the slow moving merchandise can be reduced quickly to make room for faster moving items.

A thorough analysis of the market area gives the sales promotion manager a better knowledge of who the customers are, where they live, and their shopping habits. "In recent years, chain store organizations have shown increased interest in the buying pattern of individual customers and customer groups. Studies of this kind often show, for example, that many of the stores' customers are patronizing certain departments regularly, yet they seldom buy from the others. Of course, no organization can hope to completely 'tie up' the trade of all who buy from it. Nevertheless, analysis of this nature is valuable, for it does uncover many unnecessary weaknesses and many promotion opportunities."²³

²²Paul L. Brown, Retailing Principles and Practices (New York: The Ronald Press Company, 1953), p. 467.

²³Donald P. Blankertz, "Mr. Retailer, What Do You Know About Your Customers?", Journal of Retailing, (1950), p. 28.

Obviously, in today's economy, advertising has become an integral part of food chain merchandising. This has been due to a number of factors; partly to the evolution of the chains themselves, and partly also to the growth of the science of advertising. The increased amount of competition has also spurred a rapid growth in the use of various types of advertising media as a promotional tool.

The newspaper has continued to be the number one advertising medium to coordinate the merchandising and selling activities of food chains. Other important advertising media would include radio, television, direct mail, hand bills, outdoor advertising, and other miscellaneous types of advertising.

Conclusion

Whether the promotional activity is centralized or decentralized, the success of the sales promotion department depends upon the man who heads the activity. The sales promotion manager is the coordinator as well as the promoter of everything between all phases of top management on one hand, and selling to the ultimate consumer on the other hand. The sales promotion manager must be the type of man who combines these qualities:

1. Personal sales ability and sales experience.
2. A broad background in the use of advertising and promotion techniques.
3. A vigorous, aggressive mind that thinks constantly in terms of how the company can make more sales.
4. The common-sense approach that the increased sale must be made at a profit.²⁴

²⁴Statement by Philip S. Salisbury, Editor of Sales Management magazine, Reprinted in Aspley, op. cit., p. 56.

CHAPTER XI

THE USE OF NEWSPAPERS IN SALES PROMOTION

Introduction

Tabulations from Printer's Ink reveal that newspapers continued to receive the greatest percentage of the advertising dollar in 1956. Advertisers spent a total of 3 3/4 billion dollars for newspaper advertising which represented one-third of the total advertising expenditure in 1956.²⁵

The importance of the newspaper as an advertising medium for food retailers is evidenced by the percentage of the advertising budget devoted to newspaper advertising. Super markets have continued to appropriate the greatest percentage of their advertising budget for this medium. Thus far the newspaper has offered the super market one of the best means of telling customers what is on sale, informing customers of new products and also of building the prestige and reputation of the company itself.

The super market industry recognizes today more than ever, the need for an adequate advertising program to present a selling message to the consuming public. The food industry is aware of the contributions of advertising to the mass merchandising plans in effect throughout the food chains.

²⁵"Advertising's Biggest Year Ever," Printer's Ink, (February 8, 1957), p. 22.

Now the super market operator is searching for new ways and methods to indentify and distinguish his stores. Every operator wants to emphasize new points of service and unique features that give his operation a mark of individuality, so he may be set apart from his competitors in the community or trading area in some way.

Why Use The Newspaper?

"Of the homes in the United States, 93 per cent are reached by the circulation of the newspaper."²⁶ This helps to explain in part why super markets utilize newspaper advertising to such a great extent. Almost every family buys or sees at least one newspaper a day.

Another important reason why the food industry chooses to utilize the newspaper to such a great extent is the comparative cost of distributing the selling message to the consumer. However, the economical advantage of the newspaper depends upon factors other than the cost of advertising space.

Cost per Reader

"The newspaper reaches the public at a lower cost to the advertiser per individual than does any other medium. However, every newspaper has a certain amount of circulation in areas so remote from trading centers that its advertising is of little or no value to the retailer."²⁷

²⁶Edwards and Howard, op. cit., p. 385.

²⁷Ibid., pp. 387, 392.

Waste circulation is a factor that must be given serious consideration when comparing the cost per reader with other types of advertising media. The newspaper may prove to be most economical for some food store operators and very costly for others because of waste circulation. To the super market operator who must depend upon the accessibility of his store to the circulation of the newspaper for the results the advertising produces, waste circulation is a factor of great importance.

Newspaper advertising rates are based on total circulation. Because of this fact many small food retailers can not afford to advertise in the newspaper. For example, a super market or superette located in one section of a large city may have a very small trading area. In such an instance only ten to fifteen per cent of the newspaper's total circulation may be distributed in the trading area of the store. Since the advertising rates are based on total circulation, the cost per reader within the trading area of the store is very high.

To offset this disadvantage, smaller food retailers have joined together in cooperative advertising groups. In a cooperative advertising program, smaller food retailers located in non-competing trading areas have been able to reduce the advertising cost per reader.

Smaller retailers have also cooperated in establishing advertising media known as shopping publications where

newspaper circulations have been wastefully large. Shopping publications can either be owned by the merchants or by an independent publisher who sells space to the retailers. Direct mail and hand bills have been two other ways that small food retailers have reduced the advertising cost per reader in their trading area.

Two methods have been devised for comparing the cost per reader for various newspapers. One method is known as the milline rate. "The milline rate is the rate per line per million of total circulation, or the cost of reaching one million readers with one line of advertising."²⁸ This rate is determined by multiplying the rate per line by one million and dividing the result by the circulation. For example, a newspaper having a rate of 25 cents per line and 200,000 circulation, has a milline rate of \$1.25, which is arrived at by the following equation:

$$\frac{.25 \text{ (line rate)} \times 1,000,000}{200,000 \text{ (circulation)}} = \$1.25 \text{ milline rate}$$

Recently local advertisers found the milline rate did not give the true cost of distributing the selling message to the potential customers within the store's trading area. As a result, another common denominator known as the tru-line rate was introduced to measure the cost of distributing the

²⁸ Edwards and Howard, op. cit., p. 396.

selling message to the readers within the trading area. "The tru-line rate is the rate per line per million of circulation within the trading area."²⁹ This rate is determined by multiplying the rate per line by one million and dividing the result by the circulation of the paper within the trading area while the milline rate is the rate per million of total circulation. If a newspaper has 100 per cent of its circulation in the trading area, its tru-line rate is the same as the milline rate. However, a newspaper with such a circulation is rare, indeed. For example, a newspaper with a circulation of 250,000 may have only 200,000 of that circulation within the trading area. In such an instance the tru-line rate would be \$1.25 assuming a rate of 25 cents per line. The following equation will describe how the tru-line rate was arrived at.

$$\frac{.25 \text{ (line rate)} \times 1,000,000}{250,000 \text{ (circulation)} - 50,000 \text{ (circulation outside trading area)}} = \$1.25$$

Both the tru-line and milline rates should be considered by management when comparing the readership costs of various newspapers.

Advertising Cost Trends in Newspapers

Management should consider cost trends in determining their advertising appropriations for newspapers and other media. Under present economic conditions, advertising budgets

²⁹Ibid.

will have to be increased if an organization plans to use the same amount of space as in the previous year.

Newspaper advertising rates are going up, reflecting cost increases in newspaper production. At the same time, newspaper audiences have not been increasing as fast as the advertising rates. The result--the advertising cost per reader in newspapers has been increasing. "For every \$100 invested in newspapers in 1950, advertisers in 1956 have to spend \$128 to buy a schedule equal to the 1950 purchase. For this additional cost of 28 per cent the advertiser gets an audience that is six per cent larger than the one available to him in 1950. An obvious increase in cost."³⁰

Progress of Newspaper Advertising for Food Stores

"Food advertising is the most thoroughly criticized advertising in the world."³¹ Outside experts are quick to criticize food advertising and claim the ads are devoid of every idea except price. In part these criticisms are true because many advertising departments fail to establish any impression other than price through a newspaper ad. Analyses of super market advertising will quickly reveal the dominance of price advertising in the food industry. Why has this

³⁰"Advertising Cost Trends in 8 Major Media," Printer's Ink Advertisers' Guide to Marketing for 1957, (August 24, 1956), p. 48.

³¹William J. Quinn, "Advertising in Action," Summary Report NAFC Management Clinic, Sales Promotion and Advertising, (January, 1955), p. 42.

approach been used when "Many research surveys clearly prove the customers do not remember over twenty prices."³² Observations of one marketing study conducted on newspaper readership and recall reveals that readers remember less than five prices from a newspaper advertisement.³³ An impression can be established in the reader's mind much easier with an idea than with all the price advertising one can do. The first answer in reply to the previous statement is that price ads have been used successfully for over 50 years. Perhaps one of the hardest things to do is "argue with success".

To express the pros and cons of price advertising would necessitate a voluminous publication. "There are some advertising men who say, and with truth, that price advertising is bad only when it is disorderly and ads nothing to the customer's knowledge. To be effective price advertising should be read easily. Prices should be clearly seen, be newsworthy and make the over-all ad attractive."³⁴

Included in the twenty largest retail outlets in the United States are nine food chains. Three food chain organizations are among the top five merchandising firms. "The

³²Ibid., p. 42.

³³For competitive reasons the source of this marketing study wishes to remain anonymous.

³⁴"Price Copy Needn't be Ugly," Super Market Merchandising, (February, 1956), p. 85.



food chains are rapidly becoming the world's largest advertisers."³⁵ The food chains may not be the world's best advertisers but the growth and the sales records of many food chain organizations speak for themselves.

Purposes of Food Chain Advertising

Food chain advertisers strive to accomplish several purposes in their advertising program. Some of the purposes of an advertising program would include: (1) to attract new customers to the store, (2) to re-sell the old customers, (3) to increase the purchases of each customer, (4) to establish the name of the company among the consumers, (5) to establish a company reputation that will be synonymous with quality, variety, friendliness, value, etc. This can be accomplished in part by institutional advertising.

One of the first purposes of any food store advertising program is to draw customer traffic. Many different copy approaches can be taken to accomplish this goal. If the purpose of a newspaper ad is to draw customer traffic, the layout and plans should be carefully checked to see if the ad will achieve the desired results. If price appeal is used to draw customer traffic, the right product must be coupled with the right amount of quality at the right time with the right amount of quantity.

Many food chains recognize the needs for appeals other than price in the advertising program to attract consumers.

³⁵Quinn, loc. cit.

Price is not forgotten nor is it over-emphasized. The many surveys that place price appeal in fifth or sixth place have not convinced advertising managers to forget price appeal in advertising promotions.

A & P Study

Do families exposed to newspaper advertising patronize grocery stores in greater proportion than families not so exposed? The answer to this question has been of great concern to many food store operators. The A & P food chain in association with the research department of Richmond, Virginia Newspapers, Inc. conducted a six month experiment seeking to determine if families exposed to newspaper advertising patronize grocery stores in greater proportion than families not so exposed.

The sales experiment in food stores advertising was conducted for a period of six months. During this time, A & P eliminated its usual page of advertising in the Richmond Times-Dispatch, a morning newspaper, and concentrated the advertising program in the Richmond News Leader, an evening newspaper.

After the advertising program had been concentrated in the evening papers for six months, survey families were selected in sets of three, and one set per block, in random blocks throughout the city. Each of the sets met two basic requirements: "(1) In each set, at least one but not all families patronized A & P; (2) in each set, at least one but not all families, subscribed to the morning newspaper only."³⁶

³⁶"A & P Study Proves Ads in Dailies Win Patrons," Editor and Publisher, (December 12, 1953), p. 13.



Altogether, a total of 116 sets of families with the above requirements were chosen. (Remember, each set included three families). In each set family location and presumably income were the same. Thus the research department concluded any differences in A & P patronage within the group would reflect primarily the effects of the newspaper advertising.

Interviews revealed that 65 per cent of the families that subscribed to only the evening newspaper were A & P patrons. Fifty one per cent of subscribers to both the evening and morning newspapers patronized A & P. Of the families that subscribed only to the morning newspaper, 19 per cent patronized A & P. (Remember that the morning or control paper did not have any A & P advertising during the six month period). The statistical odds of picking a sample with so low a percentage of A & P patrons among "morning only" subscribers and so high a percentage among "evening only" subscribers was 20,283 to one.³⁷

The research conducted revealed the following conclusion of a positive nature: "There were more than three times as many A & P patrons among families exposed to newspaper advertising of that firm than among families who, for a period of six months, had not been exposed to such advertising."³⁸

Institutional Advertising

In recent years institutional advertising in the food

³⁷Figures from Ibid.

³⁸Ibid.

industry has been utilized to a much greater extent. Such food chains as Wrigleys, Jewel Tea, Alpha Beta, and Bettendorfs are only a few of the many food retailers that have shown progress in the field of institutional advertising. The basic philosophy in this type of advertising program is to break away from price lines and sell the customers on a service, idea, or build a reputation for the company or store. Institutional advertising has been an important means of relaying to the consumer some of the customer conveniences in the store.

Mr. Ervin Levinson, Advertising and Sales Promotion Manager of Wrigleys Stores, Inc., has reported great success with a combination of recipes, illustrations, color, price, and institutional copy in newspaper advertisements.³⁹ This new type of advertising has not abruptly taken the place of regular-price line advertising but is gradually being blended into the advertising program.

The Wrigley merchandising team believes that the institutional story can best be told in separate institutional ads. A series of special institutional newspaper advertisements are used to present a confidence-inspiring story about the store, a department, a service, or a particular product.

Some of the institutional advertising approaches featured by the Wrigley food chain have received immediate sales response from the consumers. Wrigleys ran a full-page color

³⁹Statement by Ervin Levinson, Sales Promotion Director of Wrigley's Stores, Inc., Detroit, Michigan, (Personal Interview).



ad using institutional copy. The ad had colored illustrations of salads, vegetables, and various salad dressings. Included in the copy were recipes for salad mixes and suggestions for summer salads. Prices of various salad vegetables were placed at the bottom of the advertisement.

The ad broke on Tuesday and the sales results were quite amazing. "The normal movement from the produce warehouse on Thursdays averaged between 17 and 18 thousand packages. The shipments from the produce warehouse increased to approximately 32,000 packages on Thursday after the full-page institutional ad was run on Tuesday. There were also some 15,000 requests for recipes of salads and salad mixes which were mentioned in the advertisement."⁴⁰

The Weekly Merchandise Ad

Great emphasis should be placed on the weekly merchandise ad. This is the ad the customers are exposed to the most. Also, the customers become to expect this ad every week to obtain information about weekly specials. A well-planned weekly advertising program offers an opportunity to develop a personality and reputation for a food chain.

One of the greatest opportunities to increase readership is to develop an ad that will convey a real selling message. "Most food store advertising (so-called) is simply publicity for selected low prices. Real advertising is what

⁴⁰Ibid.

creative selling minds make to put in white space."⁴¹ Clyde Bedell, author of the previous statement, does not underestimate the importance of price while constructing effective newspaper advertisements; however, other appeals and selling messages must be coupled with the prices of featured items.

When advertisers buy space in a newspaper they are not buying advertising. Thus far the advertisers are only buying the opportunity to advertise. "If there is not arresting, interesting, effective selling in the message to be printed, it is not good advertising no matter who runs it, where, how often, how big, or to how many people."⁴² The newspaper does not have the responsibility to insure the readership of ads. The responsibility of the newspaper is to present to the advertiser an audience interested enough in the paper to pay subscription rates.

How then have food chains improved their advertising program? What have some organizations done to insure better readership of their newspaper advertising? Many food chains have begun to employ professional advertising personnel with a good knowledge of advertising research. Marketing research studies conducted toward advertising techniques have done much to serve as a basis for improving the advertising program of

⁴¹Clyde Bedell, "New 'Specs' For Advertising," How To Sell More Profitably, (Chicago: Super Market Institute, May, 1953), p. 31.

⁴²Ibid.

food chains. Only by a thorough understanding of the desires, motives, appetites, likes and dislikes of the consumer can a good advertiser hope to construct an ad with customer appeal.

Meal Planning and Recipes

An area overlooked for a long period of time in food store advertising was the presentation of recipes and meal suggestions for the housewife. Often in salesmanship courses one has heard that insurance salesmen do not sell life insurance, rather they sell protection to the widow. Neither does a good shoe clerk sell shoes, rather he sells foot comfort. In the same way food store advertising can sell an idea about a product or the company rather than the product itself. Only recently have the food stores mentioned meals, quality and satisfaction along with food products in the weekly ads.

The average housewife has to prepare over a thousand meals a year besides other special luncheons and party snacks. Where does the housewife get her ideas to plan and prepare so many meals? Would the housewife welcome ideas and suggestions for the preparation of her meals? If you prepared over a thousand meals a year, you would! Today many weekly food ads feature recipes, menu suggestions and hints for easier house-keeping. Weekly features can be planned so as to suggest entire meals for the housewife.

There are a multitude of different ways to make food store advertising appealing. Attention can be attracted in a great many ways. For example, unusual type, vivid



illustrations, clever headlines, and curiosity catchers of all sorts can be used.

Best of all, however, is the direct appeal to the reader's instinctive and acquired interests. Where such interest can be awakened, the advertiser's message will be carefully considered, on its own account. Advertising that makes a direct interest-appeal carries with it a degree of force obtainable by no other method, since it strikes directly at the reader's impulses to action. The message itself gets attention, and the reader is not distracted from thinking about the store advertised by admiration for the cleverness or originality of the composition.⁴³

Advertising Dominance

Some regional and national food chains strive to be the dominate advertiser among the competing super markets. An analysis of over-all newspaper advertising lineage in a defined market area will reveal that one or two operators utilize more newspaper space than competitors.

Because of the geographical breadth of such chains as A & P, Safeway, and Kroger, greater results can be obtained in the long run by establishing their company name to the public. The previous statement does not imply that smaller food chains can not establish a company name through consistent advertising. However, the geographical area of operation for smaller chains is proportionately smaller and the number of transient customers obtained from consistent advertising in other areas is small. As previously mentioned, one of the

⁴³Walter D. Scott, The Psychology of Advertising
Revised by D. T. Howard, (New York: Dodd, Mead and Company,
1931), p. 11.



purposes of food chain advertising is to obtain new customers. Some educators estimate that individual stores can lose as high as 20 per cent of their customers because of the shifting population. Through a consistent and dominating advertising program a company name may be established to exert an influence on the consumer's choice of super markets upon moving to new areas. Also consistent advertising will help to attract new customers that are not acquainted with the local markets.

A basic conclusion drawn by Adams concerning the cumulative effect of repetition in advertising was that "four appearances are not worth four times as much as one, in attention value, but only about two and one-half times as much."⁴⁴ It is also important to note a study by Strong in which he concluded within the limits of his experiment a half page presented once is worth more than a quarter-page presented twice when the same audience is reached by both quarter-pages. One important exception is the fact if different audiences are reached by each quarter-page (in which case there would be no real repetition), the quarter-page used twice would be best of the two. The conclusion of Strong's study was that a combined larger size advertisement has the advantage over smaller sizes repeated to the same audience.⁴⁵

⁴⁴Albert T. Poffenberger, Psychology in Advertising (Chicago: A. W. Shaw Company, 1926), p. 239.

⁴⁵Ibid., p. 242.



Trends in Early Week Advertising

Supermarket News surveyed a number of cities to determine the extent of early week advertising. At least one, and often times more super markets in an area were found to schedule continuous early-of-the-week advertising. However, conclusions were drawn that "success in changing shoppers' habits appears to be an exceedingly slow process, but some retailers apparently believe it is worth the effort."⁴⁶ The survey shows that super markets in some areas are still advertising early in the week and in other areas many operators have dropped early-week advertising. The net result has been a slight decrease in early-week advertising.

A reduction in newspaper advertising has been one way many chains are trying to fight rising costs and declining profits. Traditional week-end shopping and Friday payroll schedules have been all important in discouraging the early shopper. With regard to Monday ads, a spokesman for one chain said, "their only benefit is to keep our name in the paper."⁴⁷ Another chain spokesman told the writer the only reason we participate in Monday advertising is because competitors continue to do so. The spokesman continued by stating that his chain would drop Monday advertising if the major competitors would do likewise.⁴⁸

⁴⁶"Early Week Ads Cut in Some Areas," Supermarket News, (March 25, 1957), p. 5.

⁴⁷Ibid., p. 10.

⁴⁸Personal Interview-Source wished to remain anonymous.

The 1957 consumer analysis report by the Milwaukee Journal shows a significant change in consumer shopping habits since 1953, even though Friday and Saturday continue to be the most important days. "In 1953 the study showed that only 17.6 per cent of the shoppers did most of their shopping Monday through Thursday. However, in 1957 24.8 per cent of the shoppers said their big shopping day was one of the days from Monday through Thursday."⁴⁹ The survey included only the Milwaukee shopping area.

Super markets in some local areas have been quite successful in attracting early-week shoppers, but most chains report the cost of obtaining early-week shoppers has been much higher than the cost of obtaining week-end shoppers.

Summary

The newspaper has continued to be the number one medium by which super markets have distributed the selling message to the consumer. Food stores have received much criticism for poorly constructed ads and the continued use of price copy. Many of the criticisms have been justified, but many of the advertising critics have failed to give proper recognition for better advertising techniques developed among many of the food chains. Outside observers are quick to criticize the layout and copy approaches of food advertisers. Management is aware of the needed improvements in the advertising program and

⁴⁹"Early Week Ads Cut in Some Areas," Ibid., p. 10.

welcomes any positive suggestions or methods to improve existing advertising conditions. However, new methods must develop through a gradual process, and to many observers, food advertising is in a process of improvement now.

If ideas can be used along with price as a basis for establishing impressions upon the reader's minds, food store advertising can (1) build the prestige of a store, (2) can better the social level or health level of the readers, and (3) can make shopping a more pleasurable adventure for the consumer.

In the development of any advertising program management should remember that "(1) advertising can not sell merchandise that people do not want to buy, (2) advertising can not succeed unless used continuously, and (3) an advertising program can not succeed without the support of the entire store personnel."⁵⁰

⁵⁰Edwards and Howard, op. cit., p. 13.

CHAPTER XII

AN ANALYSIS OF RADIO AS A SALES PROMOTION DEVICE

Introduction

Advertising media other than newspapers are used effectively by food chain organizations to present the selling message to the public. Top management must determine the effectiveness of various advertising media and allocate an advertising budget accordingly. The purpose of this chapter is to evaluate the effectiveness of radio so a more intelligent decision may be made concerning the use of radio as a sales promotion device.

Generally, food retailers do not consider radio to be their primary source of advertising. The radio received five and seven tenths per cent of the advertising dollar spent in 1956.⁵¹ To actually determine the true value of radio as an advertising medium will be difficult because many times radio is used as a supplement or jointly with newspapers, television, hand bills, direct mail, and window promotions. As any other advertising media used to convey the selling message, radio has both advantages and disadvantages.

⁵¹"Advertising's Biggest Year Ever," op. cit., p. 22.

Characteristics of Radio As An Advertising Medium

Some exclusive characteristics of radio that are not present in other types of advertising media are:

1. The advertiser must build and maintain an audience for his program mainly through his own efforts. Radio can not guarantee audiences as magazines and newspapers do. Advertisers who use spot announcements do not have a chance to build up their audience through their own efforts. Rather, they rely on the promotional techniques used by the station itself or the pulling power of regular programs that may come before or after the spot announcement.
2. Such factors as talent and desirability of available time are barriers to retailers trying to appeal to a specific group.
3. Radio must make its impression through the ear.
4. Radio has a more intimate appeal than other advertising media, except television, because the selling message is presented orally. The human voice is able to convey emotion, spirit, and enthusiasm that are not available in other types of advertising media except television.

"Much has been written about the use of radio by advertisers, but there exists relatively little information of a definitive nature which throws light on the special advantages and disadvantages of radio as an advertising medium."⁵² One

⁵²R. Cassady, Jr. and R. M. Williams, "Radio As An Advertising Medium," Harvard Business Review, (January, 1949), p. 62.

problem of vital concern to the food store is to define the areas of sales promotion in which radio can be used effectively as an advertising medium and in what areas, if any, is the utilization of radio undesirable?

Radio Study Conducted By Cassady and Williams

A study was made by Cassady and Williams which analyzed radio time, newspaper and magazine space on the basis of the types of goods and services advertised.⁵³ Rather than present statistical data from this study, generalizations based on the collective judgement of a large number of business executives may be more informative.

Food retailers, as do manufacturers, seem to follow the same pattern concerning the extent that various types of media are used. "General Mills, for example, out of its advertising appropriation for magazines, newspapers, and network radio spent 64.1 per cent on network radio in 1947, while Pillsbury spent only 16.2 per cent on this medium."⁵⁴ Cases can be observed in which food retailers differ in their opinions concerning the use of radio just as these two manufacturers in the same industry.

The study of Cassady and Williams indicated that radio is considered ideal for promoting mass-consumer items of low unit price whose sale may be motivated by the use of emotional

⁵³See R. Cassady, Jr., and R. M. Williams, "Radio As An Advertising Medium," Harvard Business Review, (January, 1949), p. 62.

appeals. Food, drug, and soap items fit excellent into the emotional appeal category.

"While the radio does not seem to be particularly well fitted for retail advertising, it can be used with some effectiveness evidently for the publicizing of retail institutions which feature low price merchandise even of a durable type or which stress easy payment, and can be used even to some degree to promote a limited number of specific items of merchandise."⁵⁴

Of particular importance to the food retailer is the fact that food items are usually sold on a price basis at the retail level. This places one limitation on radio as an advertising medium for food retailers since an emotional appeal can not be interjected into price advertising. Some seasonal items in short supply seem to have a strong emotional appeal; therefore, radio may be effectively utilized for promoting special sales of seasonable products. Food retailers have found radio to be a most effective advertising media in some localities while realizing poor results in other areas. The experience in one area should not be the determining factor in formulating policies concerning the use of radio in different locations.

Regardless of the fact that radio is limited in certain types of sales promoting, this advertising medium can still be utilized to advantage for mass announcements or for other

⁵⁴Ibid., p. 77.

variable types of advertising. Reports indicate, "the practicability of radio as an advertising medium depends to a considerable extent on the specific job to be done; thus it might be ineffective in attempting to familiarize the public with a label which has just been introduced but quite effective when used to promote the sale of a brand with which consumers are already familiar."⁵⁵

Emotional Appeal

The emotional appeal that can be obtained from radio gives a more persuasive than informative presentation. The opportunity for each advertisement to accomplish its objective is brief. This fact limits the effectiveness of radio while using descriptive or informative copy concerning a new product. Once a program or spot announcement is off the air it is gone for good, whereas, a printed advertisement may exert its influence over a longer period of time. If the radio fails to make an emotional appeal or create consumer confidence, the chances for making a sale are lessened considerably.

Determining the actual extent of radio advertising by food retailers is difficult because most statistics are based on gross billing for network radio. Food retailers advertise more on local stations than on networks, according to the study by Cassady and Williams. Because of this fact,

⁵⁵Ibid., p. 78.

the figures or statistics based on gross network billing would be of little significance to this study.

Due to the inability of listeners to remember a large number of individual prices, many food chain organizations utilizing radio as an advertising medium have limited the number of prices mentioned in each announcement. The limitation of mentioning prices has lead to the use of institutional copy. Customer services provided in modern super markets make good copy for effective radio advertising. Radio copy that mentions such things as free parking, air conditioning, friendly and courteous service, etc. appeal to the listener.

Merits of Radio To Food Stores

Like other media, radio deserves the consideration of food retailers for a number of reasons. The spoken word makes radio advertising not only more personal but more persuasive and interesting. Radio is a flexible medium. The retailer can contract for a few seconds (30 to 60 seconds) or for a much longer period. Also the deadline requirements for radio copy offer the food retailer a chance to present a selling message on a much shorter notice than in other types of advertising media.

Because radio copy can be "aired" quickly, special sales on perishable products can be conveyed to the customer much quicker than by newspaper. Retailers realize quick results from spot announcements. Because of deadline schedules, copy

and layout preparation, production and delivery time, there is a lapse of approximately 48 hours before the consumer is exposed to a newspaper ad.

The use of spot announcements gives the advertiser a better spread of time than could be obtained from programs. Most food retailers use spot announcements because the cost is less than a regularly sponsored program.

How To Choose A Radio Station

Factors to consider in choosing a radio station to handle the advertising program include--coverage, audience ratings, time availabilities, network affiliation, services offered, station policies, and the cost. Food operators are sometimes deceived by coverage figures of different radio stations. The number of homes covered within a given area is more important than homes covered in outlying areas. Consumers, as a general rule, will not drive longer than 15 minutes to purchase their food needs. A station with low area coverage can have a large audience within the trading area of a store. Because of this fact, signal strength should not be the determining factor in choosing a radio station to handle the advertising program.

Three principal methods of determining coverage have been used: "(1) Signal strength, (2) receipts of audience mail, and (3) research findings or listening habits of

representative samples of set owners."⁵⁶ The latter has proven to be the most scientific way of determining the listening audience. Such firms as the A. C. Neilsen Company can be employed to survey audiences for radio listening. Thus far, the survey ratings have been one of the most effective means of obtaining an unbiased report of audience listenership and market coverage.

Cooperative Advertising Allowances For Radio Advertisers

Food retailers have been able to defray a considerable amount of their newspaper advertising expense through cooperative advertising allowances from food manufacturers and producers. The availability of such funds has not been as great for the users of radio advertising as for newspaper advertising. This partially accounts for the reason food retailers do not advertise as extensively by radio as by newspaper.

The Radio Advertising Bureau is an organization supported by local, regional, and clear channel radio stations. The purpose of this bureau is to seek and encourage more manufacturers and producers to give advertising allowances to retail outlets for radio advertising. The Radio Advertising Bureau publishes a book for the members which lists all manufacturers and producers giving advertising allowances to retailers for advertising their products. Some manufacturers

⁵⁶A. W. Frey, Advertising (New York: The Ronald Press Company, 1952), p. 364.

defray 75 per cent of the cost of spot announcements through advertising allowances, however, many of the allowances may not be this high. Retail outlets should inquire through their local radio station as to whether advertising allowances can be obtained from manufacturers represented in the retail store.

Why Use More Than One Advertising Medium For Sales Promotion

A policy for sales promotion that is very popular today is the utilization of various types of advertising media. Radio and newspaper work very well as a team in reaching the general consumer. This is pointed out by studying the disadvantages of radio. The advantages of newspapers usually solve any of the disadvantages given by retailers for not using radio as an advertising medium. Newspapers may have a large circulation, but radio can add to the number of people reached in a given area. Radio will reach the listeners in cars which television can not do; consequently, the advantages of using more than one advertising medium should be considered.

Disadvantages of Radio

Radio can not picture a product. This is one big drawback in the promotion of certain items. However, many of the items in the food store are so familiar to the consumer that eye appeal is not too important in advertising.

The advertiser has such a short time in which to express the selling message that many of the detailed facts of the merchandise can not be presented. This situation also works to the advantage of the advertiser. The primary reason people

listen to the radio is for information, pleasure, and relaxation. If a sponsor presents announcements that feature superlative claims or detailed descriptions of excessive length, listeners can easily turn the dial to other programs.

"Experience has proved that women do not object to advertising sponsored by a retailer, provided, of course, the messages are timely and interesting and give the listeners information they wish about stores and merchandise."⁵⁷

Conclusion

For the food industry, which relies on the housewife to make the majority of purchases, the morning hours have been used to the greatest advantage to attract the majority of women. Regardless of present administrative policies concerning the use of radio as an advertising medium, there is a large audience from which to attract potential customers. Radio should not be expected to accomplish results that are physically impossible. Thus far radio has proved to be an effective supplementary means of presenting the selling message to obtain results. One or two announcements can not be expected to obtain great results, however, "Difficulty will arise while trying to say exactly what is enough in order to obtain the desired results."⁵⁸

⁵⁷Edwards and Howard, op. cit., p. 443.

⁵⁸Statement from Mr. Lee Raymond, Account Executive, Radio Station WJIM, Lansing, Michigan. Address presented to Retail Advertising Class, March 5, 1957.

CHAPTER XIII

AN ANALYSIS OF TELEVISION AS A SALES PROMOTION DEVICE

Introduction

How will television affect the advertising program of food chain organizations? Are the results obtained from television more costly than advertising through other media? Food chain operators are seeking the answer to these and many other questions concerning this relatively new medium of advertising. The rapid growth of television adds another debatable subject to management in deciding where, how much, and what kind of activity is most useful in the promotion of profitable sales in the super market.

Growth of Television

The phenomenal growth of television is best illustrated by the total number of television sets in use in the United States. "In 1947 there were some 8,000 sets in use, by mid-way of 1955 there were approximately 35,000,000 television sets in use throughout the United States."⁵⁹ This audience offers the advertiser a large recipient for the selling message.

Deciding whether or not to advertise on television is a problem that requires much thought and analysis. Regardless

⁵⁹"TV Manufacture by Years," 1955-56 Telecasting Year-book—Marketbook Issue, p. 17.

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of the coverage of a particular station, other important questions must be considered before an intelligent decision can be made by a food chain organization concerning the use of television as an advertising medium. Little or no imagination is necessary to recognize the advantages of television for advertising purposes. By registering the message both orally and visually, television combines the strong points of radio and other major media. No other medium has been able to reach into the home with both sound and moving pictures. "A Young and Rubicam house advertisement stated that 'television is every form of entertainment--circuses and concerts, vaudeville, theatres, movies, lectures, and newsreels--all funneled down to a small picture in a family living room'."60

The mention of the above advantages of television does not solve all the advertising problems faced by food chains. Unlike manufacturers, retailers are interested in selling thousand of items of all categories. Retailers are usually interested in advertising a group of prices or products.

Small food chains or independents with very few stores in an area or town may find the dollar cost of television advertising extremely high for the number of potential customers reached. Thus far the greatest users of television advertising in the food industry are chain organizations with a large number of stores within range of the station signal.

⁶⁰A. W. Frey, op. cit., p. 381.

This reduces the cost of reaching potential customers for each super market within the station signal.

The innovation of television has provided a method for retailers to display and demonstrate the selling message. Television offers the super market a salesman that can talk to a mass of people on a personal basis. With the personal salesmanship obtained from television, many of the advertising problems of super markets appear to be solved.

Why Television Has Not Been Accepted By More Retailers

"Despite all these apparent advantages, television has never been embraced by retailers as an advertising medium. On the whole, this group had looked upon television with somewhat skeptical eyes. It has approached the medium cautiously and to a great extent avoided its use."⁶¹ Mr. Irving Settel, Television Sales Promotion Consultant for such firms as Du Mont TV Network, Peck Advertising Agency, and Concord's, Inc., conducted a survey among retailers in an effort to determine why television has not been accepted by more retailers as an advertising medium. Included below are eight basic reasons revealed from this study:

1. Space advertising, such as in newspaper and direct mail gives retailers a better opportunity in which to sell the large number of items which they stock. Multiple item

⁶¹Irving Settel, "Why Retailers Bypass Television," Journal of Retailing, (Winter, 1955-56), p. 181.

advertising is more difficult on television, where the limitations of time and money prevent long display and demonstration.

2. Television's inability to present wide selections of merchandise would suggest that the advertising would be institutional. However, many operators feel television should be used in the same way as other promotional media--for immediate sales. Many food organizations have not been able to appropriate adequate funds in the advertising budget for institutional advertising. Two factors have contributed to this situation. First, determining the results obtained from an institutional advertising program is difficult. Since the results are not immediate, determining the effectiveness of institutional copy is uncertain. Secondly, competitive situations have not allowed some retailers who are interested in an institutional advertising program to divert funds away from immediate sales promotion techniques.

3. The most desirable time periods on television were not (and are not) available to retailers. In many instances the better time periods are already occupied by manufacturers.

4. A great amount of planning is required to produce effective programs and commercials. Many stores have indicated the money used for television production could be put to better use in newspaper advertising.

5. Local shows produced by retailers could not compete with network shows in building and maintaining audiences.

6. Radio advertising is much cheaper and for every dollar spent offers more time than television advertising. Some retailers have found if the same amount of money spent for television advertising was diverted to other types of media, greater results could be obtained than previously experienced from television.

7. Newspaper advertising, the old standby of the food store, continued to reach the largest audience for every advertising dollar spent.

8. Most food store operators consider the cost of television too high and feel the money spent can not produce as many customers as newspaper, direct mail, and radio advertising.⁶²

"According to a report made by the University of Illinois, the average retailer who has been using television advertising has had to cut back his newspaper and radio budgets to allow for the medium. If he were to promote his merchandise by means of regular channels in addition to television, his budget would have to be increased substantially. Most retailers are unable or reluctant to do this."⁶³

The cost has been a prohibitive factor for many retailers interested in advertising on television. Even in markets where there are two or three stations competing

⁶²Ibid.

⁶³Ibid., pp. 181-182.

for the retailers' business, the price has been beyond range for many food stores. In addition to time charges, other factors such as program cost and talent cost can sometimes double or triple the time expenditure.

Despite the reluctance of some retailers to use high-cost television, reports indicate more money is being spent on retail advertising than ever before. "The American Newspaper Association recently reported at a New York convention that newspaper advertising revenue for retailers was on a continuous upswing. Direct mail associations have also reported a rise in retail advertising, assuring members that television has failed and will continue to fail to deflate this rise. In other words, the large increases in retail advertising expenditures have strangely failed to encompass television, the medium of visual demonstration."⁶⁴

Syndicated Film Programs

Regardless of the high cost of television, some operators report much success from syndicated TV film programs at a nominal cost. "Shows costing over \$20,000 a week to produce and rivaling network shows in quality and audience size are being sponsored by Supers at a cost of approximately \$100 per episode."⁶⁵ This would not include the cost of station time, only cost of the film.

⁶⁴Ibid., 182.

⁶⁵"Film TV Serials Provide Publicity Vehicle for Supers," Super Market Merchandising, Vol. XX, No. 4, (April, 1955), p. 139.

Syndicated film programs are usually a half hour in length and are comprised of 26 or 39 episodes. They are sold city-by-city for origination by the local station. Since the film is run in a specific city rather than over a whole network, syndicated film programs are practicable for local market advertising. The same program can be purchased by a national or regional chain organization for several cities.

"In Seattle, a chain reports a sale increase of 30 per cent over the previous year at the end of four months of TV syndicated film sponsorship."⁶⁶ Although much success has been reported by many food chain organizations as the result of using syndicated TV film programs, the writer is doubtful whether other operators would receive such an increase merely from the utilization of television advertising. Millers Super Markets of Denver sponsors four major musicals and three mystery programs per week, each one costing over \$20,000 to produce originally. "Me-Too" Stores in Cedar Rapids, Iowa make use of the same general types of television programs. Safeway Stores sponsor the "Life of Riley" in five western cities.⁶⁷ The Kroger Company uses such shows as "Highway Patrol" and "Men of Annapolis" in their trading areas.

The local sponsor pays a price based on the size of the market which the television station covers plus local

⁶⁶Ibid.

⁶⁷Ibid.

time rates. Even these costs are very nominal and represent only a small fraction of the film's original cost. Such shows have enabled super markets and food chain organizations to sponsor television shows with a high level of showmanship at a low cost.

Spot Announcements

Other operators suggest variations as to how television may best be used. "The operator of an Ohio chain, with three years continuous experience in television, prefers not to purchase whole television shows, but buys, instead, spot announcements, particularly 30 second and one minute spot announcements, adjacent to high-rated day time television shows."⁶⁸ As in radio, spot announcements offer certain advantages over sponsored television programs as a means of reaching prospective buyers with a selling message. Spot announcements are easier to schedule since there are more opportunities to "air" them. For the same money more announcements can be had than through expenditures for programs. In utilizing spot announcements on television the advertiser depends solely upon the audience of programs either before or after the commercial has been run.

The Commercial

The matter of spot announcements or commercials is of great importance. Because of limited experience in television

⁶⁸"Television Advertising," Super Market Merchandising, Vol. XIX, No. 2, (February, 1954), p. 140.

advertising, many food chains do not give enough attention to developing effective commercials. A popular program with a large audience does not determine the effectiveness of a commercial. Research on commercials conducted by the Schwerin Research Corporation can give important data to advertisers interested in obtaining the most from their television advertising. Many advertisers still accept the fact that if they build a good audience for their program, somehow the commercial will sell the merchandise. The studies indicate, "a poor commercial isn't made any more effective because it gets a large audience."⁶⁹ The Schwerin research study also indicates the vast importance of the proper placing of commercials or spot announcements in relationship to the type of program or entertainment. A study conducted for one client in which the same set of commercials was tested in twenty five different television programs revealed that, "On the average, the commercials gained almost twice as much remembrance in one type of program as they did in another type. In other words, viewers pay much closer attention to a commercial when it is in the right setting."⁷⁰

According to the Schwerin research study, one advertiser found his food product commercials had a much higher recall from the viewers when placed in a pleasant variety show as opposed to a tense dramatic program.

⁶⁹"TV's Big Problem: Neglected Commercials," Printer's Ink, (March 11, 1955), p. 32.

⁷⁰Ibid.

An article on extra product plugs in the March 1954 issue of the Schwerin Research Bulletin comes to the following conclusions:

1. Mentioning your product during the entertainment can adversely affect liking for the merchandise itself.
2. Mentioning your product during the entertainment can adversely affect attention to your commercial.
3. Mentioning other advertisers' products during the entertainment can adversely affect the attention to your commercial.⁷¹

Following are some conclusions drawn from a study of TV commercials made by Schwerin Research Corporation:

Here's what happens when ...

AN EXCELLENT PROGRAM IS COMBINED WITH A POOR COMMERCIAL:
Program loses interest and excitement.

A GOOD COMMERCIAL IS SET IN A DULL AND INSIPID PROGRAM:
Commercial's value is dissipated.

COMMERCIAL APPEARS IN RIGHT PROGRAM SETTING: Viewers pay closer attention to commercial.

EXTRA PRODUCT PLUGS ARE INSERTED IN SHOW: Adverse effect on liking for show and on attention to commercial.

OTHER ADVERTISERS' PRODUCTS ARE PLUGGED DURING ENTERTAINMENT: Adverse effect on your own commercial.⁷²

Cooperative Allowances

Many manufacturers and producers have initiated cooperative advertising allowances to retailers utilizing television as an advertising medium. Such allowances reduce the advertising expense for the retailer and the manufacturer can obtain cheaper advertising rates through a local retailer than through

⁷¹Ibid., p. 34.

⁷²Ibid.



a national advertising agency. Some of the methods used are (1) alternate sponsorship, (2) shared sponsorships and (3) participation.

Alternate sponsorship is the sharing of the over-all cost of the program by two advertisers, the manufacturer and the retailer, sponsoring the entire show on alternate weeks. Each advertiser gets all the commercial time on the particular show. In some cases there are agreements whereby the advertiser who is off is allowed one commercial on his alternate's program.

Most cooperative allowances could be classified under the shared sponsorship method. The manufacturer or producer agrees to pay a certain percentage of the program or spot announcement cost. Commercial time for the manufacturer's products is allocated in length and position according to agreements or contracts between the two parties. Such allowances not only help defray the cost of advertising time but offer an excellent chance to feature the manufacturer's product and reduce the promotional cost.

The participation program belongs entirely to the network or the station. The retailer can either buy a portion of the show from five minutes up, or he can buy announcements or spots at station breaks. One advantage of this type of advertising is the audience obtained from the program. However, as previously mentioned in the Schwerin research studies, the audience size would not be an accurate yardstick to determine listener recall of the commercial.

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Many manufacturers and national producers are beginning to realize the abuse and waste connected with cooperative newspaper advertising allowances. "Some contracts are so designed that permit retailers to collect from four to ten times the amount actually spent for newspaper advertising of the manufacturer's products."⁷³ Such a condition may arouse the question, are contracts, as mentioned above, actually intended for advertising allowances or as a form of purchase discounts?

Assuming manufacturers wish to protect and improve their national brand-name in cooperative advertising investments, how then can this be accomplished? "One manufacturer reported greatly increased sales at the retail level with a cooperative advertising program on television. The sales increases obtained from cooperative television advertising were much higher than ever before obtained from other types of cooperative advertising allowances."⁷⁴ As manufacturers increase television advertising allowances, managements of food chains can increase their television time at a lower cost and can also see how television can supplement their own various promotion plans.

Ratings and Rating Services

"The principal indicator of the effectiveness of a television program is audience size."⁷⁵ The same is true of

⁷³The writer obtained this information from a national chain but was asked to keep the source anonymous.

⁷⁴"Co-Op Advertising," Printer's Ink, (March 11, 1955), p. 35.

⁷⁵"Checkpoints For The Television Advertiser," Printer's Ink Advertising Annual, 1954, p. 189.

any one particular station in a multiple station market. Currently there are four basic systems of audience measurements. Food chain organizations should be aware of the different systems and research organizations involved in measuring audience size. A choice of one station over another in a metropolitan area may in part be determined by the ratings of the audience size of the particular station.

Four methods used to obtain audience size are:

1. Electronic recorder.
2. Telephone coincidental.
3. Diary.
4. Roster recall.⁷⁶

The electronic recorder is an electronic attachment on selected television sets which record over a 24 hour period at what time and for how long a receiver is turned on, as well as the channels to which the TV set is tuned.

Telephone coincidental utilizes the inquiries made from a cross section of television homes in a given area to determine the audience size. This system can also be used to determine the audience size of a particular program if so desired.

The diary method supplies diary forms to selected set owners who are asked to keep a complete record of television viewing in the household over a specified period of time.

The roster recall is a method whereby a house-to-house canvass is made at varying hours of the day. Interviewees

⁷⁶Ibid.

are asked to identify programs viewed during a preceeding time period from a printed list.

The most popular organizations used to measure station and program audience sizes are the American Research Bureau and the A. C. Neilsen Company. Other agencies such as Pulse, Trendex and Videodex are used in certain market areas to determine audience size, composition, sets in use, viewers per set, etc.

Small food organizations with a limited number of stores in a particular area may find the station with the smallest audience can give the cheapest rates in terms of the number of homes reached in the market area of the store. Many stations can deliver a strong signal within a radius of 100 to 150 miles. A super market is not likely to draw customers from a large trading area.⁷⁷ Stations determine rates by the number of homes reached and by the cost of reaching those homes using a base figure on one thousand homes. Chains with a great penetration of stores within the radius of the station signal can profitably use a more powerful station with which to advertise than retailers with a limited number of stores within the radius of a station signal.

Conclusion

What will be the policies of management concerning the future of television as an advertising medium for food stores?

⁷⁷Mr. S. O. Kaylin, Editor of Administrative Section of Chain Store Age, estimates a customer will make a 15 minute drive to purchase groceries at a particular super market.

"The trend seems to be that some of the larger chain stores are moving slowly into television in increasing numbers, but cautiously."⁷⁸ Larger organizations with greater advertising budgets will be able to test television in order to provide the answers they seek. The smaller units will probably avoid television to a large extent until some of the basic problems have been solved.

Unquestionably, television holds many hopes for retail food store advertisers. However, the place of television in future sales promotion programs will depend upon other factors. Such problems as cost and programing will have to be solved before food chain organizations can economically and effectively use this advertising medium in promoting sales and profit.

Several years may lapse, but subsequently food chain organizations will find their way to television. "New developments, better programing techniques and lower cost will help the retail advertiser to make this medium increasingly effective in promoting retail sales and in bringing customers to the store."⁷⁹

⁷⁸Settel, op. cit., p. 192.

⁷⁹Ibid.

CHAPTER XIV

PROMOTIONAL TOOLS

Introduction

Food chain organizations have utilized forms of promotional devices other than newspaper, radio, and television that have supplemented both personal selling and advertising, coordinated them for a more effective selling program. Promotional tools such as trading stamps, premiums, and contests have been used very effectively by many food chain organizations.

One decision facing management is whether premiums, contests, or trading stamps should be used as promotional devices. Opinions vary in the numerous food chains as to the extent these promotional tools should be used. Rather than discuss the pros and cons of the above promotional devices, the writer will discuss these areas from a promotional viewpoint.

I. TRADING STAMPS

One of the greatest areas of controversy concerning promotional devices is the decision or policy affecting the issuance of trading stamps. Granted, there are advantages and disadvantages connected with this promotional device; however, this could be said of almost any type of promotional effort used to increase sales.

One fact to be agreed upon is--stamps are a promotional device. The recent emphasis on trading stamps has created considerable interest among food operators. Some report unequaled success with the innovation of a stamp plan. Others do not feel such a plan offers their customers an important reason for trading at their particular store year in and year out. Just as arguments arise concerning the effectiveness of other promotional devices such as newspaper, radio, television, and coupons, there is considerable debate among leaders of the food industry as to the effectiveness of trading stamps as a promotional device. Likewise, some food chain operators insist that television advertising is an effective means of promoting sales while others will argue that the high expense of television is economically unsound. Because of valid evidence in support of either stand, the issue of trading stamps should be given careful consideration by management.

Practically any type of promotion will necessitate an investment of money. Sales and profits are usually considered to be the return on the investment of any promotional activity. The best laid promotional program can fail to get a return on the investment unless there is adequate planning and preparation with follow-through at the store level.

Future of Trading Stamps

What is the future of trading stamps as a promotional device for food retailers? What effect will legislation have upon the issuance of trading stamps? Recent hearings and

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controversies have started a fever of political debate concerning trading stamps.

Legislation

"Federal Trade Commission attorneys appear to be considering whether or not to issue a complaint against one or more of the leading companies in the trading stamp field."⁸⁰ This does not necessarily mean a complaint is being readied. However, investigations have been held during the past year to determine if the issuance of trading stamps has in any way violated the law. The Federal Trade Commission is primarily concerned with violations under section five of the Federal Trade Commission Act, pertaining to unfair methods of competition, which include deceptive advertising. "The deception with regard to trading stamps would be the advertising of free premiums for the stamps if, in fact, they are paid for through increased prices of the merchandise."⁸¹

Legislation directed to outlaw, to curtail, or in some way to regulate trading stamps has been introduced in many state legislatures. Many other states are expected to introduce bills that will in some way affect trading stamps in their respective states. Some of the states that have introduced legislation concerning trading stamps are:

⁸⁰Marvin Caplan, "Complaint Eyed by F.T.C. on Stamp Men," Supermarket News, (February 18, 1957), p. 4.

⁸¹Ibid.

Tennessee - Tennessee legislature has passed a bill that will virtually kill the use of trading stamps as a promotional device in the state. Effective August 1, 1957, the privilege tax on companies issuing trading stamps will increase to \$600 for each redemption store within the state. The new law will levy a two per cent tax on the gross sales of all retail stores issuing trading stamps. The tax will not have to be paid by any store that issues its own stamps and redeems them at face value in cash or merchandise.

California - Three bills have been introduced to curtail the issuance of trading stamps. One measure was introduced which would outlaw gift enterprises and trading stamps, and another bill was introduced which would tax the companies to a point where they could not afford to operate. A new bill was introduced that would require any revenue derived from unredeemed stamps be passed on to the State Treasury under the laws of escheat.

Iowa - Trading stamp companies would be required to pay ten per cent of their gross receipts to the state. Also the stamp companies would be required to buy a \$100 license and post a \$20,000 bond. The retailer issuing the stamps would be required to pay a ten dollar license fee.

Wyoming - A different legislative approach has been taken in Wyoming. A bill has been introduced which would outlaw exclusive distribution of trading stamps. The measure would provide that all retail establishments could buy and offer any brand of stamps used by any other retailer in the state. This bill is being introduced in an attempt to eliminate exclusive franchises that retailers hold with stamp companies. Many retailers who have ownership in a stamp company could see their competitor use the same stamp plan if such a bill were passed.

Arkansas - Trading stamps would virtually be outlawed in Arkansas under the terms of a bill that has been introduced. This proposal would levy a tax on retailers issuing stamps from \$300 to \$4000 a year. Stamp companies would also have to pay a minimum tax of five per cent on their gross receipts, with a minimum tax of \$5000.

Minnesota - Persons or organizations issuing trading stamps would be required to redeem them for cash or merchandise under a proposed bill. The cash value would have to be imprinted on each stamp.



Kansas - Two bills have been introduced in Kansas. One bill would abolish the present trading stamp license fees ranging from \$4000 to \$7000 per store.

Another bill proposes to outlaw trading stamps in Kansas. This bill would make it a misdemeanor to give trading stamps. An effort to outlaw firms that provide stamps to merchants is included in this same bill. The Kroger Company was the first to introduce trading stamps in Kansas a little over a year ago. A case was brought against the Kroger Company stating this firm had violated the trading stamp law in Shawnee County. This case was dismissed when the Kroger Company paid \$71,000 for licenses in its Eastern Kansas stores.

New Mexico - One bill introduced here would make trading stamps unlawful, another would make them invalid if not redeemed within three years from the date of issue.

South Carolina - A resolution passed unanimously in this state calls for the strict law enforcement of an 1887 law outlawing trading stamps. The proposed legislation in this state would outlaw stamps.⁸²

With these and many other states proposing legislation against the issuance of trading stamps, the future of this promotional device is yet to be decided. Valid supports for either side of the question concerning trading stamps can be found. The question of trading stamps will have to be answered by each chain operator or store owner. If an operator or chain organization can effectively utilize this type of promotion without adding to the cost of doing business, then trading stamps can be justified.

II PREMIUMS

As stated earlier, sales promotions are "those sales activities that supplement both personal selling and

⁸²"Bills Outlawing, Regulating Stamps in Many States," Supermarket News, (February 4, 1957), pp. 4, 14.

advertising ...". Super markets have utilized premiums to a great extent as a supplementary method of attracting sales. This form of promotion has been recognized and utilized as a sales stimulus by food store operators for a considerable time. As any other type of promotion, the primary purpose of premiums is to induce customers to patronize a particular store in the hope of winning new and permanent customers.

Usually the sales promotion department will handle the entire premium campaign. Sometimes an outside agency may be called in to handle the bulk of the promotion because of inadequate facilities or because of the size or nature of the premium promotion.

Premiums are used in the following ways to help solve sales problems or to create new sales:

1. Stimulating sales of established brands.
2. Introducing new products.
3. Open new territories.
4. Meeting competition.
5. Sustaining volume in dull seasons.
6. Clearing out laggard stocks.
7. Getting the whole line in.
8. Inducing larger purchases.
9. Creating loyal customers.
10. Securing data.
11. Traffic builders for special events.

Premiums and Their Problems

Manufacturers have, for many years, offered premiums as an inducement for consumers to buy their merchandise. "American civilization has now reached the point where cereal packages and soap wrappers are a form of currency. For one or more box-tops, plus a modest sum, a citizen can obtain a tulip-shaped cranberry sauce cutter, a pair of nylons, a ring to detect pirate gold, or a 32 piece dinner set, all are premiums. They are distributed free or at cost to induce the public to buy a particular product and entertain a friendly feeling toward it."⁸³

Food chains were quick to see the vast impact that premiums had on a particular manufacturer's product. Some of the problems faced by super markets using premiums are:

1. To educate the personnel to use this new form of sales promotion.
2. To maintain a workable balance between the premiums offered by manufacturers and those currently being used by the retail organization.
3. To use discretion as to the amount of manufacturer and private premiums that will be used.
4. To clearly define and be able to recognize exactly what a premium is, how it is marketed, and for what use the premium is intended. A promotion objective should be defined concerning what the premium is expected to accomplish. Some

⁸³"The Box-Top Business," Life, (March 14, 1949), p. 127.

premiums are expected to return a profit, some to draw customer traffic and some to build and maintain good will.

Types of Premiums

Getting a good premium promotion started in today's competitive market means calling upon the time-tested techniques and even inventing some new ones. There are many types of premium plans currently in use and the personnel involved in their promotion and sale should become familiar with the different types. The most common types are:

1. Direct Premiums - This is the simplest and oldest form of premium merchandising used by manufacturers. The premium is given to the customer on condition of purchase and delivered at the time of purchase. An example of this type of premium is the staple item that includes a decanter or water glass within the package or attached therein. Glassware packed in oat cereal and linen towels packed in soap power are premiums used by two grocery manufacturers.

2. Continuity Plan - Continuity in premium promotions, when obtained, is a very valuable asset. Manufacturers feel that one of the surest ways of achieving continuity is through a coupon plan. A variety of premiums may be offered in return for a number of coupons issued with the product. This is a long term plan and tends to attract some brand loyalty. This type of premium plan has been employed by the Raleigh Cigarette Company. Raleigh started their coupon program in 1932. Their sales showed tremendous increase and the company

attributed much of their success to the use of a premium coupon in each pack of cigarettes. The wartime shortage knocked out premiums and Raleigh dropped the program. Despite a steady increase in cigarette smoking, Raleigh sales slipped badly. Raleigh put the coupon back in the pack and once again sales started to climb steadily.⁸⁴

Many food stores have used a dinnerware promotion as a premium plan. Such a promotion is planned on a continual basis for a given number of weeks or months. Typically, under such a plan, an operator will give a piece of dinnerware each week with a ten dollar purchase or an accumulation of purchases equal to ten dollars within the same week. The customer does not have to pay extra to obtain the dinnerware. These promotions are usually planned to last long enough to allow a customer to get a six-piece place setting for six people. This type of promotion is costly but its objectives are to get new customers, increase the purchases of the present customers and acquaint the customers with the store during the life of the promotion. If these results are accomplished, the cost of such a promotion can be offset by the increased business.

3. Self-liquidators - The self-liquidator is a promotion that usually costs the promoter little more than the advertising time and space. The consumer pays for the merchandise.

⁸⁴ "Billion Dollar Box Top," Pagant, (May, 1951), p. 142.

If the promotion is handled through the mail, the consumer usually absorbs the cost of handling and postage in addition to the cost of the merchandise. An example of the self-liquidator is the remittance of wrappers or box tops to the manufacturer with a stipulated sum of money and receiving, in return, an item offered at a reduced rate.

Super markets have used this type of promotion effectively. Self-liquidator promotions are usually run for a continued period of weeks or months. Such items as dinnerware, silverware, aluminum ware, cutlery, encyclopedias, and earthenware have been used by retailers as self-liquidator premium promotions. Some of these items are priced very attractively. The retailer expects to recover his merchandise cost rather than make a profit on all these promotions. However, some of these premium promotions return a profit to the retailer--yet offer the consumer a savings.

4. Juvenile Offers - The power of children to influence their parent's spending is evidenced every day in the super market. The outstanding example is undoubtedly breakfast cereals. Incorporated in this type of merchandising is the TV hero, sports characters, or novel toys that capture young imaginations. These offers can be dispensed through package enclosures, direct premiums, or a continuous coupon plan.

5. Container Premiums - Some food chain operators and manufacturers have found that their package or container can be designed for re-use by the consumer. In part, the high



expense of packaging can be offset by developing a reusable container for the consumer as a premium. Thus, with little or no additional cost the consumer has a dessert dish, a lemonade glass, a water decanter, etc. Many of the food chains that manufacture their private brands of merchandise are turning to this type of premium to promote the sale of their products.

6. Contests - The unlikely chance of winning a large prize, perhaps one chance in 100,000 or more, lures millions of American women every year to participate in contests. Completing the 25 word jingle and enclosing a box top is big business.

III CONTESTS

There are many problems to be solved when contests are used as a promotional device. The first problem is to decide if a contest will answer the promotional objectives desired. In the case of a food chain, the product to be promoted in the contest is one of the first problems. Frequently retail food chains run promotional contests that do not promote any particular product, rather the purpose of the contest is to increase traffic for the entire store.

Cost figures are certainly of prime importance in setting up any contest. The over-all cost must be analyzed in relation to the consumer appeal. Contest estimates should include expenditures for prizes, advertising and promotion, judging, and unusually heavy correspondence.

Contests have become so wide spread as promotional devices by manufacturers and retailers that outside companies have been established to eliminate various problems of contests to the promoter. These companies specialize in such tasks as judging entries, setting up specific rules for the contest and handling the correspondence concerning the contest. If an outside company is not employed to administer a contest, attention should be given to see that rules comply with all federal, state, and local laws. Simplicity of rules is necessary so the entrants will have no difficulty in understanding them.

Purposes of Contests

A contest must solve the promotional objectives in mind before there can be an economical justification for the contest. Several promotional goals may be achieved by contests. Some of the principle purposes of contests are:

1. To provide the added push needed to make a prospect a good customer - Continuous advertising may sell the customer on the merit of a store, but without an added shove the potential customer may never shop with any regularity. Many customers continue to shop at a particular store because of habit. A customer may realize that another store has good values with excellent shopping facilities, but hesitates to shop there unless some added stimulus entices them to do so. Contest promotions can often accomplish this objective.

2. To create and increase store traffic - Any time traffic is increased in a retail business the chances of increasing sales are excellent, provided the traffic is of the right type. A contest should be planned so as to attract people with purchasing power.

3. To stimulate interest of the trade - Customers may tire of the same old product and the same old store, even though both may be good. A contest will often stimulate new interest.

Contests that require the label of a product as an entry blank can often stimulate enthusiasm and increase consumption of a particular product. Contests awarding vacations and other valuable prizes have proven to be a successful means of creating new interest and maintaining the loyalty of present customers. The writer does not intend to infer that contests will discourage customers from trading elsewhere. However, contests can provide an added stimulus to hold many customers.

4. To overcome seasonal slumps - Some retailers have tried to overcome the traditional sales slump of summer through the promotion of contests that award attractive prizes. Manufacturers also use contests to offset seasonal slumps for certain products. Due to the nature of many products, sales drop during certain periods of the year. At one time the cold cereal industry realized a sales increase in the summer only to find that sales would decrease in the

winter. Through various types of promotions, manufacturers have increased the consumption of cold cereals in the winter to a point where there is no longer a seasonal slump. Contests are one type of promotion that can help to achieve this goal.

5. To give new appeal to advertising - A contest provides an excellent advertising theme. Such themes can be utilized to build up listening and reading audiences.

Contests have proven successful in testing the effectiveness of different advertising media. Promotions offer the opportunity to compare the audiences and effectiveness of various advertising media. When comparing the effectiveness of advertising media, different addresses will be given for the applicants to use in sending in entry blanks. The newspapers may tell their audience to send entries to department N of the particular company. Radio may request their audience to send entries to department R of the company, etc. This gives the company a means of evaluating the effectiveness of different advertising media. If there is more than one newspaper in a town, retailers can insert the same coupon or entry in both papers with some small insignificant symbol to differentiate between the two newspapers. The entries received from each newspaper can be one criterion for judging the readership.

6. To obtain displays in stores - The advertiser with something new to offer will usually come out on top in

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competition for store display space. Aggressive retailers may tie in with the contest if they feel the promotion has the potential to increase traffic and sales.

7. To introduce new products or new uses for old products - One caution concerning contests for new products is the prize may often attract more attention than the new product.

8. To meet a competitive situation - A spectacular contest is sometimes quite useful in offsetting a competitive promotion. Such a contest is geared so as to prevent present customers from being attracted to a competitor because of some promotion he may be employing.

9. To get merchants to stock a full line - Manufacturers have contests that require applicants to submit labels from two or more products. Consumers may be persuaded to buy more than they normally do in order to obtain enough labels or entry blanks.

10. To stimulate the sales organization - Contests can be of such magnitude, especially on a local basis, that much enthusiasm can be generated among store employees through group meetings and discussions. Many food chains promote contests between different stores for increasing store sales or increasing the sale of a particular product.⁸⁵

⁸⁵Printer's Ink Refresher Course in Advertising, Selling and Merchandising (New York: Printer's Ink Publishing Company, 1947), pp. 52-54.

Standard Types of Contests

There may be more than one promotional objective of a contest, therefore, a contest can be planned so several purposes or objectives are accomplished at one time. Regardless of the results, a contest should be judged on the basis of the original objectives. For example, a contest may be successful as a counter-attack to a competitive promotion and unsuccessful in increasing total store sales.

An advertiser must choose the type of contest that will best achieve his objectives. "Through careful selection of the type of contest he can fairly, accurately predetermine the result. He can design a contest that will tend to appeal to entrants in the particular group he wishes to reach. Similarly, an advertiser can reach a special audience by designing contest regulations and offering prizes that have special appeals."⁸⁶ There are many varieties of contests but most of them fall into the standard patterns outlined below:

1. Write a letter about the product.
2. Complete a sentence.
3. Submit material for use on radio programs--Applicants may furnish questions, jokes, stories or stunts that can be reproduced for a program.
4. Write a last line for a verse.
5. Suggest a name for a product or an animal.
6. Suggest new uses.
7. Write an essay.
8. Solve puzzles.
9. Fill out an entry blank from which the winner will be drawn from.⁸⁷

⁸⁶Ibid., p. 55.

⁸⁷Ibid., pp. 56-57.



The most popularly accepted contest is the one that requires the entrants to do nothing but sign their name and leave the rest to chance. Food chains have found this type of contest to be an effective promotion to attract customer traffic. Many people are not interested in contests requiring them to think of a name or write a jingle. Whereas, many consumers can be attracted to a store to sign their name on a blank for a drawing of an attractive prize. Such a contest does not require skill or effort, only luck.

Promoting the Premium

Most premiums are promoted through combined newspaper and radio advertising. Recently, television advertising has been utilized to a considerable extent to promote premiums. "The amount of space given the premium in an advertisement varies from 80 per cent premium and 20 per cent product to practically all products."⁸⁸

Great care is necessary in handling premium advertising to receive full benefits from the promotion and to assure that the money spent for premium advertising is used advantageously.

Before any premium program can be a success, a great amount of cooperation is necessary at store level. Sales promotion departments have found no amount of planning, advertising, pre-testing, etc. can offset poor follow-through at the store level. "Unless the retail outlets are fully

⁸⁸Ibid., p. 106.

acquainted with the project before it becomes effective, there is a possibility that the campaign will be weakened at its most vital spot, at the point of sale where contact with the consumer is established."⁸⁹ Management must make sure the store knows the full details concerning the premium promotion.

Conclusion

Premiums are not a "cure-all" for a sales deficiency.

Advertising and Selling listed six conclusions that sales promotion managers should consider when using premiums as a sales promotion device:

1. Don't apply premiums to a product unless the product is really good.
2. Premium promotions rarely stop a declining sales curve.
3. Sales gains on old established products are usually temporary.
4. Some sales gains made on new products are long-lasting if the product is of top quality for the price paid by the consumer.
5. Successive and frequent premium offers on the same product generally produce smaller and smaller results.
6. Results vary widely with the product.⁹⁰

⁸⁹Ibid., p. 100.

⁹⁰"Basic Premium Objectives," Advertising and Selling, (January, 1948), p. 42.



CHAPTER XV

THE USE OF DISPLAYS IN SALES PROMOTION

Introduction

As previously defined, "sales promotion includes those sales activities that supplement both personal selling and advertising, coordinate them and help to make them more effective."⁹¹ Of great importance in any sales promotion program is the use of in-store displays. The proper use of displays is potentially one of the most powerful sales promotion forces at the food chain's disposal.

"Five percent of the total store sales are the result of special displays."⁹² The importance of special displays is far greater than can be expressed in a specified percentage of store sales. Many customers are brought to the store because of values derived from merchandise on special display. Items located near the display or related items elsewhere in the store, may show marked increased in sales. Due to the side benefits received from effective displays, the true value of a special point-of-purchase display is difficult to measure.

⁹¹"Report of the Definitions Committee," loc. cit.

⁹²"The 1955 Chain Store Age Display Manual," Chain Store Age, (February, 1955), p. 76.

Benefits of Special Displays

The self-service system employed by the food chains stresses even more the importance of displays at the point-of-purchase. With the customers selecting their own merchandise, effective displays can exert a strong force in influencing purchases. Since there is no clerk or salesman to assist the customer with each purchase, the customer consciously or unconsciously looks for information to use as a guide in the selection of products.

If there is a problem of sales deficiency, displays alone will not act as a solution. There is no guarantee a display will increase the sale of a product or group of products. There are several problems to be solved before any organization can get the most from store displays. Problems to be considered are (1) type of display best suited for the promotion, (2) selection of items to be displayed, (3) selection of the location for the display, (4) type and amount of point-of-purchase material to accompany the display and (5) duration of the display. These and other problems need to be solved before an intelligent decision can be made concerning any special display.

Functions of Displays

Displays, whether promoted by manufactures, distributors, or by the super market itself, have a three-fold job in modern merchandising. Below are various qualification displays must posses to perform their intended duty.

1. People, such as passers-by, must be stopped and induced to come inside by an attention-arresting window display or store front.

2. After the people are inside the store they must be exposed to buying suggestions by strategically located displays and want-creating signs and literature.

3. Those who come in to buy something, can be induced to buy a larger supply or additional purchases by smart packaging and display at the point where the purchase will be made. Seasonable products, multiple pricing, freezers and special sale prices have helped to increase the purchase of many food products on display

Manufacturer's Display Material

There are a hundred different types of display materials currently being supplied by manufacturers, dealers, brokers, and other national advertisers. Among the most common of these display materials are:

1. Floor displays - Floor displays usually consist of cut-outs with easel backs so they can be placed at strategic locations.

2. Counter displays - Counter displays usually consist of some fixture, case, or rack that can be utilized to display one or more products. Manufacturers of cigaretts, baby food, hardware items, and chewing gum provide racks to the retailers for display purposes.

3. Window streamers - Window streamers and signs are usually furnished free to food stores by suppliers on request. Often signs and streamers will automatically accompany shipments of merchandise during special promotions by the manufacturer.

4. Dump bins and other containers - Manufacturers usually design dump bins and other display material to supplement special promotions. Often such units have false bottoms to give the appearance of a bountiful display without requiring too much merchandise.

5. Dummy cartons - Package good manufacturers as well as meat distributors develop giant-size replicas of the product or package which can be placed throughout the store.

Manufacturers have increased their output of promotional material to such an extent that management of chain organizations has had to be more restrictive on the distribution of this material directly to the store. Many food chains now require that all manufacturer's display material be distributed or approved at the distribution office.

Types of Store Displays

In-store displays can be constructed to depict various merchandising and advertising themes. One of the most important displays utilized by the food outlet today is the related display.

What does management hope to accomplish through the use of related displays? What are the specific contributions

which management believes the related display has furnished to the retail food industry? The answer to the above questions were advanced by several food companies in a letter survey taken by S. A. Gavrilides.

1. The most important contribution of the related display is its ability to increase sales and consequently profits.
2. A related display can help the housewife in her meal planning.
3. New products can be conveniently introduced through the related display. These new products may either be private or national brands.
4. A tie-in of a new or old product needing support with an established product may help to expand and create a permanent demand for such an item.
5. Related displays aid in merchandising the over-all store by bringing together various departments.⁹³
6. The related display helps to beautify the store.⁹³

The pricing factor is a major decision while considering a related display. In most cases, when two or more items are combined in a related item display, the collective price is somewhat lower than if the items were sold individually. However, many times the related items are not priced as one but merely displayed together. In such cases there is usually no price reduction. The relation of one item to another in a special display is often times enough to increase the movement of a product.

Shelf Display

Chains have recently found some of their stores were sacrificing customer maneuverability in the store for display

⁹³Spyros A. Gavrilides, "Merchandising Through Related Displays in the Food Business," (unpublished Master's thesis, Michigan State University, East Lansing, 1952), pp. 86-87.

space. As a result, some food chains have inaugurated policies that reduce the number of floor displays.

Ribbon displays have proven quite effective in merchandising products on the shelf. Ribbon displays, the facing of the same product on all the shelves in a vertical position, is one means of giving emphasis or mass appearance to items stocked on the shelves. A ribbon display is often used for sale merchandise, seasonal items, such as tea, and high profit items.

The Marketing Service of the United States Department of Agriculture conducted a study to determine the effect of extra displays in the produce department. The study revealed "when the aisle displays were removed and the produce in them displayed elsewhere, which meant, of course, there were smaller displays of each item, customers purchased 16 per cent more items and spent, on the average 12 per cent less time in the produce department."⁹⁴

This study revealed that aisle displays restricted the flow of traffic from one side of the department to the other, particularly on busy days and at busier times of the day.

"Customer congestion, because of aisle displays, was the main cause of sales not being made. Rather than fight the crowd, shoppers went through the produce department shopping

⁹⁴"Extra Produce Displays May Cut, Not Build Sales," Progressive Grocer, Vol. XXXVI, No. 4, (April, 1957), p. 71.

one side of the aisle display, missing completely the merchandise on the other side."⁹⁵ The removal of the aisle displays reduced the total produce display space by about ten per cent. However, the freer movement of shoppers and general elimination of congestion resulted in a 16 per cent increase in the number of items purchased per customer. Purchases were increased nearly 20 per cent over a normal congested Friday with the removal of the islands. This study bears out the assumption that the congestion from poorly located displays can be more harmful than helpful.

Mass Display

One of the promotional sales techniques used by the food stores to create extra sales is mass display. Customers are generally more willing to buy from a large display than from a partially full or small display.

Mass displays have a dramatic appeal that stop the customer and make her take a second look. If the customer looks for a few seconds longer than usual, the chances of making a sale are increased. There is something about a mass display that seems to draw or attract. Many customers buy from a large display because of the eye appeal, quantity, price or some psychological reason obtained from the mass appearance.

Difficulty would arise while trying to establish a standard definition of mass display. The mass display of

⁹⁵Ibid., p. 93.

ten or fifteen years ago would be considered only a token display in the big stores of today. The growth of the store and the increase in the number of items makes it necessary to use a larger mass to get the same effect for an individual item. Also, mass display for a slow mover is practically no display at all for a top seller. For example, canned tomatoes and okra would not be in the same class while referring to mass display.

Why Special Displays?

There are several reasons why special displays are planned and constructed. Reasons for using special displays include:

1. To increase total sales of the store or of a product group.
2. To increase sales of logically related items.
3. To beautify the store.
4. To help make the customer's shopping trip more interesting and exciting.
5. To create an atmosphere of price.
6. Associate the store with well-known brands.
7. To give special emphasis to a particular department.
8. Stimulate the sales of profitable and impulse merchandise.
9. To capitalize on new trends and nationally advertised promotions.

10. Influence customer traffic patterns.
11. Increase the sale of slow-moving merchandise.
12. To participate in national or community themes.

Selection of Location

One of the key decisions to be made in building special displays is the location of the display. The sales of the item on display are most dependent upon the location chosen for the display. Every store has particular areas that give the best sale results from a display. There is no definite rule for locating the "hot spot" in each store, but the store manager and other members of management can locate the area best suited for maximum sales returns for a display by experimenting with various display locations.

The choice location for one item may not prove to be as effective for displaying an entirely different product. Customers seem to develop patterns or moods for buying in different areas of the store. The natural flow of traffic, speed of traffic, customer stopping places, and visibility of the location are some of the factors to consider in locating natural display areas. However, the above factors do not tell what merchandise will sell best at a particular location. Through experience and experiments, management can soon develop patterns that will reveal quite accurately the general areas for displaying different product commodities.

"Display locations primarily affect the sale of items on display, but in the long run they can give the customer an

over-all impression of the store."⁹⁶ An atmosphere of low price can be obtained if the low price items get the best display spots. Also, an atmosphere of variety and complete lines can be obtained if fancy lines are displayed in the best locations.

Food chain organizations have differing opinions as to what type of product should be displayed at the "hot spot" in each store. Some organizations feel as if the key traffic item or the featured price item should be displayed in the "hot spot". Some organizations are quite firm in stressing the policy that only high profit merchandise be displayed in the key traffic locations. In other cases, management chooses to allocate portions of the store to be used only for the display of certain product groups.

Whatever the policy concerning the location of displays, the point to remember first and foremost is--special displays are designed to sell merchandise. If items are knowingly displayed in locations that are not the most favorable spot for the item, the benefits to the entire store (through the impression created) must be greater than the relative loss in volume for the particular item. "When the fine points are analyzed, the basic rule that displays are located where the merchandise sells best still holds as the key factor in locating special displays."⁹⁷

⁹⁶"Where Special Displays?," Chain Store Age, (February, 1955), p. 82.

⁹⁷Ibid., p. 120.

Market Research Studies on Point-Of-Purchase Displays

Dr. Ernest Dichter, president of the Institute for Research in Mass Motivations, Inc., emphasizes that point-of-purchase displays must sell the customer immediately because the customer is not in a reasoning mood.⁹⁸ "All the customer can do is react emotionally and quickly, and you have either made your point or you have not. At point-of-purchase you do not get a second chance. Untold thousands are spent and lost each year because the manufacturer and the retailer have not considered what the point-of-purchase display was for, what goal he wanted to accomplish."⁹⁹

Prime Objectives Of Point-of-Purchase Displays

The Institute for Research in Mass Motivations contends there are three over-all objectives of point-of-purchase displays other than the physical factors such as attracting attention. The three big over-all objectives are:

1. To climax the 'conditioned reflex' of advertising, where such advertising has been proved (through exhaustive test) effective in making up the consumer's mind.
2. To break the 'conditioned reflex' when another product may have had more or equal effectiveness in influencing the buying public.

When the product is new, or the goal is to activate a latent desire to splurge, there is a third objective.

⁹⁸Ernest Dichter, "The Point of Point of Purchase," Food Marketing, reprint, (May-June, 1954), p. 1.

⁹⁹Ibid.

3. 'Why not...?' Why not try something you have never tried before? Why not pamper yourself? Why not get a luxury item you did not dare buy until now?¹⁰⁰

To accomplish any of the above objectives, management must know where the product stands in the consumer's mind. One of the five basic mistakes found in point-of-purchase displays is apt to appear unless management knows definitely what frame of reference the consumer will take from the product on display. Included below is a list of the most common mistakes the Institute for Research in Mass Motivations has found in point-of-purchase displays.

1. Ignorance of what the consumer thinks.
2. Aggravation of the misery of choice.
3. Lack of psychological identification.
4. Failure to break the conditioned reflex.
5. Lack of finalization.¹⁰¹

Summary

Some chains have successfully grouped products in the weekly ad in such a way that one product suggests the use of another. Store managers should be oriented to display merchandise in this same manner in the super market. The super market offers one of the greatest opportunities in the retail field to capitalize on psychological displaying of products. For example, catsup displayed at the meat counter sells catsup as well as meat. Likewise, mushrooms displayed directly in the meat case immediately suggest a meal to the customer.

¹⁰⁰Ibid.

¹⁰¹Ibid.

Meal planning suggestions from psychologically grouped products can help to increase the movement of a relatively slow-moving item. Management groups are aware of such possibilities, but they must orient and boost creative thinking at the store level to achieve maximum results from point-of-purchase displays.

Merchandise to be displayed must be carefully chosen and properly located. Experience, good taste, and a study of consumers' eating habits are of immense help in avoiding failure in point-of-purchase displays. Much of the attraction derived from a display depends upon the items brought together. Good choice of products, creative thinking, and a development of goals and objectives will provide a strong support for a successful display.



CHAPTER XVI

IN-STORE PROMOTION POLICIES

Introduction

Promotions planned by the branch or divisional merchandising team to be used in all the stores are known as branch, company, or divisional promotions. All of the stores feature the item to be promoted and the advertising is usually scheduled in the headquarter office. The merchandising board plans and develops weekly promotions that will best serve the majority of the stores within the area of operation.

Many chains are organized to give the local store manager the autonomy to schedule, plan, and execute in-store promotions that can best serve the needs of the local situation. The competitive situation in a local area may be of such nature that the weekly sales plan is not adequate to serve the needs of the store.

Why? In-Store Promotions

Many chain organizations encourage in-store promotions to stimulate creative thinking among the store managers and store personnel. Some operations cover such large territories that the merchandising teams can not keep abreast of local situations. To give flexibility to the organization, to meet local situations and to increase the promotion of high profit

items, store managers are given encouragement and training in developing in-store promotions.

Who should best know the competitive situation in a local area? Who should know what items create the most traffic for a particular store? The person who should have the answer to the above questions is the local store manager. To follow a logical pattern, why not give the store manager the training and authority to meet many of the local problems?

The publicized decentralization program of the Kroger Company supports the theory of vesting power in a well-trained store manager to develop in-store promotions. The decentralization program encourages decisions at the level that will be affected by the outcome of the decision.

Opposition to In-Store Promotions

There are some sound reasons forwarded for not encouraging in-store promotions. Some chain organizations do not allow their store managers to develop special store promotions or alter the weekly sales plan. Those who do not allow flexibility of in-store promotions feel the merchandising board is better qualified to plan and schedule promotions for the entire branch or division.

The store managers in some organizations are not delegated the authority to make local decisions affecting promotions, price, and advertising because of limited knowledge concerning store operations. If management does not keep the store managers informed as to profit, mark-up, and operating

cost, an intelligent decision would be difficult to make at the local level where the results may directly affect the profit of the operation.

Conclusion

Policies concerning in-store promotions must be made to fit the organization. If the store managers and department managers have been trained and developed to accept responsibility and have the knowledge upon which to base decisions affecting the local situation, by all means they should then plan and develop in-store promotions. If the store manager has an adequate knowledge of gross margins and other operating figures, he should be encouraged to develop special promotions and sales for his particular store. Extra sales and profits are awaiting the organization that will choose and develop men to use their creative imagination.

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