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SELECTED MARKETING CONSIDERATIONS FOR SMALL BUSINESS MANAGING IN DEVELOPING COUNTRIES 1/

by

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PART I.

AN OVERVIEW OF MARKETING AND MANAGEMENT PROBLEMS FACED BY SMALL BUSINESS MANAGERS IN DEVELOPING COUNTRIES

INTRODUCTION

The marketing problems of a small clothing manufacturer in Nepal are not the marketing problems of a small bicycle manufacturer in Chile. If we accept the fact that problems of two companies manufacturing the same product in the same country may be quite different, the limitations of a paper addressed to a multi-industry, global audience become startlingly apparent.

This paper then will present some guidelines to marketing management. These guidelines are not universal truths to be accepted slavishly and without regard to the precise situation existing in a given company or a given country. Selection of material for this paper has been made on the basis of the widest possible application to the most frequently found types of problems and procedures. Pragmatism rather than theory has been an additional guideline. If the reader will use the material as a chemist uses a catalyst, he will be on safe ground.

This is a paper on marketing. Marketing, however, is only one part of the system known broadly as management. To have competency in marketing one must relate it effectively to the overall operations of the company. This integration of marketing into the other conceptual and functional areas of the company will be evident throughout the entire discussion.

There is little doubt that the owner of a small business in any country is faced with difficult problems of a nature that does not concern his larger competitors. In the developing countries, these problems are apt to be compounded by economic factors not applicable in the more industrialized nations.

In spite of this troublesome mixture, there is reason for optimism in examining the future of the small scale sector in the emerging economies. For such optimism to be justified, a number of conditions must be met. The small industry owner must operate his business in such a manner as to minimize the disadvantages of smallness and to maximize the advantages. Government agencies involved with economic development must recognize the essential part played by small industry in such development. Going beyond mere recognition, government must assist in providing appropriate mechanisms to achieve viability of this sector.

A. PROBLEMS INHERENT IN OPERATING A BUSINESS IN A DEVELOPING COUNTRY

Before a relevant listing of such problems can be made, it is well to recognize the heterogeneous nature of the term "developing country". Dr. Ernest Dichter has suggested these broad spectrum definitions of two categories of developing countries:

> Revolutionary Countries. Venezuela, Mexico, Argentina, Brazil, Spain, India, China, and the Philippines are in this group. In these areas large groups of people are just emerging from near starvation and are discovering industrialization. Relatively speaking, there are more extremely rich people, a small but expanding middle class and a very large body of depressed economic groups that are beginning to discover the possibilities of enjoying life through revolution in industry. In these countries large sections of the population have not even reached the stage of being consumers. These are the Indians living in many South American countries, the people living in the villages of India, Indonesia and so on.
>
> Automobiles are available to a relatively small group. They are taxed so highly that they are beyond the reach of most people. American cars are considered the ideal. People want to show off. Small cars are bought as a way to get started. As the middle class develops, there should be an even further increase in the sale of small and compact cars with the really rich people preferring the big American cars.
>
> Primitive Countries. The newly liberated countries of Africa comprise another group. In these countries there exists only a very small group of wealthy indigenous and foreign businessmen, a few political leaders and foreign advisors. The rest of the population is most often illiterate and ignorant and exists in a pre-consumer stage, characterized either by barter or by almost complete primitive "self-sufficiency". The few cars that are sold are primarily for the government bureaucracy. There is no car market yet.

1 /

These definitions while by no means complete, serve to illustrate the scope of the semantic problems in discussing "developing countries" Some specific problems faced by businessmen in many of these countries include the following:

1) Lack of an industrial or commercial tradition with its attendant complications. In some of the more primitive countries any businessman may be looked upon with a high degree of suspicion. In Ethiopia, for example, the word for entrepreneur is "shifta" which is identical with the word for bandit! Where they exist, such attitudes make it difficult for business and industry to attract competent and responsible personnel. Absence of industrially oriented financial institutions and lack of modern efficient distribution organizations are additional results of lack of industrial or business tradition.

Along the same lines we find in most developing countries a reluctance to take risks. An essential part of the western economic philosophy is that entrepreneurship, risk-taking and profit making, are naturally sequential and logical. To the citizen of an underdeveloped country who has managed to accumulate some capital either by saving or inheritance, such wildly speculative ideas are apt to be unthinkable. If he finds himself with a large sum of cash he is much more likely to buy a house or land than to go into business. Any capital gain which results from the sale of such property is not, in his eyes, either immoral or unduly risky.

2) The problem of finding sufficient cash for capital expansion or for inventories is not unique to either the developing countries or to small business. It is a problem faced by General Motors in Detroit and by Jose Gomez operating a small foundry in Medellin, Colombia. Jose Gomez or his counterparts in Nigeria or India have, however, many fewer cash-raising options open to them. Most of these small businessmen must depend on family, friends, and their own business as sources of additional funds.

One aspect of financing that is unique to the developing countries is the almost total unavailability of foreign exchange - particularly the "hard currencies" - available to small business. With specialized imported machinery and certain raw materials thus placed out of reach by Reserve Bank policies, product planning must be conducted with such limitations in mind.

3) Shortages of trained manpower exist in many of the emerging economies. This manpower shortage covers the entire gamut of management needs from the executive level down to the factory worker where the absence of one skilled lathe operator can disrupt the entire production process. In marketing a truly skilled market-oriented salesman may be so unique as to be almost non-existent. Far too many salesmen are merely "hawkers" in the sense of the "bazaar" or "mercado".

The occasional company which by virtue of imaginative policies in personnel procurement or by the use of training programs actually has competent personnel, often finds these valuable resources pirated by competitors. Though this practice may help the national economy as a whole, it is frustrating and expensive for the manager/owner who is the victim.

4) Consumer credit problems. The highly industrial countries owe a substantial part of their GNP growth to the extensive use of consumer credit. Such credit has been particularly significant in the financing of durable goods such as automobiles and appliances. Most of the developing countries have no such consumer credit traditions and no organizational structures for providing it. One reason for lack of such a credit structure is, of course, the extremely low per capita income in such countries. It is not difficult to see the problems in providing widespread credit to the mass of the Indian market, where the annual per capita income is under $70. per year or even in Colombia where the comparable per capita figure was $325. in 1966. The fact that per capita income figures are always mean averages is a significant consideration for the marketing man. It may be many decades before consumer credit for the mass market will be economically feasible in most developing countries. On the other hand, there is in many such countries a tiny but affluent upper

lass and a growing middle class. If the funds and organizations can be made available to provide wider credit to such consumers, the sales and distribution process can be accelerated.

5) Advertising and promotion problems still represent major difficulties in many underdeveloped countries. Few of these countries can provide a truly national medium such as we find in the west. In special cases, such as India and tribal Africa, multiple languages make a national medium an impossibility.

Low rates of literacy intensify the problem of advertising and written sales promotion. Successful marketers in such countries make extensive use of radio (loud music coming from a transistor radio in a bullock cart or mud huts dramatizes this medium), posters, movie trailers, and good packaging.

6) Market research has, until recently, been either nonexistent or ineffective in most of the developing countries. There appear to be two basic reasons for this limited use of an essential marketing tool. The first is the lack of a market research tradition. In the absence of such a tradition the use of market research appeared to most businessmen as an unnecessary expense as well as a useless activity. In the second place, tools and structures for market research were simply not available. Governments were unable or unwilling to provide basic statistical market and population data of sufficient accuracy or timeliness.

In the past decade, however, availability of usable basic data has become much more widespread. The efforts of the various economic units of the United Nations have played a major role in this improvement. In addition, the economic ministries of many of the developing countries have recognized the need for reliable and timely statistical information if industrialization is to proceed. Some private marketing organizations, such as J. Walter Thompson, have been instrumental in providing specialized market data.

Predictably, the actual use of these newly available data by small business has been slow in developing. It is to be hoped that such use will now proceed at a greatly accelerated pace.

The relative importance of these problems will vary from industry to industry and from country to country. They are part of the composite picture of industry in the emerging countries.

B. PROBLEMS UNIQUE TO SMALL BUSINESS AND INDUSTRY

1) Quality and quantity of management skills. Of all the problems of small business, that of inadequate management skills is probably the most universal and the most difficult to solve. In many instances the marketing function suffers the most from this inadequacy. This is particularly true in the manufacturing

industries. In these industries the company has often been founded by an engineer. Upon becoming an owner, he is more apt than not to concentrate his managerial talents in the area of production and engineering. As a result, the company may fail because of lack of knowledge of pricing policy, distribution policy, product policy (shaping the product to consumer needs), and promotion policy.

Unlike big industry, small industry can rarely find or pay for the most competent executives available in the three critical functional areas of finance, marketing, and production. For example, the marketing director for Tata Steel Company may be making ten times the salary of his counterpart in the small Krishi Engine Company of Hyderabad. The Tata man's salary is, however, paid for by several thousand times the rupee gross margin of the Krishi executive.

2) Corporate stagnation and nepotism. Many small businesses are totally family-owned. The present owner/manager may be a far cry in character and competency from the original founder of the company. Cultural patterns often exclude non-family individuals from key decision-making and policy-making positions. This type of nepotism in corporate behavior can have unfortunate results.

3) The problem of finance, though not peculiar to the small scale sector, is more critical and more acute to small business.

Unlike the large company, the small entrepreneur cannot go to the general public for additional equity capital. In far too many cases, he is unwelcome at the bank when he needs short-term funds for working capital, e.g. seasonal needs and so forth. This unavailability of cash is bound to be reflected in his marketing policies, such as inventory quantities, choice of distribution channels, pricing, and new product development.

4) "Unfair competition" from larger concerns, making the same or similar products, is often mentioned as a critical problem for the small businessman. This allegation needs to be examined critically, however. Aggressive and continuing competition from other companies, big and small, is a fact of business life. Probably no company which is not prepared and able to meet such competition should be in business at all.

C. POTENTIAL ADVANTAGES OF THE SMALL FIRM

From a marketing point of view, small business can have some advantages over large competitors. These advantages are not automatic nor are they necessarily self-evident. In every small company such potential advantages must be sought out, studied, and capitalized upon. This arduous process is not an ad hoc activity - it is constant and recurring - the company that is lax in this constant search for competitive advantages is not likely to stay in business long.

Let me cite some of the potential advantages which either exist or can be developed for the small firm.

1) Pioneering and innovation. In the industrial market particularly small business, top management can keep in close touch with customer needs and work out realistic responses to such needs.

2) Pricing advantages. Paradoxically it is in the area of pricing that the small businessman is apt to complain the most bitterly about the unfairness of his larger competitor. Yet there are price advantages to be had for the smaller company which is alert enough to look for them. Generally, it is possible to gear a small company more efficiently for short production runs. Frequently, too, the small company will be selling in areas near its plant and thus have lower freight costs to be reflected in the delivered price.

3) Production control advantages. Many small plants can give greater flexibility in the scheduling of unexpected rush orders. Such flexibility is a valuable service to the customer. It provides the small company with a very real selling and marketing tool.

4) Special services. Doing the "impossible" has been responsible for the success of many small firms. One such firm has borrowed from the U.S. Navy the slogan "The difficult we do immediately - the impossible may take a little longer."

5) Top management supervision. Some customer orders require expert top management supervision. When a customer is assured that the president of one of his suppliers is personally checking on the production, testing, shipping, and delivery of his order, he is likely to be a satisfied customer.

6) Big business needs small business. Twenty years ago General Motors had 10,000 sub-contractors. Today it is said to have over 30,000, of which the vast majority are classified as Small Business by the United States Government. Unfortunately, the sub-contracting policy by big business is not as widespread as it might be outside the heavily industrialized countries of the West. It seems likely, however, that the large scale sector in the developing countries will discover the economic soundness of substantial amounts of sub-contracting. The small company with progressive marketing management will be aware of the large potential market in the sub-contracting area. It will try to promote it and will be ready to take advantage of it when such a market develops spontaneously.

CONCLUSIONS

The preceding section has summarized some of the critical management (and marketing) challenges and opportunities for small business in developing countries.

In any company, in any country in the world, there is room for improvement in management methods and practice. This paper

is, however, concerned only with the improvement of management and marketing methods in the small scale sector in the developing countries.

The most obvious method of achieving the desired improvement is education, education, and more education. By "education" I mean the learning process in its broadest sense and including every medium for the effective expansion and transfer of knowledge, both conceptual and substantive. Such education can and should range from informal talks between businessmen to highly structured university courses leading to higher degrees in management.

Management education programs of both the formal and informal variety have, in the past 15 years, sprung up in astonishing numbers and variety. This growth has taken place in the developing countries as well as in the traditional bastions of management in the western world. There is scarcely a country that does not have within its own borders a wide variety of general and specialized management courses. The Council for International Progress in Management (a CIOS affiliate) recently published a comprehensive guide to these worldwide programs. 2/ Stretching to 572 pages the book includes 36 pages of listings of specialised marketing courses available from Singapore to Bogota - in both directions!

Small business is offered special programs in a great number of countries. These include India, Colombia, Israel, Singapore, Japan, the United States, Great Britain, Uganda, Egypt, Poland, and Czechoslovakia. 3 /

The problems of aid to small business, therefore, are no longer characterized by lack of educational opportunities. The most critical hindrance to improved management performance in small business is lack of sufficient motivation for improvement by the owner/manager himself. I recall that once in South America, the owner of a leather goods plant (with marketing problems) was invited to attend a week's marketing seminar. He refused to participate, saying "I don't think I should go, I'm not marketing now as well as I know how"! This attitude, while not often stated as bluntly, is found far too often in the small company.

Formats of management education programs that stress implementation should rank high on the agenda of small industry extension officers and the various organizations concerned with the improvement of small business performance.

One such program, "MANAGEMENT OF GROWTH AND TECHNOLOGICAL CHANGE stressing immediate, on the spot implementation, was developed recently by Northeastern University of Boston, Massachusetts. It was sponsored by the Small Business Administration and several other United States Government

agencies. It is described in Appendix B in the belief that its basic philosophy and its format can be adapted by those concerned with small business management education in developing countries.

PART II

MARKETING FUNCTIONS: PROBLEMS AND OPPORTUNITES FOR THE SMALL BUSINESSMAN IN DEVELOPING COUNTRIES

INTRODUCTION - THE NATURE OF THE MARKETING PROCESS

The developing countries - almost by definition - represent an economy of scarcity. In these countries one often senses, in one form or another, a downgrading of the marketing function. The thought is often expressed that marketing problems do not exist because, if goods are available, sales will be automatic. This type of thinking is shortsighted and dangerous. Presumably it stems partially from equating marketing and selling. In the industrialized countries, it is generally recognized that selling is only a small part of the marketing process, albeit an important one.

Contrasted with this parochial viewpoint found in so many underdeveloped countries is thinking expressed by Peter Drucker, one of the world's most eminent management authorities. Drucker believes that management has only two basic functions: MARKETING and INNOVATION. He observes that no profit centers are found inside a business - only cost centers. 4/ The profit centers are, of course, to be found in the market place.

Marketing as practiced in the more sophisticated economies has two basic tasks: 1) to direct the use of resources in conformity with demand, and 2) to aid in making the economy more dynamic. Failure of economic planners and the business community to act in conformity with these principles have the effect of

slowing down national economic growth.

It is important to note that, even where managers minimize verbally the importance of marketing, inevitably marketing procedures play a significant part in the operations of their firms. It is unfortunate that because of neutral or negative attitudes, these marketing functions do not receive the managerial time and analysis which they deserve. Product policy, distribution policy, and pricing policy are all elements of marketing to be found in every company. If they exist only in a routine, automatic framework, the company's growth and profitability are bound to be adversely affected.

In view of the importance of marketing in the management (and planning) processes, it seems appropriate to look at some important considerations related to this function. These have been selected on the basis of broad applicability (in terms of geography and various types of industry) and their importance to management.

The only justification that any company has for its existence is to provide a needed product or service at a fair price. The adaptation of the product to the customer requirements is the essence of progressive marketing thinking. The adaptation process can and should take many forms. Design, materials, color, utility, wearing qualities, are some of the

elements involved in product development. In addition, the related aspects of price, service, and place utility enter into the process of providing customer satisfaction.

In days gone by, "marketing" was merely high pressure selling of what was frequently rather questionable merchandise. Such goods ranged from wooden nutmegs in American Colonial days to useless pills today. The warning "let the buyer beware" holds true today.

Today's ideal marketing man must have command of many types of skills. He should make use of many subjects, including economics, psychology, anthropology, and sociology. For example, General Robert Wood was, in the early 1900's, president of the giant American mail order house of Sears and Roebuck. Almost 100 per cent of the sales of this company was to farmers through the mails. General Wood spent months studying population trends in the United States. He noted the falling farm population and the rapid movement from rural areas to cities and towns. As a result of Wood's census observations, Sears Roebuck started a program of building retail stores in city areas. Today, only a relatively minor part of Sears' $6 billion annual sales still are accounted for by their mail order section. Most volume is in their retail store operations. General Wood's skill in economics and sociology is largely credited for this success story.

Henry Ford was popularly known as an engineering genius. While this was undoubtedly true, it was his insight into a potential market that paved the way for the development of the Ford car. Looking at the America of the late 1890's and early 1900's, Ford was convinced that America needed or would soon need mass low-cost mechanical transport. As a result of this belief, Ford designed his early car and the production techniques that could produce it at the $400 which he believed the market could pay. The total product was designed around the needs of the market.

Ford was also far ahead of his time in the actual creation of a market. He recognized that a mass market could not be achieved until the discretionary buying power of most of the population was raised above the subsistence level. He visualized every one of his workers as a potential buyer of a Ford car. In order to help accomplish this objective, he paid his workers $5 per day. This was at a period when the average industrial wage was less than $2.50 per day. This "socialistic" thinking horrified other contemporary industrial leaders. Ford was vilified as a "madman" and a "socialist". The long-range results of Ford's economic philosophy are dramatically illustrated by the multi-acre parking lot for workers outside every major United States factory.

Sears Roebuck and the Ford Motor Company are a far cry from the world's small businesses that we are considering in this paper. Nevertheless, the ideas and the fundamental marketing skills of General Wood and Henry Ford could be profitably imitated by the owner and manager of every small business.

The marketing function involves, of course, a great many more elements than those reviewed thus far. Some are entirely physical in nature. These include: sorting, grading, transporting, and displaying. Others may be defined as a set of forces that make things happen, such as promoting, selling, merchandising, and negotiating. The performance of these tasks involves an assortment of techniques which vary widely from country to country and will not be discussed here.

A. THE DOMINANT PLACE OF MARKETING IN PLANNING, THE BASIC ENTREPRENEURIAL FUNCTION

Planning is the first function of management. It is unfortunate, therefore, that the greatest sin of omission in the small scale sector is the failure to plan effectively or in many cases failure to plan at all. Ask the average small industry manager for a projected profile of his company even two years hence, and you are apt to receive a blank stare, banal generalities, or a mere recital of wishful thinking.

A "manager" will give a variety of reasons for not having a written long-range plan. They may include the following:

1. Lack of time
2. Too many unexpected developments
3. Company too small
4. Company "successful" in the past without plan

None of these reasons stand up to critical analysis. A manager must be able to find or make time for this most important of management responsibilities. Some small business managers put aside evenings, weekends, or holidays in order to have uninterrupted opportunities for thinking and planning.

Planning includes preparing alternatives for the unexpected development. Shortage of raw materials? a strike? new government controls? a drop in sales? The manager who has planned will, in most instances, have his courses of action laid out in advance.

Small size is not a reason for non-planning. A cobbler can plan where to locate his shop, the type of customer to whom he wishes to cater, whether he wants to give credit or not, whether he wants to have one or more employees, and the extent of the cobbling operations he wishes to undertake.

By making such decisions in advance, he is controlling his business rather than letting circumstances control him completely. (It should be noted that most of the cobbler's decisions are marketing decisions.)

Failure to plan because of alleged success without it, is naive in the extreme. It is comparable to the motorist who says, "I have never had an accident; therefore there is no need for me to carry insurance."

A most important, but seldom mentioned, reason for the small scale manager to plan, is the sense of security it gives him in knowing where he is going, how he is going to get there, and what he can do in case of unexpected developments.

Most successful management planners use the following steps - or some modification thereof - in constructing a realistic long range plan:

1. Identify objectives
2. Isolate probable problems
3. Determine needed facts
4. Analyze facts
5. Develop alternatives
6. Make decisions
7. Assign priorities

8. Detail implementation (and why not delegate this step to those responsible for each phase of the implementation)

9. Review periodically (at least quarterly)

Most companies find, often to their surprise, that when a long range plan is developed the market is the dominant factor throughout the entire plan. Objectives are market objectives. Production techniques and scheduling are guided by market requirements, and financial requirements are sales volume or market-oriented.

The first stage of the planning process might start with four basic questions:

1. What kind of company are we?

2. What kind of company do we want to be?

3. What kind of company can we be?

4. What skills and resources do we need to achieve our goals?

Here is a condensed story of an actual Indian company which used this approach as a guide for its long-range company planning.*

For purposes of illustration, let us look at the abbreviated answers to these questions for this company (the Goyal Company).**

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* This and other case histories in this paper are for illustrative purposes only. They are not intended to indicate either the correct or the incorrect handling of a business situation.

** Name disguised.

1. What kind of company are we? We are a company with a capital of 250,000 rupees. We have sales of 8.5 lakhs (8,50,000 rupees) annually. Sales (of patented fasteners with a high value added) are limited to large appliance manufacturers and motor vehicle assemblers in 2 out of 16 Indian states. We have 35 skilled workers operating automatic machinery purchased from Czechoslovakia. Production is at a capacity of about 30 per cent on a one-shift basis. We have 10 non-skilled workers. Our salaried people include a general manager, a production manager, and a sales manager. Ownership is in the hands of the general manager and the production manager, who are first cousins. We are getting a return of 15 per cent on assets before taxes. We think this is far too low in the economy of today. We believe - but are not sure - that we are supplying about 20 per cent of the requirements of the markets in which we are operating.

2. What kind of company do we want to be? We would like to cover the total national market which requires the products which we are currently manufacturing. This potential market we believe to be about 20 times our current production. We would also like to add a related line of products (already designed), to be sold to our existing customers and to firms with similar

requirements. They could also be sold by the same type of salesmen. We do not know as yet what the possible volume of this new line would be. The line could be produced, however, with machinery manufactured by Hindustan Machine Tools (a local firm).

3. What kind of company can we be? Covering the entire Indian market with our present product does not appear to be possible. The necessary increase in production equipment would require foreign exchange which is currently unobtainable from the reserve bank. Because of the need for short-term deliveries and personal contacts by our executives, it would require a plant in the North (about 1,500 miles away). This would mean less top-management supervision, plus high additional fixed costs. As an alternative, we can see the possibility of increasing our sales in our present markets. We can add an additional shift to provide a greater output from our existing equipment. We can also add a new product line as previously noted.

4. What resources and skills do we need to achieve these goals? At this point, the Goyal Company recognized the need for the development of a comprehensive long-range plan. This plan included a review of existing policies and a step-by-step analysis of the market, production,

financial, and personnel requirements for two years ahead.

The results of this "new look" were nothing short of spectacular. Return on assets increased to 25 per cent before taxes. Market penetration grew from 20 per cent to an estimated 35 per cent of the potential market. The new product line reached a break-even point within 2½ years and within four years was accounting for 25 per cent of Goyal's total sales volume.

PROBLEMS FACED BY A SMALL COMPANY IN DEVELOPING A LONG-RANGE PLAN

A small firm such as the Goyal Company, attempting to develop its first long-range plan, is faced by a series of seemingly impossible problems. Lack of experience of course represents lack of management time, lack of necessary data, internal and external, and lack of conviction as to the usefulness of the effort in relation to the time expended upon it.

The lack of experience can only be overcome by performance. In all probability, the manager's inexperience in planning is no greater than the inexperience that originally existed in the management of his company. The second plan will be easier than the first, and the third easier than the second.

In respect to availability of management time, we have already seen how it can and should be budgeted into a manager's weekly schedule - if necessary, after working hours. After all, PLANNING is considered the first function of management.

The apparent lack of required data has often provided an excuse for abandoning the development of a plan. We shall see, however, that the key data is frequently easily available. A company's own records, plus published government and trade information, can often provide the essential information necessary for a workable plan. Customers and suppliers also represent possible data sources.

The manager's belief in the usefulness of planning in relation to the time and effort expended is generally a personal matter. It is often based on the results of his own or someone else s plan. In this area, I have one strong recommendation for the "long-range" planner from the small scale sector. For the small scale enterprise, planning should be done for a <u>two-year period</u>, i.e., next year and the year after next. This is in sharp contrast to the 5- and 10-year periods which are more appropriate for larger firms in industrialized countries.

For the small business planner, the two-year plan achieves the most important objectives of the planning

process. It helps him to understand the interrelated functions of marketing, production, and finance. It encourages the manager to look into the future of his market in particular and of the national economy in general. Naturally, the two-year plan requires less preparation time and is subject to fewer major revisions than a 5- or 10-year plan. It has the tremendous additional benefit of appearing more believable and realistic to the new planner.

Sales Forecasting of Goyal

Let me return then to the actual planning process of the Goyal Company. The general manager of Goyal realized that a sales forecast was a necessary first step in developing a plan. The elements of forecasting described below guided the development of the first forecast of sales attempted by the Goyal Company.

The Process of Sales Forecasting

A sales forecast of reasonable accuracy can be developed by any manager of a small business who is willing to work at it on a logical step-by-step basis. Additional future sales can be developed from the following sources:

1. Greater sales to old customers
2. Sales to new customers in present territories
3. Opening of new territories for present product
4. Adding a new product line

The officers and salesmen of the Goyal Company, in a concentrated two-week period, talked personally to every customer of the company. They received estimates of probable requirements of each company for the following year. They also looked at growth trends for the industries to which the company sold. Economic and labor conditions were noted. The continued existence of a strike in a major customer's plant caused the Goyal planners to reduce substantially the sales figure which they had received from the customer's president. After all factors had been considered and suitable adjustments made, a one-year sales forecast was completed. A condensed version of this forecast is shown in Exhibit II.

GOYAL COMPANY
Sales Forecast - 1966

	1965 (Actual)	1966 (Estimated)
HYDERABAD DISTRICT		
Bengal Appliance Company	Rs.45,000	Rs.42,000
Gupta Associates	15,000	17,000
Anand Company	19,000	25,000
Central Services	11,000	11,000
Mohan and Sons	10,500	60,000
TOTAL HYDERABAD	1,00,500	1,55,000
WARANGAL DISTRICT*	78,200	1,01,000
NIZAMABAD DISTRICT*	75,000	97,000
VIJAYAWADA DISTRICT*	50,000	75,000
VIZAKAPATNAM DISTRICT*	25,000 (6 months)	60,000
OTHERS*	5,22,100	5,12,000
TOTAL	8,50,800	10,00,000

*Actual and estimated sales were broken down by customer for each district, as is shown for the Hyderabad district.

In the process of gathering the material for this sales forecast, the Goyal manager began to realize that there was among their customers, a vast range of actual and potential sales volume. He also reflected that he himself had spent the same amount of time with a customer whose 1965 purchases of Goyal products had been Rs.500 as with one whose purchases totalled Rs.19,000.

As a result of this thinking, the Goyal manager made a volume analysis by size of account (Exhibit III). The results were startling. It was shown that 19 per cent of the customers accounted for 96 per cent of the total sales volume, or to put it the other way, about 81 per cent of Goyal customers represented only 4 per cent of the sales volume!

Exhibit III
ANALYSIS BY SIZE OF CUSTOMER

ANNUAL SALES	No. of Customers	%	Rupee Volume	%
Under Rs.1,000	30	29	Rs.1,500	0.3
1,001 - 5,000	25	22	5,750	0.7
5,000 - 10,000	33	30	24,750	3.0
10,000 - 15,000	10	9	1,25,000	15.0
15,000 - 20,000	8	7	1,62,000	19.0
Over 20,000	3	3	5,30,500	62.0
	106	100	8,50,000	100.0

Naturally, as a result of this analysis, the company officers began to suspect that there might be equally large differences in the profitability of the accounts according to quantity of sales. It was decided, therefore, to make a cost analysis by size of customer. Expenses of selling, direct-mail, phone, billing and delivery expense were subtracted from gross profit. Results were then calculated in terms of rupees of profit per 100 rupees of sales. A summary of these findings is shown in Exhibit IV.

PROFIT AND EXPENSE ANALYSIS
Per Rs. 100.00 Sales by Size of Customer

ANNUAL SALES	Margin	Expense	Profit
Under Rs.1,000	Rs.11.00	Rs.43.00	Rs.32.00 Loss
1,001 - 5,000	10.00	21.00	11.00 Loss
5,001 - 10,000	9.50	7.50	2.00
10,000 - 15,000	9.00	6.00	3.00
15,000 - 20,000	8.00	3.50	4.50
Over 20,000	7.25	2.50	4.75

These figures indicated to the company that some immediate and drastic policy changes were indicated. Salesmen were instructed to cease calling regularly on accounts producing an annual volume of less than 5,000 rupees (unless a realistic future potential could be estimated). The time thus saved was to be directed to developing new business. Over-all prices were raised, but a volume discount structure was developed to help equalize the high relative costs of selling to the smaller customers.

The principles "discovered" by the Goyal Company relating to the large variations in profitability between large and small accounts were described in some detail by Peter F. Drucker. 5/

Let me cite four of Professor Drucker's key observations:

1. Economic results require that managers concentrate their efforts on the smallest number of product lines, services, customers, markets, distribution channels, end uses, and so on which will produce the largest amount of revenue. Managers must minimize the attention devoted to products which produce primarily costs, because their volume is too small or too splintered.

2. Economic results require also that staff efforts be concentrated on the very few activities that are capable of producing truly significant business results - with as little staff work and staff effort as possible spent on the others.

3. Effective cost control requires a similar concentratio of work and efforts on those very few areas where improvement in cost performance will have significant impact on business performance and results - that is, on those areas where a relatively "minor" increase in efficiency will produce a "major" increase in economic effectiveness.

4. Managers must allocate resources, especially "high-grade human resources", to activities which provide opportunities for high economic results.

IT IS MY CONSIDERED OPINION THAT THESE FOUR RULES OF PETER DRUCKER, IF FAITHFULLY FOLLOWED, WOULD REVOLUTIONIZE THE MANAGERIAL PERFORMANCES OF SMALL BUSINESSES AROUND THE WORLD!

For Goyal, in developing their long-range plans, the final decision in the marketing area related to their proposal to add a new product line. To help in this and future

decisions of a similar nature, an outline of product policy considerations was developed. This outline in abbreviated form is shown below.

PRODUCT POLICY

Purpose

To establish product policy within the general framework of the company policies. To emphasize the importance of product policy as one of the basic decisions to be made by management.

The Nature of Product Policy

A. Product policy in Goyal is the determination of the products to be manufactured.

1. Basic requirement is the fulfillment of a consumer need.

   a. To meet a need that is at present unfulfilled.

   b. To provide a product or service better than those now available - in terms of product design, price, delivery, etc.

2. Additional considerations include the export potential of the product and the replacement of imports. Foreign exchange implications and raw material availability for the products meeting such requirements must also be considered.

3. The production, financial and management requirements to be considered when selecting a product for manufacture.

a. What machines and technical skills are needed for the product under consideration?

b. In terms of (a), how much capital is required? Where may it be obtained?

c. How much experience does the potential manufacturer have with the product under consideration - as a retailer? as a wholesaler?

B. Product policy may also be described as determining what products to add and what products to drop from Goyal's line. Emphasis should be placed upon the constant need to update a product line in order to keep pace with changing consumer demand and to meet competitive situations.

1. Sources of new products.

a. Internal developments.

b. Acquisition of a going concern.

c. Licensing agreements.

2. Qualitative criteria for considering new products.

a. Changing nature of the market for old products in favor of a specific type of design or performance.

b. Distinctive "know-how" in relation to management knowledge, engineering skills, research, etc.

c. Common production facilities - also includes excess capacity providing such excess capacity is not temporary.

d. Common marketing facilities, i.e., the same or similar distribution channels.

e. Common raw materials.

3. A useful set of criteria for the addition of new products is as follows:

a. Existence of primary demand for the product under consideration (as contrasted with selective demand).

b. A break-even point low enough to insure profitability within 18 months.

c. Availability of necessary raw material within the bounds of import regulations.

d. Availability of necessary production equipment within the bounds of existing import regulations.

e. Compatibility with existing or available company resources in terms of:

(1) Management skills
(2) Sales and distribution channels
(3) Production skills
(4) Fixed and working capital requirements

f. A national tariff policy structured so as to provide adequate protection for the proposed new product.

4. Dropping product

a. When sales volume will apparently remain below the break-even point.

b. When competition forces sales at lower prices than will provide a satisfactory margin and/or return on investment.

Summary

Goyal product policy determines the nature of our operations in terms of marketing, production, and finance. Product planning is a dynamic rather than a static operation. Original selection of a product and an "add and drop" procedure are inherent factors in our product policy.

B. SOME BASIC DECISIONS FACED BY THE SMALL ENTREPRENEUR IN HIS ROLE OF MARKETING MANAGER

1. Product Policy. The results of decisions made in the area of product policy will be among the most critical in the life of any company, large or small.

For the emerging country, the cumulative results of thousands of such decisions will exert a profound influence on its economic development. It is incumbent upon all who have responsibility for such development to exert an intelligent influence on the product policies of both new and established firms. This influence may be exerted in a number of ways. The most authoritarian ways are through licensing and direct regulation by government agencies. More subtle methods include education and extension and consulting services. A former president of the Ryukean Development Bank refused to make loans to those firms whose product policy was, in his opinion, contrary to the national interest.

In his book DEVELOPMENT OF FREE ASIA, Maurice Zinken described some errors in industrial development (including product policy):

> The question that planners ask in Asia is not "How can the national income be increased at the least cost?" Instead they begin from a whole series of different premises and build upon them. They argue that wealth comes from industrialization; so they create uneconomic industries and bolster them with protection. They accept that national safety requires a high degree of

> autarky; so they build up defence industries and automobile industries which run expensively because their production is too small. They consider the handicraftsman represents certain social values it is important to preserve; so they keep him in existence by subsidies. They worry about their balance of payments; so they lend money to shipping companies at uneconomically low rates, or talk of synthetic petrol plants. They have the political pressures of their Ministers to consider; so they spread schemes evenly over the country and give special attention to backward areas. The list of errors into which the ignoring of profits is long. Separately, they can each be justified by some non-economic consideration - from defence to human charity. Together they keep the people of Asia in poverty and squalor and ignorance for longer than is necessary. 6 /

As Zinken, Rostow, Bryce, and other economists make abundantly clear, then, product policy decisions are of vital concern to a national economy as well as to its individual entrepreneurs.

Sound product policy in the underdeveloped countries starts with the readiness of the market. The United States, the United Kingdom, Japan, and the Federal Republic of Germany have the financial resources required to create a market for a new product. Management in the developing countries has sufficient inherent problems without adding market development to the list. It would be folly, for example, for a firm in Chile, Jordan, or Zambia to try to manufacture and introduce to the market electric toothbrushes or electric carving knives.

An examination of the import list may be a good starting place to look for products with preexisting markets.

Another consideration in product policy - on a macro basis - is the cost factor. Unless a product is to be sheltered behind a long term tariff wall, it should be able to show a cost advantage or at least a cost equality with the import. Such cost advantages may come from a lower transportation expense, cheaper or better raw materials, cheaper or more efficient labor, and so on.

Murray Bryce states in his book INDUSTRIAL DEVELOPMENT: "The most logical way to find new areas for industrial development is to look first for projects which will process further and thus increase the value of agriculture, mining, and timber products already being produced for export."

Bryce goes on to say, "Promising industrial development projects often have to be discovered by development agencies and then offered to businessmen who may undertake them . . . There are several good ways to identify new opportunities. They can be used simultaneously since they supplement each other well." 7/

He then lists 10 approaches for locating industrial opportunities (products to manufacture):

1. Study imports. Considered along with any domestic production, imports indicate an existing market and suggest opportunities for new projects to satisfy a proven demand.

2. Investigate local materials. The quality or price in the region of certain raw materials or other production elements, such as power, may lead to opportunities to produce competitively for export and for domestic markets.

3. Study available skills. Labor and management skills which have already been developed in the area, such as in making handicraft items or industrially manufactured goods, may suggest the possibility of producing other things requiring similar know-how.

4. Make industry studies. Many good opportunities are to be found in expanding or diversifying industries already established. A thorough analysis of existing industries may lead to identifying logical new projects.

5. Apply technology. Changing technology continually creates new industrial opportunities which can be identified by reexamining local raw materials and existing products in the light of current scientific and technical advances.

6. Examine interindustry relationships. The growth of one industry almost always creates opportunities to establish others. The identification of these possibilities can be done by analyzing how the inputs and outputs of industries fit together.

7. Evaluate development plans. Major development plans create surrounding opportunities for manufacturing goods not previously marketable in the region. The plans should be studied to discover how they will change the market.

8. Review old projects. Projects previously developed but not implemented often become feasible when markets or related industries have changed. It is often possible to find new opportunities in old ideas for which the economic circumstances have improved.

9. Observe experience elsewhere. Familiarity with current industrial developments in other countries or regions having somewhat similar conditions will often suggest the possibility of projects which have been successful elsewhere.

10. Use industry lists. Industry lists such as the standard industrial classifications of the United Nations or the United States Government provide systematic check lists of opportunities. They are useful for suggesting ideas and for making sure that no possibilities have been overlooked. 8/

Bryce intended these criteria primarily for use of economic planners and managers of major industries. Their use by growth-minded owners of small business is entirely feasible and reasonable.

Product policy for an individual company requires additional considerations of a more specific nature than those previously noted. These should include the following:

1. Development of product lines, as contrasted with a single product or unrelated products, is generally a desirable practice. Generally speaking, a product line consists of products that are closely related to each other in terms of use. An example would be a company producing power hand tools. The product line might consist of various size drills, power saws, shapers, sanders, and routers. Such a product line would be suitable for distribution through the same channels and would probably be purchased by the same type of ultimate consumer. If these five basic products represented the complete product line of a manufacturer, there would be less chance of the "20-80 principle" having harmful effects on costs and profits.*

* The Goyal Company discovered that a small percentage of their customers accounted for a high percentage of their sales and profits. Extrapolating this principle it is also generally true that in a given product line, a small percentage of the products of a company account for a large percentage of the sales and profits. This is known to some marketing men as the "20-80 principle."

Buying habits - including those of distribution - will have a substantial effect on product line policy. For example, most retail paint dealers - because of the need for a high inventory - will not buy paint and related products from more than one manufacturer. It would be unwise, therefore, for a paint manufacturer to restrict his production to only a few shades, varieties, and sizes of paint and varnish.

Product differentiation is a goal for every manufacturer. If a product has unique qualities of importance to the consumer, the sales problem will be much easier. Large companies can differentiate their products through brand name with the aid of massive advertising expenditures. The small company should seek differentiation through the inherent features and qualities of their products. Less than three decades ago, the now giant Xerox company was a small five-man company with a new but highly differentiated product. The features of this product were so unique and of such importance to customers that the company grew at an unprecendented rate to the billion dollar volume it enjoys today.

Timing is an essential but often neglected consideration in product policy. One dictionary definition of "opportunity" is "an appropriate or favorable time or occasion." Earlier in this paper mention was made of the marketing genius of

Henry Ford. He sensed the need of the market for a low-priced car. To keep costs down he produced only one model in one color, black. The customers of the early 1900's accepted this product policy decision. By 1920 the market was demanding greater variety in models and color. Ford refused to change his policy. General Motors recognized the change of customers' needs and provided a variety of colors and models. Only when on the brink of bankruptcy did Ford change policy to conform to the needs of the market. Ford's timing was right in 1900 but wrong in 1920. The small businessman must be aware that cultural, technical, and economic factors are critical elements in the introduction of new products or in dropping existing ones.

2. DISTRIBUTION POLICY

It is in the area of distribution that the small manufacturer is apt to experience his greatest frustrations. In the process of distribution, the manager finds he has least control over the corporate destiny. The manager may do an excellent job of long range planning (on paper), create an excellent internal organization, have a line of fine products, good internal controls, and an excellent production organization. However, unless he can sell directly to his ultimate customer, he will be dependent for the sale

of his product upon another organization, over which he has little or no control. This lack of control carries with it a potential loss of contact with the ultimate consumer, who is responsible for the survival or non-survival of a given manufacturer.

Far too many manufacturers in the developing countries behave as if middlemen are their ultimate consumers. In fact, they delegate the entire marketing function to outsiders whose services are often available to the highest bidder and whose loyalty is questionable . . . in such cases the middleman may "own" the market.

The "leverage factor" is a phenomenon in the distribution area that operates, more frequently than not, against the small manufacturer. Simply stated, the "leverage factor" is the relative importance of one firm to another. For example, a small manufacturer of canned fruit products, the Manzana Co., distributes its products through National Food Supply S. A. The latter has 50 to 60 times the sales volume of the canned fruit company. Any action taken by the Manzana Co. will have only a minute effect on the National Food Supply Co. S. A. The actions of the latter, however, may have a profound effect upon the Manzana Co. For example, a management decision of National to decrease margins, take on competitive lines, decrease promotion activities, etc. could be disastrous for the smaller company.

Let us look at the reverse type of situation. Assume that a giant firm, Hindustan Lever for example, has decided to distribute its products through wholesalers. Hindustan Lever with its huge sales volume could, by a change in policy, affect substantially every wholesaler handling its product.

Keeping the leverage principle in mind it is easy to see inherent disadvantages under which many small businesses operate with respect to distribution channels.

Another unfavourable factor in respect to distribution channels of developing countries is the minimum number of functions they perform as contrasted with similar types of channels in the industrialized nations. The following table gives some idea of the extent of this discrepancy.

CONTRAST IN TURKISH AND AMERICAN WHOLESALING 12/

Function	Turkish Wholesalers	American Wholesalers
Geographically stationary and concentrated	All	Some
Supply oriented	All	Some
Involvement in partial financing of retailers	All	Some
Vertical integration and involvement in production	Most	Some
Involvement in exporting and importing	Most	None
Involvement in consulting and other services	None	Most
Involvement in sales promotion	None	All

Although this comparison was made in Turkey, the general pattern is similar in many of the developing countries.

Distribution channels evolve as the result of specific, local cultural and economic factors. It is, therefore, virtually impossible to describe in detail a distribution system that is representative of all emerging economies.

Nevertheless, there are certain characteristics of distribution common to the majority of such countries. Among these are:

1. Small and fragmented markets
2. Multi-product line distributors - to spread risks
3. Limited capital resources
4. Sale of goods in small quantities
5. Absence of standardization
6. Inadequate storage facilities (compounded by poor transportation systems)
7. No promotional activities by middlemen
8. No technical advisory services available to industrial consumers from middlemen

For the small producer of technical goods selling to industry, this failure of middlemen to offer advisory services is often a major handicap. In economically advanced countries, many producers of technical products depend on such advisory services to lift their products out of competition based solely on price.

In Canada one such small producer manufactured an effective but undifferentiated farm fertilizer. Many of his competitors were divisions of large petro-chemical firms. The small producer was unwilling to enter into price competitions with such firms. Instead he hired two college-trained agricul-

turalists to work with the salesmen of his distributors. These men soon became competent in providing creative technical training to distributor salesmen. These salesmen in turn used this technical knowledge to provide consulting services to the farmer; in this case, the ultimate consumer. The result of this program was successful. A satisfactory sales volume was maintained by the manufacturer in spite of occasional price-cutting activities by larger competitors.

Some small firms have been able to make use of so-called "missionary salesmen" to provide promotion and technical aid to the consumer when the middleman has been unwilling or unable to do so. The missionary salesman works directly with the ultimate consumer in providing such specialized services. Any sales resulting from these efforts are made through the middleman. The latter continues to provide basic functions of assembly, storage, credit, and delivery. Using the "20-80 principle" it is often possible for even the smallest company to reach those potential customers who will account for 80% of his sales volume.

Reluctance of distributors to provide the manufacturer with the names of these customers is often encountered in the less sophisticated economies. In such instances the persuasive ability of the manufacturer will be the key criterion in the success of the plan. The small manufacturer must be able to convince the distributor that there are decisive mutual advan-

tages to such cooperation.

Buying habits and buying patterns are of prime importance in distribution decisions. As extreme examples, it is axiomatic that virtually no industrial users buy from retail outlets and few users of consumer products can buy them directly from the manufacturer. Less obvious, until after the fact, has been the food-buying habits in some of the developing countries. In Brazil and Spain, for example, introduction of supermarkets has met with very little success. In these countries the tendency of the consumer to buy in small quantities, at a small neighborhood store where credit is available (and where gossip and small talk are also available), is a factor inhibiting supermarket development.

Additional aspects of buying patterns may be summarized as follows:

1. Total demand per time period-average per customer and distribution among customers. Again we see the "20-80 principle" in operation. Though this principle is generally considered with respect to industrial sales, it is also applicable to sales to the ultimate consumer. Such variations from the mean average are not, for consumer products, of such significance as to dictate use of entirely different distribution channels.

2. Frequency of purchase and average purchase quantity. An analysis of these factors is shown in the Goyal case. The cost of handling many small orders is often larger than the gross profit obtained. In such cases either a cash and carry policy or greater use of wholesalers may be the only satisfactory solutions.

3. Nature and extent of planning associated with purchases. If the nature of the product is such that it is purchased on impulse of an emergency basis, an intensive distribution policy may be necessary. Such products may include replacement parts for machinery, tires, batteries, or prescription drugs.

4. Relation of purchases of product to purchases of other products. These are products naturally bought and used in a complementary fashion with other products. Paints and paintbrushes, flashlights and batteries, drills, bits, and drill presses are examples of such complementary use. In this case the manufacturer may have no alternative but to use the channels selling those products complementing his own.

Distribution cost analysis is, in essence, the process of distinguishing between profitable and unprofitable sales.

It permits the application of scarce resources to those areas of maximum potential profit. It is used far too infrequently by the small business. The Goyal Company used it effectively. In doing so Goyal eliminated some unprofitable customers and established new and more effective distribution policies.

The tools for distribution cost analysis should be available to every small business. Existing company records provide first the five basic types of data:

1. Name and location of customers.
2. Types of business of customers.
3. Number of each customer's orders in a given period.
4. Total sales to each customer in the same period.
5. Total sales and gross profit on each product in the company's line.

This last item may be compiled with such expense items as warehousing, transportation, salesmen's remuneration, salesmen's expenses and bad debts.

Some firms find it desirable to develop more elaborate methods of classifying and allocating costs. The more complex the method the more expensive it will be to operate. The small businessmen should examine the cost/benefit ratio of any system he is considering.

Cooperatives

This section on distribution would be incomplete without at least a brief comment on marketing cooperatives.

Cooperatives are virtually a world-wide institution. They exist in both the socialist and the capitalist countries. Among their most familiar roles are the sale and distribution of agricultural produce and handicraft products. As is true with other organizations, the success of a cooperative depends on its management and on the environment in which it operates.

"A cooperative is an organization set up by a group of persons or firms to perform services for themselves. Their object is to secure better services in terms of quality and cost than they could otherwise obtain. Their chief instrument for achieving this purpose is group integration, which is a source of both bargaining power and of efficiency. Cooperatives, in short, aim to provide for some other groups in the economy some of the economic benefits enjoyed by large business, and they seek to accomplish this aim through economies of scale and organization." 13/

Ownership by the users is one of the most distinctive characteristics of the cooperative. Cooperatives do not attempt to make a profit in the traditional sense - rather they try to perform some of the necessary business functions at a minimum cost, thus maximizing the profits of the cooperative member made through the remaining operations.

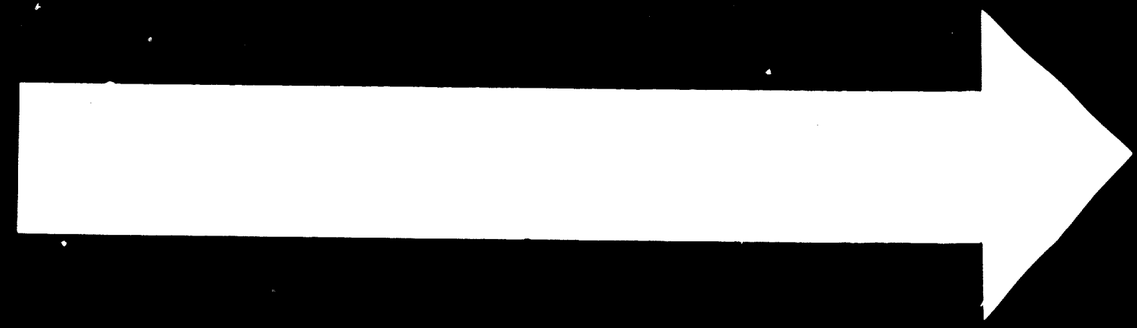
Probably the largest marketing cooperative in the world is the California Fruit Growers Association. This group performs all of the marketing functions - from tree to retailer - for more than 95% of all the citrus growers in California and Arizona. It is probable that more than half of the American citrus crop is handled by the organization.

With the exception of agricultural products and handicrafts, relatively few cooperatives perform the function of the merchant middlemen. There is, however, no reason why cooperatives should not assume the role of the wholesaler to serve specialized segments of small industry. One might hypothesize, for example, a specialized industrial estate where the majority of the small companies manufactured hand tools and related supplies. Other things being equal, such a complex could provide the ideal environment for a marketing cooperative.

For groups interested in cooperative ventures additional information and assistance may be obtained through libraries and extension services.

3. PRICING

Pricing stands as one of the most difficult decisions required of the businessman. For the manager of the small business pricing decisions can be even more critical than for his larger competitor.



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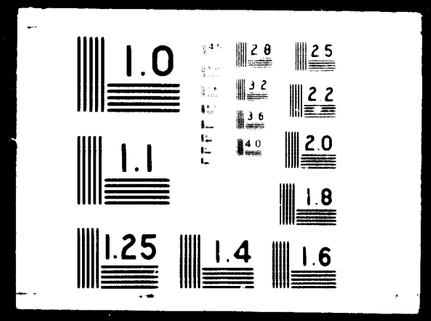

Pricing principles applicable exclusively to the small enterprise have not been developed. Price determination in itself does not appear to be a marketing factor significantly different between large and small companies. Collateral factors such as high cost of operation, poor consumer acceptance, weak distribution and service organizations, and ability to provide funds for advertising and sales promotion will inevitably be reflected in the price policies of the small company.

An intelligent small business manager may turn to the literature of economics and business to assist him in developing a price policy for his company. Such a course is liable to result in confusion and frustration. Much of the available published material is presented in the highly abstract terminology of the professional economist. It provides little practical assistance for the small manufacturer of bicycles in Pakistan or the Congo. Price theories, concepts, formulas, and mechanisms developed by economists are not, therefore, ready-made tools for the marketing man seeking to establish a price for a specific product.

This does not mean that all economic and management principles relating to pricing can be ignored. Two such principles are fundamental tools to <u>assist</u> in establishing the prices at which any business can sell its products at the

maximum profit. One of these principles is related to the elasticity of demand and the other to the calculation of a break-even point. These will be examined briefly later in this section.

"Pure" price problems virtually never exist in the real world of business and the market place. Among "outside" factors bearing on pricing decisions are:

1. Product policy. A company producing a highly differentiated product of great importance to the consumer can sell his product at a relatively higher price than one who is selling a staple undifferentiated product with marginal consumer interest.
2. Distribution channels. Distribution through one channel may require higher margins than sale through other channels. Since discounts to various distributors must come out of the price which the ultimate consumer pays, such a consumer price must be calculated with such discounts in mind.
3. Advertising and sales promotion. The costs in these must be considered as part of the direct costs of the product. The amounts devoted to promotion will vary with product policy and conditions existing within the channels of distribution. All have a

bearing on the final price established by the manufacturer.

4. Market research and demand determination. Even under optimum conditions and with highly sophisticated tools, accurate demand determination is a difficult task. Yet it is obvious that the nature and extent of demand will influence the sales at a given price. Changes in style, economic conditions, and price will all be influential in determining the shape of the demand curve.

ELASTICITY OF DEMAND is a factor which must be considered by the businessman in establishing prices for his products. The economist treats this demand concept in a far more complex manner than is necessary for the small businessman. It would be most unwise for the average marketing man to go through the complicated mathematical calculations that delight the economist.

Essentially when a businessman is setting a price for one of his products, he tries to estimate the probable sales volume at various prices. The economist starts his calculations in the same manner and calls the result a "demand schedule". A sophisticated businessman may conclude that demand is either elastic or inelastic, i.e., if sales (demand) are likely to increase with a lowering of price and decrease with an increase

in price, demand is deemed to be elastic. Some products by their very nature are sensitive to price and others insensitive. Very little more salt would be sold if the price were reduced. On the other hand, a great many more automobiles would be sold if the price were reduced. Therefore, demand for salt would be considered inelastic, while demand for automobiles would be elastic. A simplified and highly exaggerated demand schedule is shown in Table 1.

Table 1

Price	Demand or Sales Volume Units
$10	1
9	2
8	3
7	4
6	5
5	6
4	7
3	8
2	9
1	10

It will be noted that this tabular demand schedule ignores both total revenues and costs. As it stands now, it tells nothing except that the product has an elastic type of demand.

Table 2 shows the same demand schedule with total revenues at each price and volume level plus assumed variable costs of $3 per unit.

Table 2

Price	Volume	Total Income	Total Variable Costs*	Total Gross Margin or Contribution to Profit & Overhead
$10	1	$10	$3	$ 7
9	2	18	6	12
8	3	24	9	15
7	4	28	12	16
6	5	30	15	15
5	6	30	18	12
4	7	28	21	7
3	8	24	24	0
2	9	18	27	(9) loss
1	10	10	30	(20) loss

*In this example variable costs include only labor and raw materials. The totals of such costs vary by volume.

From the above table it may be seen that given the stated facts $7 is the optimum selling price since it provides the greatest gross margin ($16) after the deduction of $3 in variable costs for each unit sold.

A word of caution to the businessman who wishes to make use of the type of calculations shown in Table 2. It is easy for the writer to arbitrarily establish the hypothetical volume shown in column 2. It is difficult for the businessman to arrive at realistic figures for his product. The best he can do is to make a series of educated guesses. Even an educated guess, however, may be better than ignoring the demand schedule altogether.

A simple break-even point analysis is an additional tool that should be used by every businessman when setting prices.

In making such an analysis it is assumed that a price has been established. The calculations that follow indicate the sales volume necessary to break even and the extent of profits accruing at varying additional volumes after the break-even point has been reached. (The extent of losses at volumes below the break-even point will also be shown.)

Step 1 in the determination of break-even. Divide costs into fixed and variable. Variable costs are those which vary in total according to the volume produced. Direct labor and raw material are almost always considered as the basic variable costs. There are other costs (fixed costs) which will stay the same at any volume. Property taxes, insurance, executive salaries, and amortization costs are examples of some typical fixed costs.

Step 2. Subtract unit variable costs from the proposed selling price, resulting in a figure called "contribution to profit and overhead".

Step 3. Divide total fixed costs by the unit contribution to profit and overhead. The result is the number of units which must be sold at the assumed price for the company to break even, or BEP.

An example of such a calculation follows.

Oran Shoe Company

Fixed costs (overhead)

Executive salaries	60,000F.
Insurance	10,000F.
Debt service	25,000F.
Taxes (property)	5,000F.
Total fixed costs	100,000

Variable costs (per unit)

Raw material	8F.
Direct labor	7F.
Total variable (per unit)	15F.
Selling price (per unit)	25F.
Less variable cost (per unit)	15F.
Contribution to profit & overhead	10F.

$$\text{Fixed costs} \quad \frac{100{,}000\text{F.}}{10\text{F.}} = 10{,}000 \text{ units BEP}$$
$$\text{Unit contribution}$$

This tabular type of analysis may also be projected in graphic forms, which is frequently more helpful since profits or losses at varying volumes can be seen at a glance. In using this type of calculation, the Oran Company might try to assess the total potential demand in the market which they intend to serve. For example, it might be determined that the probable demand for shoes in 25F. price range had been about 500,000 pairs the previous year. This would mean that Oran would have to capture 2% (10,000 pairs) of the total market to break even. This could be a reasonable sales goal.

If, on the other hand, the total annual sales had been only 20,000 pairs, Oran would need 50% of the market to break even. Depending on competition this might be an overly-ambitious sales goal. An alternative could be to manufacture a lower price shoe appealing to a wider market. In this case a new break-even analysis would be required.

Break-even analysis is not intended to provide the final answer to the pricing problem of a manufacturer. It serves rather to indicate the lowest price at which a product can be sold without loss. It cannot determine a specific price because it does not give sufficient recognition to the market place.

In pricing a product that is neither new nor highly differentiated, there are two divergent policies that may be followed by a small firm: one is selling the product at above the customary or "going price"; the other is "price shading" or selling below the prevailing price. Both policies involve risks but both also present opportunities.

To set a price higher than the going price for a similar product requires maximum utilization of all potential advantages possessed by smaller business. Constant personal attention by the small company's top executives, special favors in terms of product or services that are not obtainable from the larger firm, are all part of the composite picture that must be

created by the small firm charging equal or higher prices. Again it must be stressed that these factors do not exist automatically with smallness. They must be consciously created and continuously maintained.

Price shading or selling below the going price is the obvious method for a small firm to get orders in a price-oriented market. Two major dangers are incurred by this practice. The first is the possibility of immediate and massive price retaliation by larger competitors. This is most likely to occur if the small firm appears to be inordinately aggressive and ambitious. If the challenge is local and unlikely to try to expand on a national basis, the large firms may ignore it.

The second and perhaps the greater danger of undercutting the going price is the possibility that the small firm may sell at prices below its actual costs. Fixed costs such as debt service, depreciation, maintenance, and so on may be forgotten in the calculation of price. A realistic break-even analysis will help bring these hidden fixed costs into a clear focus.

The ultimate price will, in most well-run firms, be established both empirically and mechanistically. Neither process is satisfactory by itself. Costs, extent of demand, condition of the market, attitudes of distributors and product characteristics are all important in price determination.

4. MARKET RESEARCH

Market research is an effective management tool that can be useful in any economy regardless of its state of development. It is also a discipline that may be transferred from the industrialized nations to those countries still in the development stage.

Before market research can become a significant factor in the emerging economies, two critical developments must take place. First, those concerned with the business, economic, and government infra-structures must be convinced of the usefulness of market research. Second, government, large-scale industry, and other groups involved in economic planning must take positive steps to provide the essential raw material of the market researcher, i.e. basic statistics.

The first of these developments, including as it does inherent attitudes of large numbers of people, is the more difficult to achieve. Attitudinal changes cannot be accomplished through fiat or legislation. Change will come only through education and wide exposure to successful use of market research by a pioneering segment of the influential businessmen throughout the country. It is normally a slow process. It can, however, be accelerated by use of extension services, seminars, and articles in appropriate trade journals.

Government contributions to market research can be created by legislative action and the necessary appropriations. Even the most backward countries have machinery for collecting basic demographic data. To be useful in market research such data must be fractionalized and provided for the most minute political and economic subdivisions. In addition, expanded data must be gathered, for industrial production (by product categories and sub-categories), consumer income, import and export figures, housing information, and many other categories. Much of this data must be gathered and published more frequently than is now customary. In the vast majority of the developing countries, it is most unusual for the government to provide any data at intervals more frequent than the decennial census. Towards the end of this ten-year period the data becomes obsolete and therefore useless or unreliable. If we presuppose the existence (in a given country) of favorable attitudes by business and the availability of adequate government statistics, there are other difficulties facing the would-be user of market research.

Government statistics - and similar types of data - rarely in themselves give the answers to the marketing problems of industry in either the large or small scale sectors. Such statistics provide only the raw data prerequisite for most market research activities. One of the best known of these

activities is the market survey designed to get answers for specific marketing problems. It is in the survey that the researcher in developing countries may run into technical problems.

Harper Boyd, Jr. and his colleagues have suggested that these difficulties include sampling problems data gathering problems, and field work problems. 9 /

Scientific sampling methods require precise identification of the discrete elements in the planned sample, e.g., specific blocks within a city and accurate isolation of demographic units such as families. Lack of large scale maps and absence of street numbers on dwellings, make geographic identification difficult. The sprawling joint family presents a major problem in the isolation of demographic entities.

Data gathering for a market survey may, in industrialized countries, be done by telephone, mail, or personal interview. In the emerging economies, all three methods present very real obstacles to the market researcher. Telephones are usually found in only the upper strata of the population. Mail surveys are handicapped by a low literacy rate. Personal interviews are made difficult by high costs, a cultural disinclination to give strangers personal information, and lack of trained interviewers.

Organization of the field force. In the developed countries, women generally play a major role as field workers

in a market survey. In the developing countries cultural traditions often make it impossible for women to be used in such capacities. The use of male interviewers is made difficult by the reluctance of housewives to accept questioning from unknown males.

For most small businesses these technical problems relating to market research are of only passing interest. The majority of small firms are unable to afford specifically designed market surveys even if they were convinced of their usefulness. It is, however, possible for such data to be developed for various industrial classifications. The two most likely sources for industry-wide surveys are government and trade associations. Up to the present there are, in most developing countries, serious problems in trade association organization, participation, and cooperation, particularly in the small scale sector. Thus, if small industry is to have useful market research tools, they will probably have to be provided by government agencies.

The Government of India through its Small Scale Industries Board created, over a decade ago, a workable program of market and economic research assistance to industries in the small scale sector. This program was developed jointly by a group of highly trained Indian economists together with a task force from the Stanford Research Institute. The project was funded

by the Ford Foundation.

This program had two basic objectives. The first was to provide guidelines to the administrators and professional and technical people in the all-India program for assistance to small scale industry. The second was to provide market research help to the owners of small industrial firms. The overall program is admirably described in a book by the Indian and Stanford team leaders, Nanjundan, Robison, and Staley. 10/ The design of this book makes it an excellent handbook for government administrators in other countries. Market research reports as developed for use by the small scale Indian entrepreneur included both All-India and Regional reports. (The latter were necessary in a country the size of India but obviously are not necessary in the smaller, more homogeneous countries.) An example of the major topics covered by one of these reports, Hosiery Industry-All-India 11/ are shown below:

I. Introduction
II. Description of Products
III. Growth and Present Status of the Industry
IV. Demand Outlook
V. Competitive Outlook
VI. Employment and other Social Benefits
VII. Problem and Recommendations
VIII. Opportunities for Small Businessmen
Appendices

The actual or potential hosiery manufacturer making use of this study has at his disposal useful data of far greater magnitude than he could conceivably gather on his own. The

loan officer (private or public) has much of the industry information he needs prior to making any loan in the hosiery industry.

INFORMAL INEXPENSIVE METHODS OF MARKET RESEARCH FOR SMALL BUSINESS

A wag once said, "The three most expensive words in market research are 'my wife says'." He was obviously referring to the tendency of some businessmen to make decisions based on grossly inadequate information. It has been previously noted that highly structured market surveys are beyond the financial capabilities of most small firms. Yet there are methods of gathering market information available at little or no cost. Such information if evaluated carefully can be most useful.

Company records can almost always provide valuable market intelligence. We have seen how the Goyal Company used its own records to help in sales forecasting. Internal records may show a trend of increasing sales to one type of industry and decreasing sales to another.

Salesmen, be they company owners or hired hands, can frequently provide market intelligence of value in corporate decision making. Salesmen are constantly in the market place, and their selected questions and critical observation can provide useful feedback to marketing executives.

Trade shows and exhibitions have a high potential value for obtaining market information. The cumulative knowledge and experience of people attending such shows is substantial. Informal talks with selected representatives of various levels of distribution and with other manufacturers should have significant value to the alert small businessman.

Newspapers and trade papers should be considered as sources of market information. Reports of large industry locating nearby or a new industrial process requiring certain components or raw materials are examples.

All these methods of acquiring market intelligence can and should be used in the small scale industry. Benefits are not automatic. Records must be searched and tabulated, salesmen must be trained and interrogated, and published data written down and placed in an active file.

SUMMARY

The marketing (and management) problems of Small Business in developing countries may be viewed in two different perspectives. The first of these looks at common characteristics - problems and opportunities - of firms within this classification. The second examines the functional areas of marketing management - analyzing common practices and suggesting methods for improvement.

It must be emphasized that marketing is only one part of the total management system. Proper understanding of the marketing function can only be achieved by relating it to the total management structure.

All industry in the developing countries faces lack of a strong tradition in the art of management. Often there is an outright antipathy for the dignity and usefulness of commercial and industrial activities. This antipathy in turn retards the development of commercial financial institutions, trained manpower, and government assistance programs.

The manager of a small business is further handicapped by a distribution system that is more of a disadvantage to him than it is to his larger competitor. He is often unable to hire the most competent executives because their higher salaries can be covered by only a small sales volume. The small company has far fewer financing options. This in turn may have an unfavorable effect on his product policy, inventory policy, and distribution alternatives.

There are, nevertheless, advantages available to the small scale manager who is intelligent and aggressive enough to search them out and cultivate them continuously. These include close customer relationships, special services in terms of design, scheduling and deliveries. Sub-contracting is still a potentially profitable - but as yet unexploited -

aspect of selling by the small scale sector.

PLANNING is a word familiar to the small scale owner but seldom understood and almost never used. Planning is the first function of management. Setting objectives in terms of sales volume is a logical starting place for the planning process. The Goyal Company provides an excellent capsule example of planning. The principle of minimizing efforts in the less profitable activities is shown dramatically in the Goyal analysis. This "20-80 principle" should be applied wherever applicable in business decision making.

Product Policy - deciding what products to manufacture and offer for sale - is one of the most critical decisions a company must make. The right products, at the right time, to the right customers, are the essential elements of good product policy. National planners can, through licensing and other means, influence product policy of individual firms. Such influence should be directed so as to assist in the overall industrial development of the country.

Distribution policy and the location of satisfactory distribution channels often find the small firm at a disadvantage. A small firm rarely has a sufficiently large sales potential to be of major importance to a distributor. It may have to accept any terms offered by the middleman. In devel-

oping countries such terms seldom include special services such as promotion and aggressive selling. Stocking and order-taking are frequently the only functions performed by such middlemen. Marketing cooperatives are a possible solution to unsatisfactory distribution channels.

Price policy by small business should be established first by considering basic economic factors such as elasticity of demand and break-even point calculations. The final price will undoubtedly be set in the market place by competition, primary demand, and the qualities of differentiation inherent in the product.

Market Research. Unless specialized Market Research projects are available this valuable tool will probably not be a major factor in the marketing program of the average small firm. The government of India has designed a multi-industry market study that can be used as a model for other countries. 10/ Many inexpensive do-it-yourself market research procedures are available to the imaginative small business manager.

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APPENDIX A

THREE SELECTED CASES ILLUSTRATING PROBLEMS OF PLANNING, PRODUCT POLICY, PRICING, DISTRIBUTION, MARKET RESEARCH AND OTHER ASPECTS OF MARKETING MANAGEMENT

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*In all of the above cases the attached NOTES & COMMENTS represent the personal views of the author of this paper. They are not necessarily those of the case writer.

EXCELSIOR MANUFACTURING COMPANY

In December 1963, Ajit Prasad Jain, one of the two partners of the Excelsior Manufacturing Company, was considering ways and means of increasing the profitability of the company. Although the company had within a period of four years introduced and marketed more than 30 products, Mr. Jain held the view that none of these products had helped materially to attain an over-all financial stability for the company. The search for new product ideas, the transformation of ideas into marketable products, and success in solving the product problems presented to them had brought great personal satisfaction to him and his brother and to some of the consumers whose problems they had solved, but had not made the Excelsior Manufacturing Company a very profitable operation.

Set up in 1958 in an industrial town in Western India by Ajit Prasad Jain and his brother, Jayant Kumar Jain, Excelsior Manufacturing Company had started by manufacturing polythene (also known as polethylene) bags. Ajit and his brother were share brokers, who had accumulated a sum of fifty thousand rupees to invest in a manufacturing enterprise. They had inherited a plot of land with power available. In addition, Jayant had worked for three months with a plastic manufacturer in the same town. With this background and a

confidence in their ability to think creatively and sell vigorously, the brothers acquired extruders and moulding machinery for the manufacture of polythene bags.

The raw material situation fluctuated widely and made the going hard for the new firm. Up to 1958 the import of polythene was permitted by the Government of India, imports being allowed only to the actual users of polythene who were successful in obtaining import licenses. In 1958, the Imperial Chemical Industries, then the only manufacturer of polythene in India, indicated to the government that it was in a position to fill the Indian demand for this plastic. Consequently imports of the material were banned by the government. For some reasons, however, I.C.I.'s manufacturing plant ran into difficulties and could not satisfy the demand of extruders and moulders. Some of the companies dependent upon polythene as the basic raw material for their products were idle for as long as six months in 1959. At the hue and cry raised by the companies, the import position was liberalized and polythene was allowed to be imported again. In 1960, on a promise given by I.C.I., the imports were once more banned. Ajit stated the I.C.I. still failed to meets its obligations, and the manufacturing units suffered

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Case material of Indian Institute of Management, Ahmedabad is prepared as a basis for class discussion. Cases are not designed to present illustrations of either correct or incorrect handling of administrative problems.

another idle-machine period. On a further hue and cry, imports were again liberalized, but by that time the damage had been done. The fluctuating raw material situation had eliminated several marginal units that were dependent upon polythene as the raw material for their products.

In 1961, the Union Carbide Company set up an Indian company and entered into the manufacture of polythene. According to Ajit, the Union Carbide Company's output was not of a consistent quality. Added to this, it was not known exactly as to how many tons Union Carbide was in a position to produce of: (1) moulding grade polythene; (2) blow moulding polythene; (3) film moulding polythene; and (4) pipe moulding polythene. This uncertainty affected the manufacture of products dependent upon polythene as the raw material left the producers too uncertain of the availability of different grades used for manufacturing different products.

Another very significant way in which the uncertain, raw material position had hampered the growth of companies like his, Ajit said, was that the I.C.I., apart from being a supplier of the basic raw material needed by him, was also his competitor for such products as polythene bags, tubings, and linings. He added that although his customers obtained polythene bags from him (as a case in point) at slightly

lower rates than those quoted by the Imperial Chemical Industries, they were hesitant to deal with him because of the uncertainty of his supply position. The supplier of the raw material who was also a producer of the products was in a unique position to restrict the growth of the business of his competitors by making the supply of raw material uncertain.

Ajit also believed that the price of the raw material (polythene) that he purchased from Indian manufacturers was exorbitant. He had paid, he recalled, Rs.3.50 per kg. for polythene when he had imported it (all costs inclusive). Now he had to pay Rs.6.25 per kg. ex-factory on his Indian purchases.

While the raw material situation remained extremely troublesome insofar as the Excelsior Manufacturing Company was concerned, its development of one product after another also was a source of management concern.

The company started by manufacturing polythene bags. Mr. Ajit Jain visited local textile mills and first sold his polythene bags to them for the storage of cotton. From the textile mills the Jain brothers expanded the area of their operations by selling polythene bags to the leather, pickle, and wire industries. By 1963, polythene bags comprised 40% of the total sales of the company. (See Exhibit I.)

During his frequent visits to the local textile mills, Ajit talked to the persons in charge of the spinning and weaving departments. This provided him a good opportunity for studying the needs of the textile industry as well as the problems faced by them that called for solution. For example, there was the case of sliver guide.[1] The sliver guide made out of steel was imported and was obtained with difficulty in the local markets. On one of his visits to the Ganesh Textile Mills, Ramaswamy, the Spinning Master, complained to Ajit that frequent breakages of the sliver guide was giving him considerable trouble. Ajit reported this to his brother, Jayant, who said that he could find a solution for the problem. He then set out to design a sliver guide made out of plastics and in about two weeks' time had a design ready. The item was manufactured under his close supervision and when the finished product was ready, he showed it to his brother. Both were immensely pleased with the new product and Ajit proceeded to the textile mills to deliver the article to the Spinning Master of the mill. Mr. Ramaswamy put the new product to test and was immensely pleased with its performance. He inquired the price of the article and was told that it would be Rs.150 per piece. Ramaswamy decided to buy two pieces for his mills.

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[1] A sliver guide is part of a machine in the spinning department of a textile mill. Cotton comes in rope fashion to the machine which feeds card cans. When this rope breaks, the sliver guide stops the machine thereby preventing it from being damaged.

The brothers then decided to explore the market for the sliver guide. They believed that they had a good product in their hands. Ajit spoke about the product to the managers of local textile mills which he visited and also sent letters to almost 50 mills explaining the advantages of the newly made, plastic sliver guide over the widely used steel guide. Inquiries were received from several mills, but the company managed to sell only 36 pieces.

When Ajit was visiting the "Mosaki Mills" seeking orders for his polythene bags and the sliver guide, the general manager, Vinod Shah, showed enthusiasm for both products, but informed Ajit that his real problem was with the temper rollers[2] which caused frequent stoppage of the looms.

When Ajit reported to his brother the problems of Mosaki Mills Ltd., Jayant believed that a solution could be found to this problem too. He enjoyed creating new products and helping people to solve their problems. Two weeks later, Jayant showed his brother the design of a temper roller made out of plastics. The design was then turned into a finished product, and when Ajit was satisfied with its durability and advantage over the temper rollers made out of rubber, he presented one to Vinod Shah. The product was accepted by the

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[2]Temper rollers are a part of the automatic weaving machine known as C and T loom. Their function is to enable the loom to keep the cloth in a straight line so that by keeping up the tension, crease formation may be prevented.

mills and the first tryouts proved to be encouraging. Ajit suggested to his brother that the cost of the new temper roller should be Rs.6 per-piece as against Rs.2 per-piece paid by the textile mills for the temper rollers made out of rubber, which had an expected life span of one month to two months as against the guaranteed life span of the plastic temper roller of six months. Ajit started pushing the sales of the product and was successful by October, 1963 in selling three gross of them. After four weeks of serious effort put into selling the product, he realized that its market was limited.

An experience similar to the above brought the creation of a plastic spindle bowl[1] from the company. Though the product was well received by the people who purchased it, Ajit was unable to sell more than eight gross priced at Rs.6 per-piece to the weaving departments of the local textile mills.

Ajit and his brother apart from the manufacture of polythene bags, sliver guides, temper rollers, and spindle bowls, had added other lines to the company's manufacturing activities. These included polythene tubings, sheetings, plastic fabrication, and polythene linings. The company was also in the process of manufacturing tables and large bowls needed by the textile mills.

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[1]Spindle bowl is a guide for the shuttle on an automatic loom. Its function is to prevent the shuttle from moving up. If spindle bowl wears out or is nonfunctioning, then the shuttle will move out and the loom will stop. Spindle bowls were commonly made out of leather or synthetic rubber.

Ajit suggested to Jayant that some of the textile mills he had visited had indicated a need for a chemical processing plant[2] for their bleaching operations. The existing plant was about 28 feet high and was originally made out of metal containers with a plastic lining inside. Jayant came up with the idea of a new product. By August 1963, the company was successful in manufacturing the plant made entirely out of plastic and attributed this to the creativeness of Jayant. Each plant was priced at Rs.20,000 and the company expected to make a profit of 20% on the sale price to the customer. The company had supplied three plants to local textile mills and an order had been accepted for a fourth one. The Jain brothers demanded one-third of the price of the plant when the order was accepted and the remaining two-thirds at the time of delivery. Seeing the good work done on this product by the Excelsior Manufacturing Company, an organization which owned two textile mills and had an extensive distribution network and contacts with textile mills all over the country approached the company seeking to become its sole selling agent of the plants on a 10% commission basis. The Jain brothers were contemplating whether the arrangement would be beneficial to the company in light of its existing resources.

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[2]Name disguised at the request of the company.

By this time Jayant had also been successful in developing two, additional new products. One was a plastic socket which when inserted in the ends of steel and iron pipes acted as a thread protector during shipment or storage. The sockets were priced at 10 nP. each. A leading manufacturer of pipes had placed an initial order for one lakh of sockets. Another was a consumer product; a small plastic kettle to hold hot or cold beverages. The kettle was to be priced at 2 nP. per-piece. Jayant had visualized sales of the product to tea and coffee vendors at railway stations. He felt that passengers who were in a hurry would buy the kettle filled with coffee or tea. After they were through drinking, they could throw it away.

By October 1963, out of the 12 competitors of the Excelsior Manufacturing Company in or near the town where the company was situated, five had gone out of business and two were about to close down their factories. Ajit attributed this to the low returns which the plastic manufacturers were securing, the keen competition met, and the uncertainty of the raw material situation.

The Jain brothers, on their part, had decided to utilize an additional plastic; viz., P.V.C., as the raw material for some of their products. Jayant felt that he could put his

mind to work in designing new products made of P.V.C.[1] Polyvinyl Chloride which was manufactured locally, was available in plenty, and was used as a basic raw material for linings, tapestry cloth, wallets, rexines, etc.

The products of the company were sold by Ajit and Jayant by visiting the local mills personally or by initiating a contact with the mills through mail. Of the two brothers, Ajit was the active salesman. The company employed no other salesmen because it was felt by the partners that the volume of business did not justify any such addition to the staff of the company.

The manufacturing plant of the company, situated close to its administrative office, had two extruders, three moulding machines, two fabricating machines, and one printing machine. The factory worked 15 days a month in three shifts when raw material was available. In its four-and-a-half years of existence, the Excelsior Manufacturing Company had not sustained a loss, but neither had it made a substantial profit.

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[1] P.V.C. (polyvinyl Chloride) is a thermoplastic material of great versatility. It is a white powder which, when compounded with a variety of chemicals, can be used to produce rigid or flexible sheeting, extrusions and moulded parts requiring close tolerances. It can be dyed any color and has found wide applications in the manufacture of goods ranging from toys and raincoats to light plugs and electrical insulating materials. It is abrasion resistant and also resistant to oil and oil-based stains.

After giving all this information to the case writer, Ajit turned around and said, "We have ideas and products. We have also resources, land, and machinery and a company which has acquired a reasonable amount of goodwill in local industrial circles. Now please tell us what should we do with our products and how should we sell them?"

What would you say to Ajit in case you were in the case writer's position?

Exhibit I

EXCELSIOR MANUFACTURING COMPANY

Percentages of Sales Product-wise in 1962 and 1963

		% 1962	% 1963
1.	Temper Rollers	2	2
2.	Sliver Guide	2	2
3.	Spindle Bowl	2	2
4.	Polythelene Bags	57	40
5.	Linings	10	8
6.	Tubings	15	3
7.	Novelty Items	5	3
8.	Chemical Processing Plant	-	12
9.	Sockets	7	28
		100%	100%

Exhibit II

ELCELSIOR MANUFACTURING COMPANY

Total Sales in Lakhs of Rupees*

1960-1961	1961-1962	1962-1963
2.50	3.00	4.00

Exhibit III

EXCELSIOR MANUFACTURING COMPANY

Gross and Net Profits of the Company

	1960-1961	1961-1962	1962-1963
Gross Profits	Rs.20,000	Rs.25,000	Rs.30,000
Net Profits	Rs. 2,000	Rs. 2,500	Rs. 3,000

* One lakh = 100,000. In 1963 a rupee was worth about $.21 U.S.

NOTES AND COMMENTS ON EXCELSIOR MANUFACTURING COMPANY

The Elcelsior Manufacturing Company appears to be a firm that is heavily oriented towards manufacturing to the exclusion of good marketing practices. There is a compulsion towards production prior to any realistic effort to determine long and short range demand.

Over 30 products have been manufactured during the past 4 years. At the time the case was written only nine major products remained. Of these nine, 3 or 33 1/3% account for 80% of sales. It may be inferred that these 3 products also account for most if not all of the net profit.

If precise cost accounting data were available, it would probably show that the six remaining products are being sold at a loss. Research and development, set-up costs plus executive time, represent overhead expense items which it would be difficult to absorb with a sales volume of between only 32,000 Rs and 8,000 Rs per product.

Return on investment appears to be low. If we assume an investment of 50,000 Rs, then the 3,000 Rs net profit represents a return of only 6%. It is significant too that as sales increase the net profit goes up only in direct proportion. Normally, as sales rise the <u>percentage</u> of net profit should also rise. This is because overhead costs can

be spread over a larger unit volume, bringing down the overhead cost per unit.

The company should make a greater effort to determine long and short range demand before taking a product into production. Break-even calculations should be prepared for every product. Executive time for selling should be concentrated on those items with the highest potential net sales and profit. Existing products should be dropped if they are not contributing to overhead or have no potential for so doing.

VORA AND COMPANY*

In December 1963, Mr. P.K. Vora, Proprietor of Vora and Company, manufacturers of Blossom Quick-Cooking Oats located at Lucknow, sought counsel from the Small Industries Service Institute at Lucknow[1] regarding steps that might be taken to increase the sales of his company. The company had

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[1] Lucknow is located in Utter Pradesh in Northern India.

*This case was gathered through the joint efforts of Russell Loftus of the Small Industries Extension Training Institute, Hyderabad, and the Indian Institute of Management, Ahmedabad. The case in its present version was written by Prof. Neil H. Borden of the staff of the Indian Institute of Management, Ahmedabad.

been organized in 1959, had started to sell its product nationally in 1961, but by December, 1963 had failed to attain a profitable volume of sales.

Mr. Vora's family had been in the grain business for several generations. In 1959, some four years after the Government of India had stopped the importation of packaged cereals, Mr. Vora and his family decided to enter the business of processing and selling a product similar to Quaker brand quick-cooking rolled oats, a product of the Quaker Oats Company of the United States. For some years previous to the Government's embargo, this product had been imported into India by the firm of Muller and Phipps, which acted as sole selling agents. The firm advertised the product in many Indian cities and reportedly had attained at least a moderate volume of sales, particularly in South India, in the States of Kerala and Madras.

In 1956 shortly after the embargo on Quaker Oats, the Ganesh Flour Mills of Delhi started to develop and market a quick-cooking white oats under the trade mark Champion. After some three years of experimental marketing in nearby areas, Ganesh Mills extended its distribution nationally, devoting a moderate amount to advertising in city markets throughout India.

The management of Vora and Company developed the machinery and the method of processing its product on a trial and error basis. The first product offered was not deemed satisfactory by the management and was withdrawn from the market. Not until 1961 was the Company satisfied with the product's quality and with its processing equipment, which, when perfected, could produce on a one-shift basis 500 cases a month, each case consisting of 36 tins of 550 grams each. White oats of finest quality were imported from Australia under Government license, since Indian grown oats of required characteristics were not available.

The perfected product was submitted to test among consumers and was rated by them as equal to or better than the competing product. The management had made application for permission to use the mark of the Indian Standards Institution and learned that the product and its processing measured up to required standards. Mr. Vora anticipated early arrival of the papers which would permit the Company to place the I.S.I. Certificate mark on its packages and to refer to the mark in Company advertising and selling. He looked upon the I.S.I. certification mark as a valuable aid towards building a reputation among the trade and consumers as to the quality and purity of the product. The

competitive product, Champion, bore the I.S.I. certification mark on its packages.

When entering the business, Mr. Vora had no definite data regarding the volume of sales that had been obtained by Muller and Phipps for Quaker Oats before the embargo, nor did he know the sales figures for Champion oats. He did know that oatmeal porridge was the leading hot breakfast cereal in the United States and some European countries. He had been informed that the cost of the imported product had restricted its sale in India, to families with high medium to high income. Moreover, he found that its use had gained wider acceptance in South India than in other parts of the country. From his discussion with agents, Mr. Vora listed demand for quick-cooked oats in order of quantitative importance by regions as follows: (1) Kerala (2) Mysore (3) Madras (4) Bombay (5) Calcutta, and (6) the northern region comprised of Delhi, U.P. and Rajasthan.

Apart from the high nutritive value of oatmeal porridge, its taste when eaten with milk and sugar or with butter or syrup was liked by many people. The quick-cooking oats had appeal to many housewives because they had to be boiled for only four to five minutes to be ready to serve, whereas the older variety of rolled oats required about thirty minutes of cooking. Moreover, since the housewife had to exercise

care to prevent the porridge from sticking to the pan and scorching, either by stirring frequently or cooking over a low fire, or by cooking in a double boiler, the long cooking type was less appealing than the new quick-cooking type. The quick-cooking was made possible by pre-cooking in manufacture after the oat grain had been split and rolled.

Packaging and Trade Mark

Vora and Company adopted a round heavy tin package similar to that which was being used for Champion Quick-cooking Oats, which, in turn, was presumably patterned after the package in which Quaker oats had been imported. The management had adopted the Trade Mark Blossom. The label was printed directly on the tin. A bright green background had the brand name in large red type at the top of the can. Directly below this was an illustration of several sheaves of oats and a smiling girl. Beneath the left half of the illustration in large white type was the phrase White Oats with the word white over the word oats. The phrase quick-cooking in smaller type was to the right of the white oats lettering.

The competing tin of Champion oats carried the smiling face of a young boy.

The Blossom tin contained 550 grams of oats, the quantity contained in what was thought to be the largest

selling package of Champion oats, although Ganesh Mills also marketed a tin containing 750 grams. Quaker oats had been sold in a 500 gram tin.

The case in which the product was delivered to retailers contained 36 tins. The Champion case also contained 36 tins.

Distribution Channels and Terms for Sales

To secure distribution of its product, Vora and Company appointed agents, who generally were selling non-competing food products, with exclusive regional rights. For instance for the States of Punjab, U.P., Rajasthan, Jammu and Kashmir and for the Delhi territory, the management appointed Messrs. R.C. Ramanathan of New Delhi as exclusive agents for sale of the product to retailers. The firm also handled the products of large and well known firm of packaged food manufacturers.

Messrs. R.C. Ramanathan were granted a commission of 10% of list price. They had three permanent salesmen covering their territory. In turn, they appointed sub-distributors in large towns or cities such as Delhi, Agra, Gwalior and Mussoorie to whom they gave 2½% of list price out of their commission. Retailers were allowed a trade discount of 10% of Vora and Company's list price. Thus, the company received from its sales list price less 20%.

The Company appointed agents for the remaining States on the same terms. The agents and sub-agents did not

act as full fledged wholesale distributors performing the functions of buying, stocking and distributing Blossom Oats in their territories. They acted rather, merely as indenting agents, taking orders in case lots from retailers for shipment by Vora and Company from Lucknow. The agents merely guaranteed acceptance of delivery and payment of orders. Vora shipped its produce for destination with bank draft attached to invoice, which was released for delivery of the shipment on payment of the draft.

Mr. Vora reported that in the south of India in the States of Madras, Kerala and Mysore, which were the largest consumers of oats, sales had been very disappointing. The agent appointed for these States was new to the sale of food products. The agency firm for some time had salesmen of its own calling on retailers and the sub-distributors appointed with selling rights for various areas with the total area had produced very little business for Blossom Oats. In light of the sluggishness of the sub-agents the agent had recently reported employment of salesmen to push the sale of Blossom Oats.

Mr. Vora had not made a practice of visiting his selling agents, but communicated with them by mail.

Pricing

The list prices for Blossom Oats as of December, 1963, varied by section of the country. In the north of India the list price was Rs.81 per case of 36 tins. In Bombay and in South India the price was Rs.85. As stated previously, the product was sold F.O.R. destination; the commission to agents was 10% of list; sub-agents were granted 2½% of list out of the agent's 10%; the retailers were granted a trade discount of 10% of list. Thus Vora and Company received from the sale of each case the following:

In North India	Rs.64.80 (Rs.81/ - less 20%)
In Bombay and South India	Rs.68.00 (Rs.85/ - less 20%)

Mr. Vora stated that reports received from the trade gave the list price of Champion Oats in North India as Rs.93/ - per case. Moreover, he was told that the agents for this product received 7½% of list as commission and the trade got a discount of 7½% from the list. Champion reportedly sold its larger size tins at a list price of Rs.108/ - for a case of 36 tins. These agents bought and carried stocks of Champion Oats in their godowns for delivery to retailers.

Sales

Sales for Blossom Oats in the two years following improvement of the processing had been irregular and had

averaged far below plant capacity. For the six month period June-November end, 1963, sales averaged only 83 cases per month.

Costs

Mr. Vora gave the following facts regarding his costs per case as determined from the accounting data of the June-November period referred to above:

Direct Costs per case of 36 tins of 550 gr. each

Material	Rs.24.12
Packing tins	21.60
Other packing materials, wooden case, waterproof paper, box strapping pads	4.00
Direct Labour*	5.40
Freight (railway)	4.80
	59.92

Overhead Costs: Monthly Overhead Costs were stated to be as follows:

Per Month	
Rent	Rs.165.00
Electricity & Water	50.00

*Mr. Vora's monthly wage bill was Rs.900 but the work force was used at least half time on another project on which Mr. Vora was engaged. In light of the irregularity of production, the labour cost given is probably high as compared with what it would be if the plant were operating at or near capacity.

Coal	Rs. 50.00
Depreciation on plant @ 6% (Rs. one lakh investment)	500.00
Interest on Working Capital	250.00
	Rs. 1,015.00

When this overhead was allocated against the 500 cases sales of the period, the overhead costs came to Rs.12.18 per case.

In the above figures, Mr. Vora did not include any salary for himself.

Advertising

From the start of national distribution, the selling agents had urged Mr. Vora to advertise Blossom Oats. For some months he undertook such advertising in the major cities in which he had sales representation. After spending some Rs.4,000 without any apparent sales response to justify such expenditure, he ceased his advertising.

While Mr. Vora had suffered considerable losses since the launching of his enterprise, he was still anxious to make a success of it and was willing to put more money into the venture if suggested changes for his marketing gave promise of bringing profitable sales.

As Counsel, what advice would you give Mr. Vora regarding the procedures he should adopt?

NOTES AND COMMENTS ON VORA AND COMPANY

The Vora Company's attempt to market an expensive packaged food with which the management was basically unfamiliar is illustrative of a number of classical marketing errors.

Mr. Vora believed the best market for quick-cooking oats to be in Southern India, 600 to 1200 miles from his Lucknow plant. This distance factor placed Vora at an initial disadvantage. At this distance, transportation is expensive and uncertain. A new venture of this nature generally requires intensive on-the-spot supervision by management. Mr. Vora, who conducts business with his selling agents solely by mail, appears to be unwilling or unable to provide this personal supervision.

In the selection of a selling agent in the allegedly profitable market of Southern India, Vora seems to show poor judgment. The agent selected was said to have been new to the sale of food products. One may thus infer that the agent has few, if any, established relationships with retail food stores. Muller & Phipps, formerly selling agents for Quaker Oats, were now, due to the embargo, without a similar product. It would appear reasonable for Mr. Vora to have tried to obtain the services of this experienced firm.

Without strong consumer brand preference, quick-cooking oats are not the type of product to be "pulled" through distribution channels through the buyer's insistence on a particular brand. It must instead be "pushed" through channels through selling activities on the part of the distribution channels. The necessary push may sometimes be motivated through free "deals" of some nature. For example, five packages of the product might be offered free with every case of 36 packages purchased by the retailer. Such deals have proved highly successful for many grocery products where "push" is required. Vora probably would have done better to use the Rs 4000 spent in non-productive advertising to finance such deals. With direct costs of Rs 8.25 for five packages, 484 deals could have been arranged.

Break-even point calculations indicate that using the price and cost figures shown Vora required about 112 case sales per month in order to break even, as contrasted with the 83 cases per month actually sold.

Rs 68.80	net price received	
59.92	direct costs	
8.88	contribution to profit and overhead	
Rs 1,015	overhead	= 112 cases
8.88	contribution	

The decision of Vora to attempt national distribution immediately is also open to question. The lower freight

costs and the personal supervision might have had significant favorable effects had Vora decided to distribute only on a local basis.

BREAD FACTORY INC.

Five Valparaiso (Chile) businessmen were considering the establishment of a baking industry on the basis of the fact that two of them had some experience and also marketing knowledge.[1]/

They took advantage of a trip one of them took to Europe and the States, and made a survey of the business abroad.

This man found that, if bread production could be fully mechanized, the chances were that a better product, better display, lower cost, and, of course, better profit could be obtained.

They thought that there would be no serious competitive struggle because:

1) They could sell their bread lower than competitive bakeries and also than the government appointed prices.

2) Quality and display would be better.

3) Incidence of the new product in the market would be of relative importance, as long as output would not be large.

1/ Valparaiso is a city of 260,000 people. For the most part the residents are in the lower or lower middle income brackets. Contiguous to Valparaiso is the city of Vina del Mar with a population of 161,000. Vina's population is far more affluent than Valparaiso's. Most Valparaiso business executives and professional people make their homes in Vina.

The product they intended to sell was of a common type: small size bread (loaf, "french" bread, etc.).

Moulded bread was considered a luxury item with very limited market, due to which they planned to make a very limited quantity thereof.

But the cost of a medium size mechanized plant was too high with regard to the capital these businessmen had put together.

Somebody suggested that, inasmuch as it was a product for common people's consumption and that would sell at prices much lower than current, the Government might be concerned with backing such line of business.

The Government was keenly interested, sponsored the business and put the capitalists in touch with an international organization.

The international organization gave the business favourable consideration, but judged the type of bread intended for manufacture was not the most convenient one for the consumer. They adduced that the one product that should be manufactured was moulded bread and not small size bread, giving, among other things, the following reasons:

1) Moulded bread stays in good condition during several days.

2) Moulded bread permits addition of special ingredients improving its quality and making it more nourishing.

3) Moulded bread's consumption is by the slice, therefore full use is made thereof and waste (hard bread), unavoidable in the small size bread's case, is prevented.

4) Wider range of utilization.

5) Better taste.

6) Better appearance.

7) On account of all the above advantages, and some more, the American consumer turned his demand towards moulded bread and, therefore, it was expected that the same might happen here within a relatively short time. Moulded bread would be the bread of the future.

Expecially the second and third advantages shown above afforded economical features of a nation-wide order, which made it interesting for the Government. For this reason, the international organization was concerned with promoting consumption of this type of bread.

Bearing in mind all the above reasons, the international organization suggested the businessmen should buy a mechanized plant exclusively intended to make moulded bread, and offered price payment terms extraordinarily advantageous for them.

The businessmen became convinced by all these reasons and conveniences, and they resolved to buy this type of mechanized plant. The plant was set up in Valparaiso by the makers' technicians. It was set up in a barn the businessmen bought that was originally planned for another manufacture, but its features were those required to efficiently set up the machinery.

The first trials showed that, in fact, the plant made moulded bread at an exceptionally low cost.

While the plant was being set up, the businessmen started working out a plan to sell the new product: moulded bread.

Just as it had been assumed, moulded bread is at present looked upon as a luxury in that city. That is, to be in a position to sell this bread it is not sufficient to set up 2 or 3 stands at different locations, as it might have been possible in the case of regular bread for common people's consumption.

The plant's output was about 7,000 units a day in one shift, and 14,000 and 21,000 in 2 and 3 shifts respectively. As it was figured that each stand could sell between 30 and 50 bread units per day, it was necessary to do the selling at between 140 and 230 stands, considering the output of one single shift. Of course, this involved the investment of hugh sums in the distribution system; purchase of delivery trucks, payment of salaries and wages, gasoline and parts, etc.

Therefore, upon setting up the plant, the owners decided to utilize for the manufacture of regular bread the personnel hired to start the plant, and the usable machines as well.

The bread was sold at a stand expressly set up at the factory itself.

It was also decided to make some moulded bread, between 300 and 400 units a day. A truck contributed by one of the partners used to take the bread to the fair for sale to the general public.

The plant began to sustain substantial monthly losses. For this reason, it was decided to bring production down.

The mechanical equipment's maximum output, in an eight-hour shift, is:

49 cwt moulded bread a day; or
33 cwt regular bread a day.

The hired personnel's maximum output in an eight-hour shift, is:

49 cwt moulded bread a day; or
14 cwt regular bread a day.

The reduced regular bread output capacity is mainly due to the fact that it requires manual work in most of the stages of its manufacturing process, which is not the case with moulded bread, as may be seen from the following table:

	Moulded Bread	Regular Bread
1.-Kneader	57,4 cwt	57,4 cwt
2.-Cut	86,1 cwt	13,9 cwt X
3.-Moulds	86,1 cwt	13,9 cwt X
4.-Oven	49,1 cwt	33,4 cwt

X =Manual process

After a period of time during which the losses carried on, the partners met in order to see whether it was advisable to close the shop or to introduce changes apt to yield profit.

NOTES AND COMMENTS ON BREAD FACTORY INC.

The five Chilean businessmen who founded the Bread Factory made a serious error in determining their product policy. They accepted without question the advice of an international organization to make the moulded bread rather than the "common" bread originally chosen.

In doing so they failed to make a realistic analysis of Chilean buying habits and buying motives with respect to bread. Though it was recognized that moulded bread was considered a luxury item, with potential sales only to upper income families, the company chose to manufacture this luxury item and sell it at one location in a low income market.

Bread is a "convenience item," i.e., a product for which the consumer is not willing to shop extensively and which is usually purchased at the time of buying other food items. An item of this nature requires either many convenient retail outlets or a house-to-house delivery service such as that used by dairies in Valparaiso, Vina, and other Chilean cities.

The judgment that the sale of 7,000 units per day would require 140-230 outlets was probably correct. That the servicing of such outlets would incur costs was also realistic.

This type of thinking plus a cost analysis should have been done in advance of establishing the business and purchasing the equipment.

The cost of changing established buying habits - e.g., common bread to moulded bread - is generally too expensive a process to be attempted by a small company with limited resources. For example, the benefits claimed for the moulded bread, taste, nutrition, economy, etc. are not apparent to a buyer viewing the product on the shelf. To influence the consumer the claimed benefits would have to be promoted by extensive, long term advertising.

Two things should now be apparent to the company. First, the low income consumers of Valparaiso do not offer an adequate market for moulded bread. Second, whatever market is selected, it will be necessary to have the product available in a large number of outlets.

One solution might be to shift the market effort to higher-income Vina del Mar. It might be possible to enter into a cooperative program with one of the dairies that now distribute milk on a door-to-door basis. An alternative plan would be to purchase one truck and attempt to sell to those retailers in Vina who cater to the higher-income families.

APPENDIX B

A MANAGEMENT DEVELOPMENT PROGRAM DESIGNED FOR INSTANT IMPLEMENTATION OF THE SUBJECT MATTER

The program was called MANAGEMENT OF GROWTH AND TECHNOLOGICAL CHANGE. It was designed by Northeastern University in Boston, Massachusetts to serve those small companies whose general growth was being inhibited or threatened by changing technologies with the accompanying danger of a product line that was, or would soon become, obsolete.

The long-range plan for the program was to present it in four phases, as follows:

1) Long and Short Range Planning

2) Market Planning

3) Production Planning

4) Financial Planning

No claim for originality was made for the subject material for each of the four phases. Hundreds of such subjects are constantly being taught in management programs around the world.

The unique aspect of the program was related to the selection of the participants and the format of each session.

Participation was limited to eight small companies with the characteristics described above. Each company was required to send its chief executive officer plus two other high-level company executives normally involved in the decision-making process. For the initial phase six of the

eight companies chose to send the president, the treasurer, and the marketing or sales manager. One of the two other companies substituted the production manager for the treasurer. The remaining company, whose president also acted as treasurer, sent its manager of research and development and its sales manager. There were thus a total of 24 participants.

Faculty members for the program were drawn from Northeastern University, from the College of Business Administration and the School of Industrial Engineering.

Each phase of the program ran for eight days - one day a week for eight weeks. The daily sessions started at 1 p.m. and ran until 9 p.m. with one hour for dinner (this permitted the executives to work in their plants in the morning). The sessions were held at a country Continuing Education facility of the University designed for residential programs.

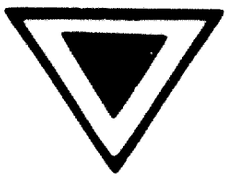
The daily sessions were divided into two parts. Part I, from 1 p.m. to 4 p.m., was devoted to a plenary session concerned with the appropriate subject matter and using modern methods of instruction such as case method, role playing, visual aids, and other related techniques.

Following the one-hour supper break each company went into executive session in a separate room. This session was

from 5 p.m. to 9 p.m. Each of the eight company groups was accompanied by a faculty member from the University who acted as a moderator and resource person. This grouping provided complete administrative privacy. The assignment of each company team was to examine in detail the problems and opportunities of its own firm. Short and long range objectives were examined in the light of the existing and probable future developments within the industry. The work covered in each of the evening sessions was related to the subject matter developed in the morning session. For example, if new improved methods of sales forecasting had been featured in the morning - a comparison between the existing sales forecasting methods of the XYZ company - the improved methods were then discussed in the executive sessions. When appropriate the newer methods were then incorporated in the company's planning and policy.

It was manifestly impossible to develop, in the limited time available in each session, all the detail necessary for successful implementation. What <u>did</u> result in every case was the creation of the framework of a plan. This was an accomplishment without precedent in any of the eight companies involved in the seminar. Each company could and did do the additional work - at its own offices - necessary for implementation.

During each phase of the program each executive spent a total of 64 hours; of this time 32 hours were spent in planning sessions with colleagues from within his own company. During this 32 hours they also had the services of what was essentially an outside consultant, i.e., a University faculty member. It was the almost unanimous opinion of the participants that never had company meetings produced such immediate and visible results. Among other, less tangible results were learning to work together and learning to <u>use</u> skills acquired in the classroom.



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