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Merchandising your Wares

BUSINESS may be thought of as production and marketing, with finance as the agency facilitating both. All three may be included in the term "merchandising." Merchandising offers junior executives and young men starting in business life unusual opportunities to display their initiative and their constructive imagination. It is a job demanding an open, investigative and diligent mind.

There are many scores of activities in merchandising. The earth is, of course, the real producer, but human effort is needed to make its resources available for use. Nature's bountiful stocks of minerals and vegetation must be discovered, dug up or cultivated, processed and distributed. All of us play a part in bringing natural resources to market. Everyone who participates intelligently is performing a service for society.

No book of rules can cover so wide territory in detail, but it is possible to obtain a bird's-eye view of the merchandising scene. We may then go on to apply general facts and principles to the solution of specific problems encountered in any company dealing with any product in any market.

Basic to all merchandising is the term "utility", a word used by economists to designate the ability or value of goods or services to satisfy human wants. Unless an article or service is of direct or indirect use to people, it is not an item of merchandise.

"Utility" may be broken down for discussion purposes into three parts: form utility, which comes from growing crops or timber or recovering minerals and processing these things into usable commodities; time utility, which consists in making usable goods available when they are needed; place utility, which brings the goods to the location where they are wanted. Manufacturing increases the form utility of raw materials by processing them; merchants add place and time utility.

The term "merchandising" includes all these, though it is sometimes used in a more restricted sense. P. H. Nystrom quotes an opinion in his compendium *Marketing Handbook* that merchandising "includes the determination of what to make, how much, at what time, and at what price". The Alexander Hamilton Institute confirms this wide view by naming its volume written by Ralph Starr Butler *Marketing and Merchandising*. At the annual conference on distribution last year (sponsored by the Boston Chamber of Commerce and Harvard University Graduate School of Business Administration) the discussion ranged from the "know-how" of production to motivation of the consumer. Production and selling must pull evenly in the harness if business is to prosper.

Financing is an activity that runs all through the process. Capital is needed to support exploration for and development of resources; to erect factories and make machinery and pay wages; to carry stock and operate warehouses; to construct railroads, ships, airplanes and trucks; to build stores for the display and sale of merchandise.

Purchasing

Purchasing has priority in any activity anywhere in the chain. It is a process by which a responsible person determines needs, ascertains their characteristics, locates people who have suitable goods to sell, and gets possession of them. Good buying is indispensable to merchandising success.

Raw material well bought is easily processed; finished goods well bought are, according to the old saying, half sold. Failure or negligence in either area will cause loss.

The purchasing executive must know his responsibilities, their burden and the limits to which he may go. When the traffic department of his firm failed to get reduced freight rates on a raw material, one executive worked with the supplier and some other customers and got a reduction of 50¢ a ton, nearly 10 per cent of the delivered cost of the material. In telling this episode, a writer in the *Connecticut Purchasor* says: "You may say the P.A. stepped on toes. I say he got results and results speak for themselves. He had an idea and saw it through."

Between purchasing and selling comes the inventory, with its constant challenge of supply and demand. To restrict stock investment to a minimum, good practice calls for stocking the least amount of material that will keep the machinery turning, with a little in hand to meet emergencies. It is the "little in hand" that causes headaches.

Buying from hand-to-mouth, with the attendant risk of depletion through increased demand, or because of a breakdown in supply or transportation, is not the same as buying with caution so as to avoid the evils of over-buying. Among these evils are the costs of storage, insurance, interest, shrinkage, and the loss of revenue on tied-up capital. There is risk, too, of a change in demand that calls for different materials. It is one of the tragedies of a business when it is compelled to liquidate inventory instead of doing a well-rounded job of keeping a stream of goods flowing to sales outlets.

Production

Some persons profess to regard farmers, miners, foresters and others in the primary field as the only producers, but that does not accord with general thinking. It is difficult to look upon the farmer as being more a producer than the crew of the freight train that hauls his goods to market, or the wholesaler and the retailer through whose hands the goods pass in distribution to consumers.

Dean J. F. Johnson wrote in his book: *Economics: the Science of Business:* "Every man or woman is a producer whose labour tends to the gratification of human wants or to the increase of utilities, whether through a service which increases the supply of economic goods or through a service which in itself gives pleasure to the consumer."

Production requires as much well-informed and well-directed thought as any of the other components of merchandising. The producer has to estimate the demand for his product and the amount his competitors intend to produce, and the proportion of the total demand which he, with his factory capacity and sales ability, should expect to supply.

Good product policies are needed if an enterprise is to have long-time success. Planning of product must have direction. The sort and quality of merchandise call for detailed attention, and ideas must add specific characteristics to set these goods apart favourably from others if competition is to be met.

Standards need to be fixed upon and adhered to in competition with some predatory businesses that thrive for a time on shoddy merchandise. He who comes to the market with merchandise that equals or surpasses his competitor's goods is building toward a long-term consumer acceptance that makes for stability of his enterprise.

Distribution

There is no one best channel of distribution for all products, and even when the best distribution route is determined for a particular commodity it is likely to change radically and quickly with a change in local, national or world conditions. The best we can say is that we are seeking to use the most effective means of distribution for these particular goods in such-and-such market at this particular time.

People along the distribution line have found themselves at times the butt of criticism. Much of the talk about "waste" in distribution is loose and ill-founded. Production would be wanton dissipation without distribution: what would be the use of piling up stock endlessly? There are some prodigal practices within the distribution businesses, many of them responding to consumers' demands for competitive goods closely resembling one another. Thriftless habits due to careless book-keeping, lack of planning, and other management errors, will work themselves out in the rivalry of the market place. It might be said that extravagance in distribution is one of the prices we pay for enjoying the choices given us by the enterprise system — choices that are not given to people under monopolistic systems.

The merchant

Marketing is the dynamic force in business whereby the commodities produced and processed are directed into use.

Business people in this area of merchandising are middlemen — a term that includes jobbers, wholesalers, commission agents, retailers, and others. Some mistakenly think of middlemen as a particular class of dealers interfering between the producer and the consumer. Instead, middlemen are all those who facilitate the transfer of goods; every individual linking the manufacturer and the consumer. The elimination of the middleman as a class, says Dr. Butler, is a physical impossibility in our complicated civilization.

The merchant buys commodities in a condition to be used, displays them, and sells them where they are wanted. He adds time and place utility. He depends for his wages on his judgment, on the one hand of what is wanted where and when, and on the other hand of where he can obtain the needed goods at a price that will allow him to make a profit out of which to pay his running expenses, his labour bills, and his own recompense.

How is the merchant judged by his customers? By his efficiency in providing goods that give customers the maximum satisfaction for every dollar spent. It is a task demanding imagination, resourcefulness and effort.

There is no cut-and-dried plan. Changes in consumers' desires and in the supply of goods are never ending. The merchant needs to be always redefining his prospects in terms not only of long-term trends but of passing whims and prejudices. Purchasing power waxes and wanes periodically in tune with the business cycle, while purchases of this or that commodity rise and fall in keeping with seasonal changes and the fickle appetite of the consumer.

Every impediment to the smooth and efficient supplying of consumer needs should be rooted out, whether it be old-fashioned clinging to past easy-going ways of doing business or the quite common attitude: this is what we stock, take it or leave it. Every business, from the smallest to the biggest, needs research to reveal customers' wants, a plan for what has to be done, study of the best way to do it, and energy to carry through the plan.

Here is a check list of essentials, given by Professor Nystrom: are the quality and design of the product right? Are new products added when advisable and current products eliminated when interest in them declines? Are new uses for products sought for and exploited? Are customers being alienated by the overselling of merchandise, or by exaggeration and misstatements regarding merchandise, or by false promises about delivery?

Selling

Selling is the end result led up to by all other merchandising efforts. In it the producer or the manufacturer or the merchant finds a customer and persuades him to buy.

The ideal in selling is to know one's goods, one's sources, one's market, and one's customers' wants. Upon that knowledge there can be built constructive and effective salesmanship.

Consider the market. The market is worth a second and somewhat lingering thought by even — or perhaps especially — those executives who are inclined to say off-handedly "of course I know my market." Are sales arguments aimed at the right target? Are they too scattered or too concentrated? Are efforts being wasted on prospects in a small diameter bull's-eye that might better be spent on people in a bigger circle? Has the possible market been studied to find out what particular qualities or trimmings can be added or subtracted so as to give the commodity a wider appeal?

Widening the market is a first-class way of increasing business. The distance between good and bad selling, said the editors of *Fortune* in a book they call *Why Do People Buy?*, is more than individual profit and loss; it can also be the distance between an economy that has resigned itself to a ceiling and one that provides more for everyone at a constantly accelerating rate.

Marketing strategy

Canada has many an example of a thriving business founded on a seller's alert perception of an unnoticed need. He gathered information, probed wants, prospected the market, and came through with something new.

It can be said with certainty that many manufacturers and merchants are accepting a too-narrow market. They have not collected the facts and appraised the possibilities of extension either by changing their product or finding new large areas of customers. New uses for commodities may be the result of changing conditions because of which needs have changed, but there may be additional uses already in existence awaiting discovery by the alert merchandiser.

Besides changing the design so as to appeal to the eye of possible customers, the maker of goods has several paths beckoning him to better business.

He may change the basic material so as to give his product greater appeal and perhaps lower his cost. He may alter the design, so as to make his product more widely useful. He may raise the standard of workmanship so as to give his goods a quality not approached by others. He may package his goods in such a way as to make the product easier to handle and to use, or the new package may add lasting quality to the merchandise. He may simplify his product, or make it speedier in use.

The consumer

Throughout all this planning the seller must have the consumer in mind: what do people want? No one can sell effectively unless he has gained intimate knowledge of the people who may buy his goods.

Whether by personal probing (as in the case of a small merchant) or by a market survey (in the case of a big manufacturer) the seller must learn the basic reason why his product is being bought. From that he should be able to arrive at a decision about what will make customers continue to buy what he has to sell, and what will attract new customers.

The consumer appreciates a seller who has made a study of what the prospect needs and is ready to show him clearly a definite plan to satisfy his needs. The plan may appeal to the imagination, senses, interests or wisdom of the buyer: if it touches all these (and an intelligent salesman can frequently ring the bell on all four) then salesmanship has reached its high point.

This introduces an important aspect of business in our western world: the average consumer can buy so many things that he has become a person with great discretionary spending power. A man has to consume certain things if he is to live, things like food and clothes. If he is a normal person, there are other things he believes he has a right to consume, such as vacations and entertainment. Then there are things he would like to consume to increase his welfare, like de luxe cars and diamonds. His choice pattern and his purchasing power combine to be of significance to the seller.

Ours is a different setting from that of last century's Europe, or this century's Russia. Distribution without persuasion in immature or totalitarian economies is natural, and people are more concerned with subsisting than with making choices. We in Canada are beset with the problem of wide choice and whimsical buying, so that the competition of sellers is sharpened and intensified. "It is no exaggeration," said the economist Boulding, "to say that consumption is the most important and intractable problem of a mature capitalism."

Informing people

Whether a product is displayed in stores or pictured in catalogues, its outward appearance is important, but in recent years consumers have become increasingly conscious of other specifications: the quality and accuracy of workmanship, the durability of materials, the ease of operation and facility in replacing parts.

So important is the consumer's satisfaction that some merchants of household appliances, for example, insist upon sending an expert workman to demonstrate the apparatus in use. They wish to make sure that the appliance gives continuing satisfaction, and that can only come about if the user knows how it works and what he must do to obtain the best service from it.

Nobody has yet been able to measure the precise effect of this or that form of advertising on sales, but certainly the giving of information — not just pretty pictures and sultry adjectives — has a high place in effectiveness.

Education, at least by that name, is a newcomer in the sales field. The spirit of the times seems to be that the provision of authentic but readily-understandable information will make consumers more efficient buyers and better users, with consequently good effect on sales of quality merchandise. Dr. Nystrom says: "Education broadens a person's knowledge and sophisticates his tastes, thereby arousing desires for more goods and for a greater variety of goods."

Companies that believe in this doctrine do not require customers to bring along their own test tubes and microscopes when they shop, but provide the facts these instruments would reveal. Their labels, for example, give sufficient information about the nature, use and care of the product to enable the prospective purchaser to judge its value and care for it effectively.

Consumers Research Bulletin has been consistently boosting this sort of thing, and has recently urged makers of home appliances and home workshop tools to take pains with instruction sheets to see that they are complete and clear.

Broad knowledge

It is evident that broad knowledge is needed in every merchandising activity. Uncertainty of results is due chiefly to the fallibility of human judgment, based upon incomplete or poorly-digested facts. The executive engaged in any phase of merchandising will increase his certainty of decision in his own field by knowing the principles and the current trends in other sectors of merchandising. Such a man will not be over-frightened by competition, he will meet price troubles constructively, and he will pursue his marketing policies and procedures with confidence.

Complete knowledge is not within the range of human capability, but an earnest man will at least try to know his own business inside out and upside down. He will learn everything he can about his merchandise. He will know as much as he can find out about his competitors' lines. He will study, insofar as they may be useful to him, pertinent reports issued by governments, trade associations and research agencies.

Some of the areas to be explored for important decision-influencing data are: 1. the liveliness of exchange (buying and selling of goods); the physical supply of goods (transportation and inventory); the condition of finance (banking, bonds, stocks and wages), and 2. the principles of risk-bearing, standardization, and selling.

Current information about factors mentioned under 1. is available in the Dominion Bureau of Statistics *Weekly Bulletin*, available from the Department of Trade and Commerce, Ottawa, at $2 a year, and in the *Statistical Summary*, published monthly, available from the Bank of Canada, Ottawa, for 25¢ a copy. For the principles comprehended under 2. the following are suggested sources: *Marketing Handbook*, by P. H. Nystrom, Ronald Press Company; *Marketing and Merchandising*, by Ralph Starr Butler, being volume V of the Alexander Hamilton Institute *Modern Business Texts; Why Do People Buy?*, by the editors of Fortune, McGraw-Hill; and publications of the Canadian Standards Association, National Research Building, Ottawa.

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