SECTION 1
Historical Development of Marketing Theory

1. Development of Marketing Theory
2. Emergence of Consumer Research
3. Evolution of Market Research
4. Broadening of the Marketing Concept
Development of Marketing Theory: Fifty Years of Progress

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Before there was life on earth there were the phenomena of gravitation, chemistry, atomic energy and the like. With the coming of life, there came principles of biology such as adaptation to environment, survival of the fittest, and reproduction. With the coming of man, there came human laws and methods of behavior – desire for food, protection, pleasure, awe of the divine, love of opposite sex, curiosity, constructiveness, desire for adventure. With the coming of private property and government there came the laws of economics – division of labor, exchange of goods, mediums of exchange, and laws of value as applied to goods, wages, rent. Economics has been defined as the science that considers or explains the wealth-getting and wealth-using activities of man. Economic theory may be thought of as logic to applied financial problems or problems of value. At least some schools of economic theory are little more than this. The limitation on this kind of theory is that many human actions are not logical. Perhaps man's emotions are more important than man's logic.

Commerce began in prehistoric times. With the advent of steam, however, commerce was given a great stimulus and territorial division of labor became important. When our railroad system was built in the 1870's and 1880's, factories grew in size and principles of management were developed. “Scientific management” came in. The output of these factories had to be sold. Advertising, salesmanship, sales management increased in importance. It was realized that there was much waste in selling. So, the study of marketing! Some attention was paid to the study of advertising and selling in the closing years of the nineteenth century by business men, and by a few teachers. It was at the turn of the century that universities first began to offer courses in marketing. There were no textbooks for several years; in fact, satisfactory textbooks were not available at all until 1915, 1916, and 1917.

These early courses in marketing largely evolved from economics and management. They drew to a lesser extent on accounting, psychology, and history. Many of the early courses seem to have been largely descriptive. The teachers first had to find out how goods were marketed before they could offer constructive plans for improvements. Marketing having developed to a considerable extent from economics, much of our theory was derived from economics. As the marketing teachers studied business operations, some of the economic theories seemed rather abstract and impractical.

My own point of view was that economic theories gave us a starting point—or a series of hypotheses. It was my task to see if they worked. If they did not apply, I tried to find out how the theories had to be modified, or what new ones had to be formulated. Thus, many of the marketing theories we hold today are modifications of applications of older economic theories.

Some of the theories, laws, and techniques with which we have been most concerned are those of elasticity or flexibility of demand; of determining and forecasting consumer demand and purchases; of determining whether marketing is a decreasing, constant, or increasing cost industry; of measuring operating efficiency; of the relationship of costs to price and of other price determining factors; of marginal, supra-marginal, and sub-marginal operators; of trade movements; of store location, and the law of rent; of sales forecasting, sales potentials, and territorial incomes; and of the total cost of marketing and its relationship to the cost of production, and to the welfare of the consumers.

Some of the specific fields in which students of marketing are especially interested are the following:

**Demand**

This leads among other things to a study of population, number of persons and families and their location; distribution of population by age; shifts in population; birth rates; marriage rates; death rates; and number of people employed and their earnings. Marketing students are particularly interested in consumer income, its amount, and distribution among families, among individuals outside family groups, and its geographical distribution. Marketing students are interested in human wants and desires, that is, how people spend their money and how they will spend it in the future. This leads to a study of fashion, fashion in homes, in household appliances and furnishings, in amusements and entertainment, in sports, in clothes, in foods, and in automobiles. Marketing students are interested in increasing or stimulating human wants, in general and for the goods of individual sellers. This leads to the study of advertising, salesmanship, and merchandising, marketing research, and packaging.

**Prices**

Marketing involves a study of trade movement, both interregional and the specific places (towns) where consumers make their purchases. This leads to studies of locations of wholesale and retail stores, of transportation, packing,
storing, and the physical handling of goods, of freight rates and storage costs, of regional resources and demands, of physical facilities such as railroads, highways, waterways, and warehouses.

Marketing is directly concerned with prices and price making forces such as supply and demand, as influenced by and their relationship to monopoly controls, customary prices, price setting by governments and associations of sellers, price competition, price controls, price policies, and price strategies.

Rent

Marketing is concerned with rent and its determination. This is related to location. The merchants often have the option of taking a high rent location or of taking a low rent location and spending more on advertising.

Operating Efficiency

Students of marketing are greatly interested in operating efficiency. They need to know how various goods are marketed, what trade channels are used, and what middlemen are involved. They should know how the various market institutions are organized and how they operate. This information is as essential to the student of marketing as the design of a machine is to the engineer, or human anatomy is to the surgeon. A study of operating efficiency may involve cost analysis, job analysis, employee supervision and training, work organization, and use of labor-saving devices. Marketing draws heavily on management and accounting. In passing, it may be remarked that cost accountants have done relatively little to develop distribution cost analysis and have left this field largely for students of marketing. Students and operators want to increase marketing efficiency – that is to increase the volume of goods or services marketed per man. Some units of comparison and evaluation are: sales per salesman, per employee, per square foot of space, per dollar invested in inventory; sales per dollar spent for rent; cost of a salesman’s call; sales per advertising dollar; and cost of assembling an order, of delivery, of invoicing, of extending credit and making collections, of warehousing goods, of buying and receiving goods, and the like.

Fair Competition

Marketing students are interested in fair and unfair competition, in commercial law, in government regulations.

Study of Marketing

Goods have been marketed for thousands of years. The people engaged in marketing undoubtedly devoted much thought and gave much observation to their operations. Marketing operations must have been studied by the operators
development of marketing theory of caravans and ships in the ancient world. The results of their studies were used in their own operations and, if passed on to others, this was done largely by word of mouth. This situation existed very largely down to the beginning of the present century, although a small beginning was made on business literature in the last century. To give a few illustrations, cyrus mccormick used field demonstrations and installment credit in the sale of his reapers; john wanamaker was a great user of advertising and introduced truth in advertising when truth was the exception and not the rule. He used the one-price policy and introduced the absolute right of customers to return unsatisfactory merchandise. John Patterson used sales training and memorized sales talks. Little advance could be made in knowledge until what one man learned was written down for the use of others. Science grows step by step. Knowledge grows as recorded information is developed. One man can begin where another leaves off.

J. E. Hegarty began the study of marketing as a graduate student in the University of Pennsylvania by talking with business men to find how they operated. He said that business men were willing to talk with him and tell him about their operations but that they were surprised that a person from a university was interested; and they were curious to know why he wanted to know about marketing operations.1

It has been said that by 1880 our factories were capable of turning out more goods than current demand would absorb. This placed an emphasis on selling and on stimulating demand. With the recovery following the depression of the early 1890's there developed an increased interest in higher education. This became noticeable about 1900. Interest in business education at the college level began at this time. The first college courses in general marketing are said to have been offered at the Universities of Illinois and Michigan in the academic year 1901–02, although courses in transportation and foreign trade were offered earlier. These courses were undoubtedly quite different from present day courses in marketing, but they showed the growing interest in the study of distribution.

The first students of marketing were interested in finding out how goods were marketed. Some of the early courses were probably more descriptive than many of the present courses. We must know how a machine operates before we can make improvements in it.

There have been three principal methods of teaching marketing. The first method used appears to have been the study of the middlemen or institutions engaged in marketing. It takes up a study of the operations of the various institutions and discovers how they market various products. It leads to a study of their services and their efficiency of operation and suggests improvements in their efficiency. This method is adapted to the needs of the students who are going into marketing – retailing, wholesaling, brokerage, advertising agencies, manufacturers' sales organizations, and the like.

The second method is to study the marketing of various commodities. This method has been used widely in the courses dealing in agricultural and industrial marketing. In these fields, such an approach is practical. The danger of the commodity method of studying marketing is that the courses become largely descriptive. Also, in general courses dealing with many products there is likely
to be much repetition. If a course deals with one or a limited class of products, it is possible to make it analytical as well as descriptive.

To study the marketing of commodities, we must group or classify them according to some characteristics. They may be classified according to their physical characteristics, their methods of production, their methods of use, or by the buying habits of the consumers.\textsuperscript{2} The buying habits of consumers is the most important method to students of marketing. Dean Hegarty, in teaching marketing before 1912, recognized two classes of goods: industrial and consumers' (the latter including fashion goods). C. C. Parlin, who became director of commercial research for the Curtis Publishing Company in 1911, classified goods as convenience, shopping and emergency.\textsuperscript{3} Copeland, in 1923 and 1924, added specialty goods, and subdivided industrial goods into five classes.\textsuperscript{4} In my studies of retail trade movement, I have evolved a slightly different classification of consumer goods: fashion, service, convenience, and bulk.

The third method of studying marketing is the functional approach. In this method the various operations, services, or acts are studied. That is, the marketing of goods by middlemen is broken down into the various operations or functions and these are studied separately. This is analogous to a study of each process carried on in a factory. Thus transportation, buying, selling, storing, grading, transporting, packing, financing, risking are studied separately. These functions may be further subdivided. Thus transportation may be divided into rail, truck, water, terminal, and air transportation; or, it may be divided into rate making operation, government regulation, traffic management, and financing. Selling may be divided into personal salesmanship, merchandise display, newspaper advertising, radio advertising, publicity, and the like.

Looked at in this way, the functional study of marketing may be older than some of the other methods of study, owing to the fact that transportation, packing, grading, and so forth, were studied by business men for years before marketing came to be taught in schools. Most of us think, however, of the functional approach as a method of analyzing over-all marketing operations. We first list the functions performed in marketing certain commodities, or in certain trade channels. Some of these functions may be performed once, and others several times. For example, many products may be graded once and sold all the way through the trade channel by this grade; or a good may be inspected by each successive buyer and seller. By studying one function at a time, methods of increasing efficiency may be suggested. By looking at the over-all marketing process, we may find ways of reducing the number of times that a function is performed. This suggests vertical integration as a method of reducing marketing costs.

As far as I know, the functional approach was first suggested by Arch W. Shaw. Mr. Shaw spent some years at Harvard helping to reorganize the Business School. He was particularly interested in marketing and wanted to find a scientific approach to its study. By attending a series of lectures by a German professor named Schmidt, he got the idea that every science must start with a concept. He got the idea of change from a lecture by a man named Cox on the “Religion of Pure Experience,” which developed the idea of constant change. Thinking this
over, he got the concept that marketing is matter in motion; that is, marketing must get goods from the producers to the consumers. Goods must be started in motion and kept in motion until they reach the ultimate consumer. There are two kinds of motion: physical, and that involving changes in ownership. Mr. Shaw tells me that he first worked out the concept of functions in a series of lectures he delivered in Dean Gay’s course in English economic history. England, at the period under study, was becoming a great merchant nation. The idea of functions was developed in these lectures and was thought of in connection with the operation of middlemen. Thus we may say that the functional approach developed out of the middleman approach. Shaw first published his treatment of functions in 1912 and this marks a landmark in the development of science in marketing. Shaw’s idea of functions was taken by Weld who worked it over, stated it more logically and practically in 1917. Weld’s statement was generally used by students of marketing, especially by Cherington and Clark. Further subdivision and refinements were suggested by Theodore Macklin, Homer Vanderblue, and myself in 1921, and by myself in 1926. John Thurman Horner in 1925 suggested a valuable subdivision of the selling function. Maynard-Weidler-Beckman in 1927 added the gathering of market information to the list. Franklin W. Ryan in 1935 further subdivided the functions and suggested that management be added to the list. Professor Fred Jones suggested a further subdivision and analysis of the buying and selling functions. Professor E. D. McGarry in Theory of Marketing suggests placing more emphasis on the management function of policy formulation.

The functional method is the most analytical of the three methods, and is extremely valuable in both marketing research and in the teaching of marketing. A critical study of biology often involves a study of separate organs or limbs; a study of machine design and operation takes up the various parts before considering the machine as a whole.

Having briefly outlined the development and the principal methods of studying marketing, let us look at some of the hypotheses, theories, laws and techniques developed during the past fifty years.

**Elasticity and Flexibility of Demand; Increasing Demand**

Can demand be increased? Economists formerly said “no,” that there was only a certain amount of purchasing power and the only way to increase total demand was to lower price. Otherwise, all a seller could do was to shift demand from one product to another. The principal way of shifting demand, according to these economists, was to lower price. It was recognized some years ago that advertising could shift demand without lowering price by making this or that article more attractive to the consumers.

We know that demand has increased. Within the memory of men still in active life, we have added the automobile, the paved road, the moving picture, the talking picture, the radio, television, air travel, the vacuum sweeper, and the mechanical refrigerator, without reducing our standards of eating, dressing,
sleeping, or traveling. In fact, our diet has gone up and we have added a multitude of gadgets in our homes. How has this been accomplished? It is easy enough to say that labor-saving machines and improvements in work organization have increased output. But what has caused these advances? Certainly they could not have been utilized if the consumers did not buy their products.

We can start with Say’s law that the production and sale of an article increases demand by the amount of its selling price. This law is used to refute those who fear overproduction. This statement nevertheless does not explain why production is increased. Why are people willing to work harder, to make inventions, and turn out new products? The answer is that people are made to desire things and to desire them enough that they will work harder to earn them.

How does the desire for more and better things arise? First, by seeing the articles on display or in use by others. Second, by personal salesmanship and advertising. It seems to me that the main desire for automobiles came from seeing others riding in them. Most of us in the 1900’s and the 1910’s could not afford cars. Yet we desired them and were willing to work harder to earn them.

Incidentally, very few college or university professors owned cars before 1920. It was the increased prosperity of the country, which increased demand for education and teachers, which forced colleges to raise salaries after World War I, that enabled teachers to buy cars. It was the salesmen, the advertisers, and the retailers that made people want things so that they would work to produce them, to create the income that enabled more people to send their children to college and to pay higher tuition and taxes and thus to enable the professors to buy cars.

W. O. Saunders gave a very concise and interesting illustration of this in a sawmill town in Alabama. The laborers, white and black, would work only three or four days a week because in that time they could earn enough to maintain their customary standard of living – to buy their overalls, brogans, meal, flour, salt pork, beans, molasses, and tobacco. Production lagged until the lumber company hit upon the idea of making these people want more things. So they displayed fancy clothes, patent leather shoes, fancy jewelry, phonographs and other goods in their stores and in the store windows, and they instructed the storekeeper to sell them. In selling them he used installment selling by which laborers could pay for the goods by the week and take them when they were paid for. So Mr. Saunders called the installment plan the world’s greatest social uplifter. Probably all of us can think of examples of people who would work more or harder if they wanted more things. Pitkin says such people are numerous. To these people, the leisure time has a greater utility than the things they could buy with the money they made if they worked instead of loafing. The seller who makes his wares appear more attractive than leisure induces these people to work more so that they can buy more things, and so increases demand. I recall a former graduate student who was working on a Ph.D degree, not because he particularly liked to teach or do research, but simply because in college he found a higher standard of living than he had on the arid farm where he was raised. He was willing to undergo the arduous work of earning a Ph.D to raise his standard of living.
Arousing people’s desires for things is basic in raising our standard of living and increasing sales. Advertising, salesmanship, and retail merchandising have been among the principal stimulators of desire. Desire plus more or more intelligent work increases demand.

Let’s summarize it this way: marketing can increase people’s desires. In an economy that permits them to increase their earnings, they work harder (more intelligently, if you prefer) and increase their purchasing power which increases the total demand for goods and services. This idea is trickling through to the theoretical economists who list advertising in considering monopolistic competition.

This leads to a modification of our former concept of the elasticity of demand. Demand can be shifted and increased by other means than lowering price. Rather than change the concept of elasticity of demand which is of great importance in marketing, some prefer to refer to changes in demand by other names than changes in price as flexibility of demand or plasticity of demand. Some use the term income elasticity in referring to changes in income. The use of income elasticity by some economists indicates that they recognize what some marketing teachers have been talking about for several years.

There are two kinds of elasticity – changes with income and changes with price. There is another type of change, that which comes with changes in fashions and fads. This is of prime importance to business men, although it does not change the number of dollars spent. If people want radios instead of phonographs, or golf clubs instead of baseballs, the manufacturers involved are vitally concerned. Flexibility of demand includes changes with income, changes with prices, and shifts from product to product.

I am not arguing that we are any better off because we have automobiles, paved roads, diamond rings, fur coats, bathtubs, running water, radios, television, moving and talking pictures, vitamins, chocolates, nylon hose, rayon dresses, deep freeze refrigerators, air conditioned offices, and heated homes. I am simply saying that our economy has been successful in giving the mass of the people many of these things and that marketing has had a large part in this.

**Discretionary Buying Power**

The flexibility of demand is of great importance to the seller. He wants to know how people whose incomes increase will spend the additional money, and how people whose incomes decrease will curtail their purchases. Some products benefit more than others from increased income and some products sell best when people are economizing.

Most families adopt a certain pattern or scale of consumption. If their incomes are increased rapidly, the sellers want to know what things they will buy. At some standards an increased income may be spent for food – “pie three times a day,” or “cake for breakfast,” for example. At other standards it may mean better clothing, better home furnishings, or appliances. Factory workers who had rather rapid increases in incomes in the early 1940’s spent much of it for
home appliances and furniture rather than for better houses or for moving to the “other side of the tracks.”

In studying this problem, Lough and Gainsbrugh developed the thesis in 1935 that when a family’s income was increased it moved into the pattern of consumption of families having that income. In other words, a family with a given income in constant dollars will spend it in a certain way regardless of its place of residence. However, a family first satisfies its basic needs for food, clothing, shelter, and medical care. Any money left is “discretionary buying power”; that is, money that the family can spend in any way it sees fit. It may spend it for new furniture, a bigger automobile, college education for the children, a fur coat for mother, travel, religious and charitable contributions, club dues, gambling, liquor, or it may invest it. The fact that the family has a discretion in the way this money is spent means that it is harder for the seller to predict his sales. Sales forecasting is more difficult and marketing research of increased importance. Lough said that we needed a new type of business executive who was sales minded and research minded.

These facts may partially account for recent rapid increases in marketing research. If it is true that when a family’s income is raised it tends to adopt the consumption pattern of families already in this income bracket, it then loses much of its discretionary buying power. This does not, however, dispose of the fact that in prosperous years we have many families with large sums of discretionary buying power and that many upper income families always have considerable discretionary buying power. Sellers are always interested in trends and changes in demand for specific goods.

This leads to the subject of fashion forecasting. We have fashions in patterns of living, in recreation, in foods, drugs, plumbing, architecture, automobiles, clothes, and many other products. Some valuable theories or rules have been developed as guides in these fields. For example, those contained in Nystrom’s Economics of Fashion. The demand for many products is influenced by the weather. Hence, long range weather forecasting (weather cycles) is important.

**Consumer Purchases**

Considerable study has been devoted to consumer purchases and their changes. We have first the retail census figures, the first complete ones for the year 1929. Computations are also made regularly from state sales tax collections. Estimates are made by the Census Bureau from figures gathered monthly from a sample group of stores. To get sales of particular products and of brands of individual products, house to house surveys of consumers are made. Such surveys may give valuable information but are unsatisfactory for many purposes. Two other methods have been developed for securing more detailed running information. One is the food and drug indices developed by the A. C. Nielsen Company, based on audits of sales of a selected sample of retail stores. The other is that of diaries kept by consumer panels. Neither of these methods is perfect but they do yield information of very great value to individual sellers.
Is Marketing an Industry of Increasing, Decreasing, or Constant Costs?

Some, reasoning by analogy, surmised that retailing was like manufacturing, an industry of decreasing costs. Evidence gathered by the Federal Trade Commission and summarized in T.N.E.C. report No. 13 shows that the popular idea of decreasing costs in manufacturing industries is greatly exaggerated. Nystrom, writing in 1915, said: “The total expenses of doing a retail business vary greatly. The causes for these variations may be inferred to be due to the kind of business, the location, the volume of business done, the class of business whether high or low grade, and the efficiency with which it is conducted. Expenses seem to vary with the size of the town – the larger the town the higher the expense.”

The Harvard Bureau said of retail grocery stores in 1917: “The lowest expense ratios were not found in the largest stores, nor the highest in the small stores. The greatest variations were commonly between stores of approximately the same size operating under similar conditions in a single locality.”

By 1922 enough expense figures on retailing were available to lead to the conclusion that retailing was either an industry of increasing or constant costs. This material was summarized at the December meeting of the American Economic Association by Weld. The percentage cost of operating retail stores increases with their volume of sales but we know that expenses increase with the size of the town in which the stores are located. As many of the larger stores are in larger towns, the increase in expenses may result from the location of the store and not from the increased sales volume. In 1924, the writer said: “From these facts it seems safe to conclude that the law of decreasing costs operates within very narrow limits, if at all, in the case of merchandising concerns. The figures . . . indicate stores show increasing percentages of expenses with increasing sales, but this appears to be due to the factors other than the volume of business transacted.”

Few of the earlier studies had enough operating statements to allow satisfactory averages to be obtained when stores were grouped by town size and then tabulated by volume of sales. Dun & Bradstreet’s retail surveys for the years 1936 and 1937 made such tabulations. Although results varied somewhat between types of retail stores, the evidence indicates that retailing is an industry of either constant or increasing costs, according to the definition followed.

We have fewer studies in the wholesale field. Some of these indicate that the law of decreasing costs operates to a limited degree among wholesalers. At least, the point of maximum efficiency, or lowest cost, is reached at a higher sales volume than with retailers. The lower expenses of middle sized or large wholesalers, however, is not enough to overcome other advantages of small or local wholesalers and we have very few large wholesale houses.

The fact that large retailers have no advantage in lower operating expenses is of great significance. The small retailer would appear to be in no danger of extinction and there would appear to be no need for his protection by law. We must not, however, be too quick to reach this conclusion for two reasons. First, large stores often have higher percentages of gross margin than small stores. Frequently this larger margin is sufficient to more than counterbalance their
higher operating expenses and give them higher net profits. This higher gross margin must result either from higher selling prices or lower buying prices. The Robinson-Patman amendment was enacted in part to prevent the large stores from securing unreasonably large buying advantages. Second, many large stores are integrated and perform both wholesaling and retailing; or engage manufacturing, wholesale and retail operations. This type of organization may result in considerable savings in buying and selling and other functions between the wholesaler and retailer. To meet this advantage of the chains, the independent wholesalers and retailers have organized voluntary and cooperative chains and a well known authority in the grocery field says that the volume of voluntary and retailer cooperatives is now larger than that of corporate chains and that their warehouses now supply many small chains.18

**Operating Efficiency**

The fact that merchandising expenses by both wholesalers and retailers depend primarily upon individual efficiency cannot be overemphasized. All studies have shown extremely wide variations between the expenses of individual operators in the same trade. The same is true of manufacturing, mining, and farming costs. This variation was the basis of the marginal theory of price determination evolved and widely recognized by economists. It is the basis of bulk-line price fixing by our government. It was very widely used by government price-fixers in World War I. Needless to say, this method of price-fixing gives very high profits to some sellers. The graduated excess profits tax has been used to recover much of this profit. Under this tax, the Government allows the efficient business man the fun of making a high profit and then takes most of it away from him. The wide variations in costs also explain many of the cost plus contracts used by government agencies.

**Variation in Costs**

Economists have much more generally recognized the wide variation in costs between different concerns than have business men. Time after time we hear business men say that their costs are approximately the same as those of competitors. Such statements usually are far from the truth. I have never seen nor heard of any dependable cost figures that show that most competitors have similar costs.

Some economists argue that under free competition competitors will “in the long run” have the same costs. The less competent producers will be eliminated. Many business men argue that this is not so. An incompetent or inefficient man is eliminated but by the time he fails he has learned something about the business and about his costs of operation so when he fails a new man takes over his place of business who is more ignorant than the former occupant was at the time of his exit. The economist retorts that he said in the “long run” and no one seems to know how long the “long run” is. There is, of course, a tendency for high cost
operators to reduce their costs, especially if they know their costs are high. To illustrate, shortly after the business press published the fact that the Great Atlantic and Pacific Tea Company was operating its wholesale houses at 3 per cent, an executive of a large voluntary said: “We must get our wholesale expenses down to 3 per cent.” Can you do it? “If the A. and P. can do it we can do it!”

Regardless of the truth of this argument, there is another reason why the costs of marketing concerns in the same trade will never become uniform. There are four factors of production – land, labor, capital, and management. The economist who says that costs will become uniform between competitors argues that labor tends to come to a common level of production, that capital costs tend to become equal, and that if one man has an advantage in land (raw material) that its value will increase so that when it is sold the buyer will have a cost so high that he will have no advantage. There may perhaps be some truth in this argument for the “long run” although we know that there is often a very great difference in the output of workers doing the same job with the same machines, and that one concern often has the benefit of new inventions or discoveries not available to his competitors.

However, management will never become of equal efficiency, and, in many marketing concerns, management is the most important factor in production. Management can never become of equal efficiency because of the element of time. Men owning and managing businesses are of various ages and a man’s efficiency commonly varies with his age. A young man is inexperienced. If he inherits his business he may also be lazy. But his efficiency will increase for a number of years as he gains experience. The successful manager’s efficiency commonly drops as he gets older. He loses a part of his energy and his doctor tells him to “ease up,” or he reasons that he “can’t take it with him” and should enjoy some of the fruits of his labor while still alive.

Thus, at any time, competing businesses are in the hands of managers of various ages and of widely different efficiency. Hence, if for no other reason, competitors have widely differing costs. This means that some have large profits, some have small profits, some just break even, and some lose money. The latter fail if their losses are continued. But a company may lose money for several years without using up its capital and quitting.

One other fact should be mentioned in this connection, that an operator often makes money one year and loses money in another year. In other words, the same concern is often a supramarginal operator in some years and a submarginal operator in other years. Profits in good years help to offset losses in poor years.¹⁹

This variation in costs between similar stores and other marketing institutions is important in the overall picture of marketing operations and especially to those interested in price theories and policies.

**Integration**

The study of operating efficiency leads to a study of vertical integration. The study of integration appears to be a very fruitful field of study and also a field of
some popular interest as witnessed by the current case of the U. S. Department of Justice against the A. and P Tea Company.

We do not know just how much advantage integration between wholesaler and retailer or between manufacturer, wholesaler, and retailer has. In some cases it appears to be very great. In other cases it may be very little. This is one part of marketing that needs much more research.

Price Determination

Marketing students are much interested in price determination. One may almost say that price is the center and keystone of marketing. Marketing students have devoted much time to the study of price fixing by monopolies, trade associations, and cartels. But the lead in stating the concept of monopolistic competition seems to have come from without the field. Marketing students have given much attention to price laws, especially resale price maintenance and anti-trust laws, and have studied their results. We have devoted much study to the relation of price to demand and have developed the concept of flexibility of demand. Perhaps this has been our main contribution to the theory of prices.

We have devoted much of our attention to the price policies and strategies of individual sellers. Shaw used the policies of selling at the prevailing price, of selling at the market minus, and of selling at the market plus. This is quite different from the economist who assumed that all sellers sold at the same price. Theoretical economists have, however, now followed market economists in recognizing differentiation of products.

Trade Movements

Marketing includes studies of trade movements, interregional movements or movements between geographic areas, and the movement within geographical areas. Students of marketing have devoted much attention to movements of wholesale and retail trade within regions, to setting sales territories, to the location of wholesale and retail stores, and to the study of proper advertising areas, and the selection of media.

There have been several excellent studies of wholesale territories, but somewhat more progress appears to have been made in working out definite laws governing the movements of retail trade.

Retail as well as wholesale trade areas depend partly, if not largely, on the transportation facilities available. The early settlers along the Atlantic seaboard travelled by boat and horse. The advent of the steamboat led to a rapid development along our inland waterways. The coming of the railroad gave us a new geography. With railroad and horse transportation, trading villages were established every four to six miles with larger trading centers, usually the county seat towns, every twenty to thirty miles. The coming of the automobile and paved roads has modified this pattern. Some keen observers could see signs of coming changes as early as 1911. Changes in trade movements became marked
in the years following World War I and marketing students became interested in the subject in the 1920's. My study of the subject began in 1925 and my first bulletin was published in April, 1928.21

Dr. William J. Reilly, at the University of Texas, was studying the subject at the same time and issued two bulletins in 1928 and 1929 in which he formulated the Law of Retail Gravitation.22 This law involves two factors, populations and distances: two trading center towns attract trade from the vicinity of the breaking points between their territories in direct proportion to their populations and inversely as the squares of the distance between them. The larger town has more stores and larger assortments of goods and is a more attractive shopping center than the smaller town and draws trade from greater distances. Distance takes time, and effort, and costs money. This limits the distance people will go to shop. Combining these two factors we have the law of retail gravitation. There are several limiting factors, among them such as conditions of the highways, traffic congestion, parking facilities, quality of stores, and the like. However, this law predicts the movement of retail trade in fashion goods with a high degree of accuracy.

In our studies at the University of Illinois we have measured the movement of trade from more than 100 towns and we have derived two additional formulas, one from the law of retail gravitation is used to set the boundaries of a town's trade area. The other derived by deduction indicates how much trade a town will lose to other towns and how much it will keep at home.23 The distance factor measures primarily time consumed in reaching the trading center. When travel is by automobile, distance is more easily ascertained than time. In the Chicago metropolitan area it has been found that if time by public carrier is used instead of distance, the formula works well in predicting trade movement.

Several interesting uses have already been found for the laws of retail gravitation. A merchant can compute his trade area and thus know the territory in which to solicit business. For example, a department store was found to be spreading its advertising over a large territory. The trade area of the town was computed and it was advised to limit its advertising to this area. It did so. The same advertising expenditure increased its sales considerably. Evidently much of its previous advertising expenditure was wasted.

The merchants of a town can compute the town's trade area and then have consumer surveys made to find out how they “are doing.” To illustrate, this was done in 10 towns near the borders of the trade area of town A. In seven of these towns, A was securing less trade than predicted by the law. These seven towns were in competition with three other trading centers, B, C, and D. In three towns A was doing better than predicted by the formula. These were towns in which the competition was with trading center, E. Obviously the merchants of A were doing badly in competition with towns B, C, and D. The facts show the merchants where they are doing poorly and where they should improve their efforts. These facts should stimulate them to do so.

Newspapers can study the trade areas of their towns to ascertain the territories in which to build their circulations.

Merchants can determine their trade areas and then can plot their customers on maps and determine if they are securing trade from all parts of their trade
areas to which their goods are adapted. If they find blank spots on the map, they know where to “dig in” to find the trouble and correct it. These examples illustrate some of the uses that may be made of trade area analysis.

**Store Location**

Considerable knowledge has been obtained on the subject of store location during the past twenty years, particularly by chain store operators. We have found these men very willing to discuss the subject and pass on their information. Store location can as yet hardly be called a science, but the use of traffic counts of pedestrians and automobiles, and studies of transportation facilities and geographic factors influencing or limiting town growth can take much of the guess work out of locating stores. Facts on income, occupation, and industries together with highway mileages and populations of towns are of great help in selecting towns in which to place stores. Academic men have not done a great deal of research on the subject of store location. This appears to be a fruitful field for further study.

The classification of goods is of fundamental importance in the location of retail stores, in selection of the area to be covered by advertising, in selecting type of salesmen needed, and in the merchandising policies pursued. To illustrate, groceries are convenience goods and a grocery store secures most of its trade from a relatively small area. Even a super-market secures little trade, except that of farmers, from a radius of more than two or three miles. On the other hand, a store handling high quality fashion goods such as higher priced women’s wear may attract trade from several counties and some of the larger stores even from parts of two or more states. The type or kind of goods handled is also important in choosing the specific location within a town.

**Retail Rents**

We learned in economic theory that rent was price determined and not price determining. Yet when we obtained expense figures for large groups of retail stores we found that the percentage cost of rent increased as we went from poorer to better locations. It would have been very easy to conclude that the higher rents increased the total expenses of stores in down town stores. Yet Nystrom in his *Economics of Retailing* published in 1915 showed that this was not the case – that the better merchants were able to pay the higher rents because the better locations were more productive. They yield larger sales but the rents increase faster than the sales – that is, the percentage cost of rent increases. The better locations may yield sales at higher prices or the larger sales may enable the purchase of goods at lower prices because of a larger volume. Either lower buying prices or higher selling prices may increase the gross margin percentage.
The larger sales volume may allow a faster rate of stock turnover and this may reduce carrying charges. But more important, the better location yields larger sales and makes possible larger dollar profits. The better merchants bid for the better locations, and those with the greatest efficiency as measured by operating expenses other than rent get the best locations. Thus, the better locations yield more dollars, if not larger percentages, of profit.

We know that the percentage cost of rent increases from small rural villages and small towns as we go into larger and larger towns. The percentage cost of rent also appears to increase as we go from outlying districts into the downtown retail shopping districts near the 100 per cent locations. This fact is important to retailers and those advising retailers.

Study of Income of Local Areas

Since W. I. King made his estimates of national income, much work has been done in this field. The estimates of the United States Department of Commerce of income and expenditures are now widely used.

Considerable attention has also been devoted to a study of local buying power guides and to county and city incomes. Some of the commonly used factors are population, value of farm products, automobile registration, retail sales, number of retail stores, magazine circulation, bank deposits, bank clearings, postal receipts, sales taxes paid, rents paid, payrolls, number of persons employed and number of income tax payments. Overall or single buying power indices have been prepared to measure the sale of consumer goods. Perhaps those prepared by Sales Management Magazine are at present the most widely used. Indices are also prepared to indicate the potential sales of individual products. These are usually prepared by private companies to forecast or measure their own sales. Estimates have been made of the income of counties or other small areas.

The Total Cost of Marketing

There have been several estimates of the total cost of marketing. Lough and Gainsbrugh estimated the costs from 1909 to 1931. In percentages their estimates of the cost of marketing manufactured goods declined from 31.5 per cent of retail values in 1909 to 29.9 per cent in 1931. My estimate was made in 1933 for the year 1929, and showed a total cost of 39.4 billion dollars compared with a cost of producing the goods of 36.2 billion dollars. Marketing thus took 52.2 per cent of the total cost of producing and marketing goods. For 1939 my estimate was 28.8 billion dollars for marketing or 50.5 per cent. Mr. L. H. Mantell, of the United States Department of Commerce, in an unpublished paper used a different method and obtained a marketing cost of 30.9 billion dollars for 1939, which was 50 per cent of the cost of the goods to the consumers. His estimate for 1929 was 50.9 per cent.

Perhaps a few words should be said in passing about the estimate of 59 per cent made by the Twentieth Century Fund for 1929. This study based its
estimate of manufacturers’ selling costs on the figures for 312 manufacturers published by the Association of National Advertisers, Inc., and the National Association of Cost Accountants, published in 1932, and on guess. These 312 companies could scarcely be called a sample, as they seem to have been any companies from whom reports were obtained. The selling costs reported by these 312 companies were much higher than those reported by the Census and by 2,748 corporations with sales of 30.7 billion dollars reported upon by the Federal Trade Commission. Correcting the Century Fund’s estimate on the basis of this wider coverage brings their figure down to some 52 per cent.28.

We find that three independent estimates show the cost of marketing to be between 50 and 53 per cent of the price paid by the consumers for goods. We also find that this cost has remained fairly constant during a period of 30 years (1909–39). Lough and Gainsbrugh (p. 8) said: “Costs of distribution figured as a ratio of total payments for consumers’ commodities, a ratio that shows a surprising tendency toward uniformity throughout the 23-year-period studied (1909–31).” However, both Mantell’s and my own estimates show slight declines from 1929 to 1939 – Mantell’s from 50.9 per cent in 1929 to 50 per cent in 1939; and mine from 52.2 per cent in 1929 to 50.5 per cent in 1939. Lough and Gainsbrugh’s estimate of the cost of marketing manufactured goods dropped from 31.5 per cent in 1909 to 29.9 per cent in 1931.

We may guess that when the data are available, the 1949 cost of marketing will not take any larger proportion of the consumer’s dollar than it did in 1939. Prices have advanced and it is doubtful if expenses have caught up with the rise in prices. There has been an increase in self-service stores, and a considerable reduction in services rendered by retailers – delivery of milk on alternate days, for example.

These figures are significant. A commonly held opinion is that marketing costs have increased, at least in relation to production costs. We hear much about the technological advances in production, of the improved labor-saving machines used in our factories and on our farms, and of the better organization of work. These increase the output per man. Most of us are more or less familiar with the remarkable record of American production as measured in output per man. We hear very little about advances in either new machinery or work organization used in marketing. We therefore may think that marketing has made no similar advances. It has been said that marketing enterprises must follow the wages and hours in our factories and with no corresponding increase in output, labor costs rise.

It is commonly assumed that marketing costs have gone up relative to production costs. Perhaps we see some improvements in marketing methods and conclude that there has been some reduction in marketing costs, but that these are not nearly as great as the improvements in production. Hence, we conclude that marketing takes a larger part of the consumer’s dollar. Even so, the consumer is benefitted so long as the price to him is reduced. The consumer would benefit from improvements in production as long as there is no corresponding increase in marketing costs.

But if the estimates quoted above are correct, marketing has done better than this. They indicate that there has been fully as great an increase in marketing
efficiency as there has in production efficiency. This conclusion may come as a surprise even to many students of marketing as well as to business men. We may well pause and consider some of the labor-saving devices introduced during the past forty years. To mention only a few: growth of integrated concerns such as chain stores, growth of self-serve stores, introduction of one-story warehouses handling goods on pallets with mechanical trucks, heavier freight trains, improved switching in railroad classification yards, movement of goods by motor truck with a shortening of trade channels and reduction in packing costs, improved machines for billing and accounting for sales, tiering machines, improved mechanical devices for order assembly, reduction in service in retail stores, reduction in salesmen’s expense by use of automobiles, larger unit purchases by consumers such as automobiles and refrigerators (which require less of salesman’s time per dollar of sales), larger individual purchases of foodstuffs in super-markets, and a very great increase in and improvement of marketing research.

Perhaps a few words should be said about the growth in research as applied to all kinds of business problems and its relationship to marketing costs. Organized commercial research is scarcely forty years old. During the past thirty years, research has increased very rapidly. There has not only been an increase in quantity but, perhaps, an even more marked improvement in quality. Techniques have been improved and new techniques introduced. Note, for example, the very great improvement in sampling techniques developed by marketing research men. Retail store audits and consumer panels illustrate some of the newer techniques. The first Census of Distribution for the year 1929 marked one of the greatest advances in research in the distribution field. There have been improvements of the methods of analyzing markets and setting sales potentials and quotas, in cost accounting (although distribution cost accounting has lagged behind production cost accounting) and in interviewing techniques.

The results of research have increased marketing efficiency. Product testing helps adapt products to consumer needs and lessens the sales effort required to sell the product. An analysis of markets helps the seller to cultivate his logical markets and reduces selling expenses of trying to promote sales in poor territories. Advertising research helps to prepare advertisements that reduce advertising expense per dollar of sales, to select the most economical advertising media, and to choose the most appropriate time for advertising. These reduce the percentage advertising cost. Research in costs helps to eliminate unprofitable products, territories, and customers, and to push the sale of profitable lines, in profitable territories, to profitable customers. These are but a few of the scores of ways in which research helps to increase marketing efficiency and so reduce marketing costs.

Knowledge is fundamental to the intelligent operation of any enterprise. An example is supplied by the study made by the Federal Trade Commission of the bakery industry. This study brought to light the high expenses of distributing bread by independent bakeries. The chain stores saw these figures and the number of bakeries operated by chain increased greatly with a saving of one cent a pound to the consumers.29
We need more facts on the various aspects of marketing. We need a testing of the findings of research. We know that not all the reported results are facts. Some so-called research projects are undertaken to get evidence, not to get facts.

In our search for facts we should not be limited to research that promises to be immediately useful in business. History shows that when facts are developed, they sooner or later prove useful. One of the main limitations on commercial research conducted by private business enterprises is that it has been very largely limited to subjects that promised to prove immediately useful. This very severely limits scientific investigation in the business field. Some of the large corporations like General Electric and Du Pont have found that it pays to turn men loose to study whatever arouses their curiosity. Business research needs the same approach; but as yet, few, if any, private business concerns are willing to pay research men just to find out new things. In fact, some say frankly that for some years this kind of investigation will have to be done by academic men.

Another limitation on research done by commercial organizations is that most of the results are kept confidential. A large amount of work has been done and the results largely hidden under barrels because they are used, if at all, by only one company. Frequently only the most obvious results of a study are used at all. When research is farmed out, the research organization often tabulates or analyzes the results only in the agreed way. Perhaps this obtains only a small portion of the information which might be obtained from the data by analysis, cross tabulations and detailed study. One wonders what we might know about consumer reactions and psychology, if some of the companies making consumer surveys thoroughly analyzed all of their material over a period of years and made deductions.

There is much waste in commercial research done by private companies in that there is duplication of work, different companies duplicating work to find out the same facts. Interchange of information would be useful.

In gathering original data, the academic man acting alone is severely limited in the scope of studies which he undertakes. With the assistance of university research bureaus, much larger projects can be handled and many of our most valuable studies have been made by these bureaus. Much of the most valuable factual information of the past twenty years has, however, been gathered by government agencies and endowed foundations and some has been gathered by business firms and by magazines and other publications. Perhaps the teacher can make the greatest contribution by compiling, analyzing, and coordinating information gathered by other agencies and by making deductions and drawing conclusions.

Many facts which are not confidential are never published. The marketing profession needs a greater publication of marketing facts. This should be started in the Journal of Marketing. It might outgrow this into something like Chemical Abstracts, which reports the findings of research projects. This would give us one principal source to which we could go to find out the facts developed by research conducted by academic men, government technicians, and researchers for private concerns.
Conclusions

I have tried to indicate the very great progress during the past fifty years in the development of marketing knowledge and marketing literature. In 1900 most of the knowledge of marketing was in the minds of business men and scattered through censuses and other government reports, in books on general business or on selling, and in various business periodicals. There was no body of organized literature. Science has been defined as an organized body of knowledge, or a branch of knowledge dealing with a body of facts or truths systematically arranged. Marketing meets the conditions specified in these definitions and so can rightfully be called a science.

The first or pioneer stage has been passed. The next fifty years will be equally challenging and exciting and should produce greater knowledge than the past fifty years. New hypotheses will be evolved, tested and developed into principles and laws. Research techniques will be refined and predictions can be made with greater assurance. Marketing is still a relatively new field. It is a field that will attract young scholars because it offers an opportunity to find out many new and interesting things.

Notes

5. Quarterly Journal of Economics, August, 1912. A condensation of the article appears in this volume.
19. Professor Secrist pointed this out in his study of the operations of retail clothing stores; Horace Secrist, *Competition in the Retail Distribution of Clothing*, Northwestern University, Bureau of Business Research, Series II, No. 8, 1923; see also his *Triumph of Mediocrity*.


L. D. H. Weld made one of the earlier estimates (*Printers’ Ink Monthly*, March, 1932) but he included only the cost of marketing by retailers, wholesalers, manufacturers, and railroad transportation.