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**A LAYMAN'S HANDBOOK  
OF MARKETING INFORMATION**

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by

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## ABSTRACT

This paper is intended as a guide for the layman seeking assistance in applying marketing concepts to his own business problems. It is a handy reference of information sources on both the field of marketing and on the markets themselves and is an ideal primer for those who wish to develop basic research to support business decisions.

## BACKGROUND

This research is part of a larger program of research on entrepreneurship being conducted at the Bureau of Business Research, Graduate School of Business Administration, the University of Michigan. Sponsored jointly by the Institute of Science and Technology and the Bureau of Business Research, the study has been initiated to monitor business formation and management in a growing economy.

## FOREWORD

Although this paper is a handbook of marketing for the small businessman, the author is not a student of marketing. Thus, he brought to this review of the literature a unique perspective which allowed him to identify those marketing concepts which are difficult for the businessman to either understand or apply in his own business. The paper is designed so that the layman will be able to proceed through it to review the literature and identify those sources of information which will provide him with the greatest assistance in solving business problems.

It was our intention to continue this series by approaching the literature in the other functional areas of business in order to prepare reports for the layman similar to this marketing survey. Though the continuation of the series will no doubt depend on the reception received by this first report on marketing problems, it is hoped that the businessman will recognize the need for such reviews and assist us in presenting the information to him in its most usable form.

Patricia L. Braden  
Study Director

## PREFACE

This handbook is addressed primarily to laymen (i.e., those not professionally trained in the discipline of Business Administration or Marketing) who are already in business or who intend to enter a business. It is a helpful guide to sources of information in marketing as well as a practical "what-to-do" and "how-to-do-it" reference for any small businessman with limited research facilities.

The materials in this handbook are derived from secondary sources: books, articles in journals, and federal government publications--in particular, publications of the Small Business Administration (SBA). No field work has been done and no particular geographical area or product line is the focus of this study. Those interested in a specific product line can consult trade journals in the field (e.g., Grocery Stores, National Association of Retail Grocers), or U.S. Department of Commerce publications.

This handbook is divided into three sections. The first section is a general bibliographical guide to marketing information. The main work is then divided into two sections which deal with the procedures to follow when confronted with a marketing situation. We thus have the following three sections:

- I. General Bibliographical Guide
- II. Types of Situations Which Require Marketing Information
- III. Types of Marketing Information Which Can Be Obtained

## CONTENTS

I.	GENERAL BIBLIOGRAPHICAL GUIDE	1
II.	TYPICAL SITUATIONS WHICH REQUIRE MARKETING INFORMATION	3
	Starting a New Firm	3
	Expanding an Existing Firm	6
	Sales Data	7
	Consumer Acceptance Data	9
	Data on Competitors' Innovation	9
	Changing a Product or Product Line	10
	Selecting the Product Line	10
	Selecting the Specific Product	11
	Designing the Product	15
	Product Testing	16
	Sales Testing	18
	Food broker	20
	Free goods offer	21
	Continuous Evaluation of Product or Company Performance	22
III.	TYPES OF MARKETING INFORMATION WHICH CAN BE OBTAINED	27
	Channels of Distribution	27
	Customer Information	32
	Advertising and Sales Promotion	35
	Pricing	38

## FIGURES

- |  |    |
|--|----|
| 1. Checklist for a new-product survey.               | 13 |
| 2. Repeat purchase as a factor in market prediction. | 25 |
| 3. Methods of product distribution.                  | 29 |

## I

## GENERAL BIBLIOGRAPHICAL GUIDE

The following publications are helpful guides to marketing information:

<u>Title</u>	<u>Publisher</u>	<u>Cost</u>	<u>Period Covered</u>
<u>Statistical Abstracts of the United States</u>	Department of Commerce	\$4.75	Annual
<u>World Almanac and Book of Facts</u>	Doubleday Company	2.98	Annual
<u>County and City Data Book</u>	Bureau of the Census	7.50	Five Years
<u>Census of Manufactures</u>	Bureau of the Census	25.00	Five Years
<u>Annual Survey of Manufacturers</u>	Bureau of the Census	7.50	Annual
<u>U.S. Industrial Outlook</u>	Department of Commerce	5.00	Annual
<u>Current Industrial Reports</u>	Bureau of the Census	2.00	Irregular
<u>Marketing Information Guide</u>	Department of Commerce	4.00	Monthly
<u>Business Service Checklist</u>	Department of Commerce	2.00	Weekly
<u>Monthly Catalog of U.S. Government Publications</u>	Government Printing Office	6.00	Monthly
<u>Guide to Marketing</u>	Printers' Ink Inc.	--	Annual
<u>Survey of Buying Power</u>	Sales Management	--	Annual
<u>Predicasts (Looseleaf)</u>	Predicasts, Inc.	130.00	Quarterly
<u>Thomas Register of Manufacturers</u>	Thomas Publishing Company	--	Annual



<u>Title</u>	<u>Publisher</u>	<u>Cost</u>	<u>Period Covered</u>
<u>Million Dollar Directory</u>	Dun & Bradstreet	100.00	Annual
<u>Market Directory</u>	Dun & Bradstreet	100.00	Annual
<u>Directory of Post Offices</u>	U.S. Postal Service	4.50	Annual
<u>Survey of Current Business</u>	Department of Business Economics	6.00	Weekly and Monthly
<u>Zip Code Directory</u>	U.S. Postal Service	10.00	Annual
<u>Financial Executives Handbook</u>	Dow Jones	17.50	1970
<u>American Marketing Association Definitions</u>	American Marketing Association	12.50	1970
<u>American Marketing Association Directory</u>	American Marketing Association	Membership	1970
<u>American Marketing Association Bibliography</u>	American Marketing Association	6.50	1963
<u>Statistical Services of the U.S. Government</u>	Government Printing Office	4.50	1962
<u>Standard Industrial Classification Manual</u>	Government Printing Office	4.50	1967

In addition to the above bibliographical guide, specific sources of information for any of the subjects discussed below will be listed.

## II

### TYPICAL SITUATIONS WHICH REQUIRE MARKETING INFORMATION

In this section, we shall discuss marketing problems associated with: (1) starting a new firm, (2) expanding an existing business, and (3) changing a product line.

#### Starting a New Firm

A necessary step in starting a new firm is to choose your product or product line. This can be done with the help of the Standard Industrial Classification (SIC) which lists about 450 groups, 150 subgroups, and 20 major groups of industries. Having chosen the product or product line, the businessman must resolve the first marketing problem, that is, to define the market for the product. To define the market is to determine the size, location, and characteristics of the market. This requires making certain initial assumptions about the market. These assumptions may relate to the size and location of the market, price, distribution, and competition. The next step is to verify these assumptions.

In making the initial assumptions, one should remember that there are a number of features which place a limit on your potential market. Some products are in common use by everyone, e.g., salt. On the other hand, some products can be sold only to certain segments of the population,

for example, women and children. There are still others which can only be sold in areas of a certain climate or during certain seasons of the year.

The product's limitations have to be tested before one can make valid projections about the potential of the market. Such tests have sometimes produced startling results. Take the case of a high-quality shoe manufacturer who had directed his sales' promotions to the "class market."<sup>1/</sup> An analysis of 16,000 retail sales in the New York area revealed, however, that only a small fraction of his business came from the highest income district. He sold as many shoes per capita in the low-income neighborhood as in the highest-income ones. As a result of this study he changed his whole approach to the New York market with satisfactory results.

Another case of unexpected market potential comes from the statement of a researcher working in the automobile market: "Today, rich blue-collar workers are joining prosperous lower middle-class salesmen and well-to-do upper middle-class business owners in buying Pontiacs, Buicks, Oldsmobiles, Chryslers, and even Cadillacs."<sup>2/</sup>

The above examples illustrate the necessity for verifying your assumptions about the market before making projections about the market potential of any specific product.

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<sup>1/</sup>U.S., Department of Commerce, Bureau of Foreign and Domestic Commerce, Check List for the Introduction of New Consumer Products, Economic Series No. 41 (Washington, D.C.: Government Printing Office, 1944), p. 4.

<sup>2/</sup>William H. Peters, "Relative Occupational Class Income: A Significant Variable in Marketing of Automobiles," Journal of Marketing, XXXIV (Apr. 1970), 75.

To help determine the size, location, and character of the market for any particular product the following check-list is suggested:<sup>3/</sup>

1. What type of consumers will use the product (e.g., housewives, farmers)?
2. How many potential customers are there?
3. What factors cut down the size of the total market (e.g., price, sex, age group)?
4. In view of number three above, how many prospects are left for your product?
5. Where do the potential consumers live (e.g., state, neighborhood)?
6. Will the price of the products meet the requirements of your logical prospects?
7. Will the price of the product compare favorably with existing products of this kind and with similar products which may be introduced shortly?
8. What is the present consumption of products of this type?
9. Is the market for this product likely to change in size during the next 2, 5, or 10 years?
10. How often will consumers buy this product?
11. Will the product sell evenly throughout the year or are there seasonal variations in demand?
12. What features of the product appeal most to consumers (e.g., cost, price, style, etc.)?
13. What are consumers' prejudices against the product?
14. Are products of this kind usually paid for by cash, through credit, or by installments?
15. Does the installation of the product require additional expense for the consumer?
16. Does your product have any possibilities for industrial use?

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<sup>3/</sup>U.S., Department of Commerce, Check List, pp. 5-9.

Having tried to answer these questions, you may have three types of rating for each question: (1) you may have a satisfactory answer, (2) you may need more information, or (3) the question may not be applicable to your product.

Which rating you may give to any question depends on many factors. Some of the questions could be answered judgmentally. For example you may be able to determine a priori that the lingerie industry is a woman's consumer-oriented industry. On the other hand some questions may not have such self-evident answers, in which case you may require external information from agencies that conduct market research. Alternatively, you may set up a field survey--a house-to-house interview of consumers to determine a consensus of consumer opinion on particular questions.

#### Expanding an Existing Firm

An existing firm may be expanded because of an increased demand for its products or it may be expanded in order to introduce diversity in its product line, thereby enabling it to compete more successfully with other firms in the same field.

Whichever may be the case, an expansion project must be carefully planned in order to avoid failure. It must be remembered that hundreds, if not thousands, of new products are introduced into the market every year. Of this number only a very small proportion is successful. The research of a New York industrial-design concern, Lippincott and Margulies,

indicates that 23 out of every 26 new products fail.<sup>4/</sup> McCann-Erickson, Inc., a large advertising agency, says that one out of every 25 products test-marketed actually succeeds.<sup>5/</sup> In a similar finding, the U.S. Department of Commerce estimated that 90 per cent of all new products fail within four years of their introduction.<sup>6/</sup>

These statistics illustrate the necessity of careful planning before launching an expansion program. For such a program to succeed, a firm and a product must be consumer oriented. Most of the products which failed did so because they were not so oriented. The proprietor must therefore place the consumer above every other consideration in planning the project. This means that consumer needs and tastes must be meticulously ascertained. Three types of data are needed before the decision to expand is executed: sales data, consumer acceptance data, and data on competitors' innovation.

#### Sales Data

It is important to get sales data about your product as well as your competitors' products. Your own sales data can of course be easily collected from your company records. It is more difficult to get data on your competitors' share of the market. Sales data on many food and drug products can, however, be purchased from the Market Research Corporation of America consumer panel or the A. C. Nielsen Company food and

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<sup>4/</sup>Harper W. Boyd and Ralph Westfall, Marketing Research-- Texts and Cases (Homewood, Ill.: Richard D. Irwin, Inc., 1964), p. 672.

<sup>5/</sup>Ibid.

<sup>6/</sup>Quoted by Steven J. Shaw in "Behavioral Science Offers Fresh Insights on New Product Acceptance," Journal of Marketing, XXIX (Jan. 1965), 9.

drugstore audits. In addition, trade data on any particular product and market share can be obtained from many trade associations. Trade associations most active in this type of research are to be found in the sector of consumer and production goods:<sup>7/</sup> food stuffs, luxury goods, textiles, paper and pulp, chemicals, and electrical and mechanical engineering. Other trade associations of commerce engage in comprehensive market surveys in areas of nonperishable consumer goods such as household appliances, radio and television sets, and household furnishings.

The trade associations either conduct this research with their own staff or engage the service of a market research institute. The results of these investigations are made available to all members of the association. Trade associations, because of their neutrality, are not expected to make exclusive recommendations to individual companies or businessmen on how best to use the results of the findings.

It is important to obtain sufficient sales data at the consumer level to permit analysis of various consumer characteristics. In this way changes in sales can be related to changes in consumer characteristics. Comparison with similar changes in competing products will help to identify product characteristics which are particularly in demand by various population groups. It is desirable to obtain data on brand loyalty and the characteristics of those customers who are most loyal.

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<sup>7/</sup>For fuller discussion see Organisation for Economic Cooperation and Development, Market Research by Trade Associations (Paris, 1964).

### Consumer Acceptance Data

Since the needs and wants of customers often change, regular studies of consumer usage are necessary. Such studies often require the collection of data directly from the consumers. This can be done by any businessman. One way of ascertaining consumer acceptance of a product is to give a sample of the product to potential customers and see how it is used. Since more than 80 per cent of shoppers are women,<sup>8/</sup> they have been found to be a logical target for such an exercise. The reaction of potential users to the product can be ascertained through observation as well as by questionnaire. If such an investigation suggests that consumers will accept the new product, the company can then reasonably expect that the product will be a success.

### Data on Competitors' Innovation

It is always necessary to evaluate the impact of a competitor's innovation on the market. Sometimes the technical staff may expose a competitor's new product to laboratory testing and conclude that the innovation is of no significance. Such an expert view must only be regarded as an assumption until it is verified. Consumers are, in the final analysis, the judges of innovations. A simple way of testing the effect of the innovation is to give unidentified competitors' products as well as your own unidentified products to consumers

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<sup>8/</sup> Quoted in Louis Cheskin, How to Predict What People Will Buy (New York: Liveright Publishing Corporation, 1957), p. 148.



and determine their preferences on the product. If the result shows a threat to your product then remedial action must be taken. It is, however, difficult at times to know whether increased sales for the new product are a result of the innovation or are a result of the new product's promotion.

### Changing a Product or Product Line

More problems occur in changing a product or product line than in expanding an existing business. In addition to the three operations involved in an expansion project, a change of product line requires the same operations which are used in developing a new product. Six steps are required: (1) selecting the product line, (2) selecting the specific product, (3) designing the product, (4) testing new product features, (5) sales testing, and (6) continuous evaluation of the product or company performance.

### Selecting the Product Line

To select a product line, a helpful guide is the Standard Industrial Classification (SIC) Manual published by the federal government. This is by far the most widely used system of industrial classification. The SIC covers the whole range of economic activities in the United States: agriculture, forestry, and fisheries; mining; construction; manufacturing; transportation, communication, electric, gas, and sanitary services; wholesale and retail trade; finance, insurance, and real estate; services; and government.

Industries are combined into 450 groups, 150 subgroups, and 20 major groups. The classification is based either on the major function of the industry or the major product. In order to relate SIC groups to a specific geographical area it is necessary to use the federal government publication County Business Patterns. County Business Patterns is a statistical tabulation based on the federal Old Age and Survivors Insurance Program. It is published in ten volumes representing the nine census regions and the United States summary. Nonfarm industries and commercial wage and salary employment in the United States are included in the tabulation. Statistics on the number of establishments, number of employees, and the taxable payroll are recorded for each industry.

Other valuable census reports are the Census of Manufactures, which covers important groups of wholesale customers, censuses of business, mines, and service industries.

#### Selecting the Specific Product

In selecting a specific product,<sup>9/</sup> it is necessary to consider the resources of the firm and the sales potential over a long period. Analysis of the sales trend must take into consideration the general economic conditions, new products entering the field, and trends in consumer wants.

An attempt should be made to determine the various uses to which the product can be put and those areas in which the

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<sup>9/</sup> For a discussion of product selection by a practicing small businessman, see Louis L. Allen, Starting and Succeeding in Your Own Small Business (New York: Grosset and Dunlap, Inc., 1968), pp. 81-112.

product is more suitable than existing products. A thorough knowledge of firms already producing similar products, and particularly the largest of such firms, must be obtained.

At the consumer level it is desirable to conduct an investigation into the preferences of the users. A number of points should be considered in this investigation: (1) what features are most desired in the product under consideration, (2) which existing brands in the market satisfy the user, and (3) what existing products in a given price range are similar to the potential product or better than it is.

Even a small company that does not have research facilities or that does not use the services of a market research agency can afford to do some basic market research of this nature. Company salesmen can conduct some questionnaire surveys of consumers in selected areas of operation. House-to-house canvases of a number of housewives or interviews of shoppers at grocery stores can be easily and inexpensively conducted. When questioning consumers about a new product, the researcher should show a sample, picture, or sketch if possible. For comparison of a product with existing products in the market, samples of each product could be given to potential consumers and their evaluation of the products obtained. Figure 1 is a typical checklist of a new product survey.

A final consideration before launching a new product is to ascertain which of the existing products are profitable or unprofitable. For example, after making a cost analysis

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Product's utility value	Company's styling and designing facilities for this product
Product's sales appeal	Attractiveness of the product to distributors
Need for the product	
Development cost involved	Advantages and improvements over other similar products
Unit volume possibilities	Whether consumers will recognize the product's improvements over other similar products
Dollar volume possibilities	History of similar products
Profit possibilities	Extent of the market
Time required before product becomes profitable	Permanency of the market
Inventories necessary	Location of the market
Initial tooling costs	Company's standing in this market
Estimates of manufacturing costs	Completeness of the company's line versus competitor's lines
To what extent the company will produce or buy parts	Customer loyalty to competitor's brands
Selling cost	Strength of competitors
Trade practices regarding discounts and pricing	Strength of any indirect competition
Warehousing practices and expenses	History of competitive manufacturers
	Trade practices of competitive industry

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Fig. 1. Checklist for a new-product survey. (Variations to the above consideration can be introduced depending on local circumstances.)

(Continued)

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Suitability of company's production facilities	Seasonal aspects of manufacturing and sales
Manufacturing advantages and disadvantages	Product's suitability for incorporation into present product line
Suitability of available channels of distribution	Suitability of the product to company's present sales setup
If suitable channels of distribution can be secured	If product has any value in supplementing present lines
Patent situation	Advertising needs
Export possibilities	Service requirements before and after sales

Fig. 1. (Continued)

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Source: U.S., Department of Commerce, Small Business Administration, Developing and Selling New Products: A Guide Book for Manufacturers (Washington, D.C.: Government Printing Office, 1955), p. 17.

of its present products, one company discovered that 18 products in a line of 39 accounted for only 3 per cent of total sales.<sup>10/</sup> The company eliminated the 18 unprofitable products and realized savings in cost. Profits increased 366 per cent while distribution expenses were reduced to 55 per cent. Had the company launched a new product without making the survey, it might have succeeded only in adding one more unprofitable product to the line.

### Designing the Product

Much valuable information from previous surveys should be available to help with the design of the product. Market research should provide the technical staff with a minimum list of desirable features which must be included in the product as well as a minimum list of undesirable features which must be excluded. It is always expedient to combine highly rated functional features with a design considered acceptable to the largest number of consumers. Critical features in the design of a product are size, shape, weight, materials, finish, colors, identifying features, nameplate, desired improvements, and other mechanical features.

It is always helpful to obtain information on product design from:

1. Records of earlier attempts to develop similar products--this may help to prevent mistakes

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<sup>10/</sup>U.S., Department of Commerce, Small Business Administration, Developing and Selling New Products: A Guide Book for Manufacturers (Washington, D.C.: Government Printing Office, 1955), p. 19.

2. Information about expired patents which could not be developed previously but which may now be practicable because of technological advances
3. Information about new materials, processes, or theories which can be applied to product-development problems

Useful information on design can also be obtained from company engineers, plant personnel, distributors, wholesalers, retailers, and even consumers. A good broker may be very helpful in the design process. He can discuss the manufacturer's problems with various customers, obtain their reaction, and pass it on to the manufacturer. He is also in a position to obtain information on competitors' products.

The actual designing of a product is a series of trial-and-error activities. Several variations of the new product can be produced and simultaneous checks made until the final design is accepted. The final design is that considered to be the best competitive product when compared with similar products in the field.

It must be remembered that excellent design alone does not necessarily sell a product. Critical factors in the sale of a product are in this order: product quality, package appeal, promotion effectiveness, and price.

#### Product Testing

Once the product has been designed, it should then be pilot tested. This can be done by giving consumers unidentified samples of the product and unidentified samples of the competitor's product. Consumers are asked to use both

products and indicate advantages and disadvantages. For more complicated consumer items, a different testing method is used--such products are placed in consumers' homes. Respondents are told to try the products over a period of time. Interviews are then conducted among department store buyers and sales personnel about the products already in the market. The new product is tested in various geographical areas at various prices. On the basis of the results obtained from these procedures, a decision can be made on whether or not to go ahead with the product.

When the product is entirely new and there are no other competitors in the field, consumers may need to be taught how to use the product. It is always necessary to make several consumers use the product before it is finally market tested. During this period the product is tried, tested in a limited number of commercial laboratories, sampled, criticized, and worked over by a selected group of consumers.

The services of independent testing laboratories which test other products in the field should be used. They are in a better position to identify the strengths and weaknesses of the product. Company engineers are sometimes so emotionally involved in the product they have designed that instead of accepting valuable criticism they prefer to defend or justify a mistake. For many companies, the price of their failure to use the services of independent critics has been collapse of their enterprise.

The following commercial laboratories' directories are useful guides to independent testing services: Directory of



Commercial and College Testing Laboratories, American Society for Testing Materials, 1955, and Industrial Research Laboratories in the United States, National Research Council.

### Sales Testing

A sales plan for launching the product should be developed along with product-development plans. There are several Department of Commerce publications that can help you introduce your new product to the market, two of which are: Check List for the Introduction of New Consumer Products, Economic Series No. 41, 1944, and Developing and Selling New Products: A Guide Book for Manufacturers, 1955.

In sales testing, two different aspects of the market are evaluated: (1) consumer acceptance, which is measured in terms of initial and repeat sales, and (2) trade acceptance, which is the ability of the manufacturer's sales force to secure, maintain, and expand distribution.

In most market tests, the basic assumption being tested is that the new product can obtain a given brand share, within a given time, under given conditions. This being the case, the product should be tested in the most realistic circumstances possible. Many products which were successfully test marketed have eventually failed because they were given such advantages during the test period. The following checklist will help you prepare adequately for your sales test:

1. Can your existing sales force handle the new product?
2. If so, will changes or additions be necessary?

3. If a separate sales force will be necessary, have you determined how to set it up, how many and what kind of men you will need, how to pay them, and so on?
4. Have you an existing promotion setup which can handle the new product?
5. Have you a satisfactory advertising agency or are you planning to consult one for the new product?
6. Have you decided on the details of the advertising program?
7. Are you familiar with the sales-promotion practices of competitors?
8. Are you familiar with the sales-distribution channels of competitors?
9. Have you determined what type and how much sales-promotion assistance you will give your salesmen?
10. Are you planning an organized publicity campaign (as distinguished from advertising)?
11. Will your promotion and advertising budget be based on (a) cost of attaining a definite objective, (b) percentage of estimated sales, (c) an arbitrary sum, or (d) some other system?

As can be seen from the above checklist, not only is the product tested but your entire marketing organization is tested as well. The following cases will illustrate some practical problems of sales testing.<sup>11/</sup>

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<sup>11/</sup> U.S., Department of Commerce, Developing and Selling New Products, pp. 70-73.

Food broker

A processor developed a new canned apple juice. When it was ready to market, he conferred with his food broker on the best method of introducing it to the trade and to the consumer. The broker, supplied only with labels, took orders from the trade (subject to approval of samples and price) for delivery in the fall, immediately following the canning. After the canning, the broker opened samples with the buyers and had his orders confirmed for delivery.

With the product in wholesale and chain-store warehouses, the next step was to reach the consumer. The broker recommended cooperative advertising tie-ins with distributors. The product was successfully advertised through this method and through individual dealer advertisements.

In order to promote sales the broker, at the canner's expense, employed demonstrators to serve chilled apple juice to customers in heavy-traffic supermarkets during busy weekends. The demonstrators stood alongside or in front of a mass display of the product. The results were excellent.

These demonstrations, along with the cooperative advertising, were continued over a two-year period. As a result, the product became the leading seller in the city where it was introduced. Close cooperation between packer and broker accomplished the desired results in a relatively short time and at a minimum of sales expense.

Free goods offer

A soap company had developed a soapless detergent for washing woolens by simply soaking the garment, without rubbing it. After testing the product and making arrangements for bottling, the company was ready to place it on the market at a retail price of 49 cents for four ounces. New England was chosen as a test area with its larger cities--Boston, Providence, Hartford, and Springfield--as particular objectives.

Two free bottles of the detergent, along with a letter explaining the product and quoting the price, were sent to a select list of drugstores, grocery stores, and department stores. At the same time, drug jobbers and grocery wholesalers were notified of the availability of the new product. Ten days after sending out the bottles, promotion was started through newspaper advertisements which included a coupon worth 10 cents. This was supplemented by radio advertising three times a week on three separate broadcasting systems. For three weeks, the radio advertising offered a free one-ounce bottle to those who wrote in for it. In the door-to-door campaign bottles were sold and free one-ounce samples and literature were distributed. Finally, direct mail was used.

The company felt that the newspapers did the best job of all the types of promotion used, although in one department store in Boston a woman demonstrator sold as many as three gross each day. The house-sampling campaign did not succeed so well. The company believed that the day picked for the campaign--December 15--was too close to Christmas.

To stimulate initial sales the detergent was shipped to dealers on a 2-for-1 basis; that is, they received two bottles and paid for one. This arrangement was later changed to a regular merchandising system, payment for each bottle being handled on the standard jobber- and retailer-discount basis.

#### Continuous Evaluation of Product or Company Performance

The story of a new product does not end with its successful launching. It must be made to maintain and improve its initial share of the market. This can be achieved by a continuous test of the product's performance in the market. It is necessary to know the effect of changes in the price, quality, and packaging of competitor's products on your product. The activities of the sales force should be checked from time to time. Since the success of a product is measured in absolute as well as relative terms, you should also check the performance of your competitors. Your product may be performing well in quantitative terms yet may be losing out in the market compared to your competitors' products. Methods used to evaluate a product's or firm's performance in the market include market survey questionnaires, observation, and house-to-house interviews.

Every firm, no matter how small, can afford to conduct some of these inquiries. Market Research Corporation of America (MRCA), a leader in the field of market research, has introduced a method of looking at sales volume known as the

factors-of-customer-buying method.<sup>12/</sup> According to this method, sales volume is determined by three factors: (1) the number of customers who buy the product, (2) the number of times that they purchase it, and (3) the amount they buy at one time.

It is easy to recognize that these factors also determine the success of a product in the market. The first factor of customer buying, namely, how many customers will buy or try the product, is the most important one. At this point advertising and promotion are critical.

The second factor of customer buying is how often the initial consumers will buy the product. The number of times the purchaser buys the product and the time lapse between purchases are two related problems. Unless a product has repeat buyers it is doomed to fail, since only new buyers will purchase. Experience shows that the number of buyers is not usually large enough to offset the loss of customers. In addition, the lack of repeat customers is an unfavorable commentary on the product.

The ultimate success of a product is determined by the number of purchasers who are prepared to buy it repeatedly and the time lapse between the purchases. By introducing the first two factors of the customer buying method, it is possible to predict the future of a product on the following

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<sup>12/</sup> For a detailed discussion of this method, see J. W. Woodluck, "A Model of New Product Decision," in New Product Development, ed. by J. O. Eastlack (Chicago: American Marketing Association, 1968).

basis (see Figure 2):

1. If a product attracts no more than 10 per cent of its initial customers as repeat purchasers, it will fail. Only products which are meant for single purchase can survive with this type of repeat purchase.
2. If a product receives an 11 to 20 per cent repeat purchase it is likely to fade out of the market in a couple of years.
3. If the product receives 20 to 30 per cent repeat sales, it is likely to stay on the market for several years but it will not be a significant product in the market.
4. If the product receives 30 to 50 per cent repeat sales, this is regarded as satisfactory. The product will be a factor but not a leader in the market.
5. If more than 50 per cent of the initial customers purchase the product for a second time, then the product is a sure winner and a leader in the market. Only novelty products or products designed for a special segment of the market fail with these repeat purchases.

However, the important factor in establishing a lead in the market is the percentage of repeat buyers who make the critical third purchase. This is a percentage of the initial customers who make the second purchase. For example if 40 per cent of initial tryers make the second purchase, 70 per cent of these should make the third purchase.<sup>13/</sup>

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<sup>13/</sup> Ibid., p. 57.

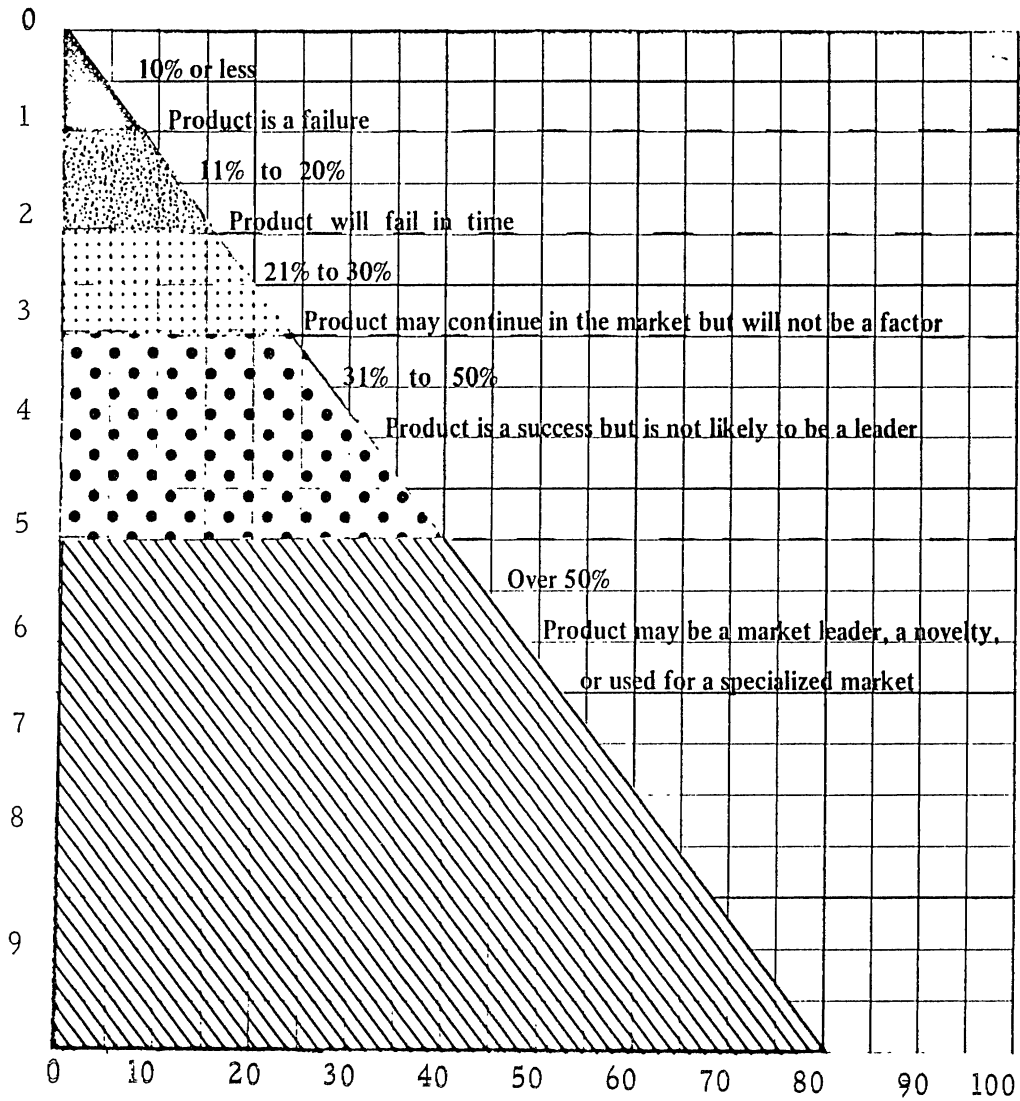


Fig. 2. Repeat Purchase as a Factor in Market Prediction.

Source: J. W. Woodluck, "A Model of New Product Decision," in New Product Development, ed. by J. O. Eastlack (Chicago: American Marketing Association, 1968), p. 56.



There is very little that additional expenses in advertising and promotion can do to lure purchasers on to the third purchase. The product at this stage will only survive on the basis of its quality and its fulfillment of the promises the manufacturer made to attract the customer initially.

Although the third factor of the customer-buying method--the amount the customers buy at a time--is important, it is not as important as the first two factors. Experience shows that the purchasers buy a small quantity of a product on a trial basis. If they are satisfied with the product then they make larger purchases. Thus, realizing the first two factors will normally bring about the third factor.

### III

#### TYPES OF MARKETING INFORMATION WHICH CAN BE OBTAINED

In this section we shall cover information which can be obtained about channels of distribution, customer information, promotional techniques, pricing, and other related problems.

##### Channels of Distribution

The importance of channels of distribution in the success of any firm or product cannot be overemphasized. A successful product is one that flows smoothly and profitably from the factory through various channels of distribution into the hands of the ultimate consumers.

In the United States there is already a highly developed system of distribution. Every businessman has a wide variety of choices. A businessman should not begin to establish his own channels of distribution if the job can be adequately performed through existing channels. The channel of distribution must fit into normal outlets for dispensing goods to the ultimate consumers or users. Channels of distribution may include such diverse agencies as railroads, warehouses, factories, advertising agencies, and marketing research agencies. But here we shall be concerned with the outlets through which goods are conveyed from the manufacturer to consumers or product users. These outlets appear in the form of a large number of

marketing links which connect customers with suppliers. Though they cooperate as a system, each member of the channel has an independent marketing operation. The orthodox channel of distribution is the flow of goods from manufacturer or producer to wholesaler, to retailer, and finally to consumer or user. Variations of this pattern have been used by the introduction of manufacturers' branch houses, retailers' chains, voluntary chains, retail outlets of catalog houses, supermarkets, consumers' cooperatives, and house-to-house salesmen. As can be seen from Figure 3, manufacturers and producers use a combination of methods in distributing their goods to the ultimate consumers.<sup>14/</sup>

Whether a manufacturer or producer prefers the orthodox channel of distribution, chooses to circumvent it, or combines it with other methods of distribution depends on his perception of market forces. Whatever method he chooses he is likely to be guided by a desire to attain: (1) his distribution with minimum expense, (2) maximum sales by bringing market targets to the fore, and (3) maximum effectiveness and efficiency in the distribution process.

To accomplish these ends you should try to find answers to the following questions:<sup>15/</sup>

1. Through what channel or channels are consumers accustomed to buying products of this kind?

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<sup>14/</sup>The diagrams are modifications from Ernest S. Bradford, Marketing Research (New York: McGraw-Hill Book Co., Inc., 1951).

<sup>15/</sup>U.S., Department of Commerce, Check List, pp. 10-12.

P. 29  
at Sea Grant

2. If you were buying a product of this kind, from which outlet would you prefer to make your purchase?
3. If the method by which you expect to get the products into consumers' hands is not the same as the preference stated above, what is the reason for the difference?
4. If you assume that you will distribute your product through retailers, what kind of retail stores will sell it (e.g., grocers, department stores, hardware stores, gift shops)?
5. How much do you know about the operations of this type of retailer (e.g., their number, location)?
6. What percentage of the total sales volume in this field is attained by:
  - a. Independent stores
  - b. Corporate chains
  - c. Voluntary chains
  - d. Manufacturer-owned stores
  - e. Consumer cooperatives
  - f. Others
7. On what basis do your competitors usually sell products of this kind to retailers (e.g., exclusive franchise, selected distribution, general distribution)?
8. If products are sold on an exclusive basis, do dealers expect to be protected against competition from other retail outlets in their town or neighborhood?
9. What is the best and easiest method of selling to these retailers (e.g., through established wholesalers or jobbers)?

10. At what seasons of the year will retailers be most likely to buy your product?
11. How many wholesalers, jobbers, or other intermediate distributing organizations are there which can logically handle your products?
12. What is the best and easiest method of selling to them?
  - a. Through salesmen, demonstrators, or technical personnel working out of the factory
  - b. Through brokers, sales agents, or others
  - c. Do you know the wholesale trade practices or discounts, allowances, billings, credit, and warehousing which you will have to meet?
13. If products like yours are usually installed or have a service guarantee, will you conform?
14. If so, have you arranged for the service and installation through the distribution channels?

The answers to these questions are sometimes difficult. But they must be successfully answered if you expect your business to be successful. Some of the answers can be obtained internally from your sales records or from external sources. The most valuable external sources are the Census of Population, Census of Manufactures, County Business Patterns, and the Dun and Bradstreet Reference Book. The latter gives a nearly complete listing of all businesses, is based on the SIC Manual, and is available for every community in the nation. Your own trade association is a very useful source of information, as are telephone directories and local

chambers of commerce. In addition you can employ the field research techniques of interviews or questionnaires.

### Customer Information

Your sales and promotional efforts can only succeed if you have adequate informaton about your prospective customers. The critical information about your customers which you should have is who they are, where they live, how much and when they buy, and why they buy. Questions about their number and classification are quantitative and statistical, whereas questions about their characteristics and motivation are qualitative and psychological. In general terms, customers are:

1. People--individuals who use personal consumption goods
2. Business concerns--manufacturers, storekeepers, and utilities which are users of industrial goods
3. Institutions--hospitals, schools, or other organizations which purchase goods for their own use or consumption

Thus, to determine the size of the market for your product, you must have knowledge of these subdivisions as well as their various segments.

The people who buy your products differ in location--North, South, rural, or urban; age--old or young; sex--male or female; buying power--lower income, middle income, or upper income; education; social standing; and religion. Each of these variables is important in determining how much the consumer buys, when, how, and why he buys. A knowledge of these

facts will help to direct your sales appeal more effectively. For instance, it is estimated that (1) 80 per cent of department store customers are women; (2) middle-aged groups are the most important customers; (3) the number of men purchasing goods increases as the product becomes more mechanical and complicated; (4) the number of men purchasers increases with the number of wives who work; (5) the farther a man's work place is from his home the less he participates in the purchase of family groceries; and (6) more husbands and wives shop together in middle income families than those in lower and upper-income families. Information about differences in attitude, motivations, values, use, patterns, and aesthetic preferences which are entirely individual attributes are also important.

For example, an analysis of customers in the watch market revealed three broad segments:<sup>16/</sup>

1. People who want to pay the lowest possible price for any watch that works reasonably well
2. People who value watches for their long life, good workmanship, good material, and good styling
3. People who look not only for useful product features but also for meaningful emotional qualities

A research study of the watch market in 1962 revealed similar results:<sup>17/</sup> (1) approximately 23 per cent of buyers bought watches for their low price (Group 1 above), (2)

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<sup>16/</sup> Daniel Yankelovich, "New Criteria For Market Segmentation," in New Product Development. Also see Harvard Business Review, Mar.-Apr. 1964, pp. 83-90.

<sup>17/</sup> Ibid.



another 46 per cent bought watches for durability and general product quality (Group 2), and (3) another 31 per cent bought watches as symbols of important occasions (Group 3).

Before 1962 most watch manufacturers concentrated their attention on Group 3--the 31 per cent that bought watches as a symbolic gesture--thereby neglecting the needs of over two-thirds of the watch market. The U.S. Time Company took advantage of this loophole and established a firm position in the neglected two-thirds of the market with its low-priced Timex watches. To counter this threat to the market, the high-priced watch makers began to equate the waterproof and shock-resistant features of their watches with high quality. The U.S. Time Company countered by offering these same features at lower prices. In a few years the Time Company was able to claim in its advertisements that "Timex sells more watches than any other watch company in the world."

Timing of the advertisements also favored Timex. Since most of the customers of the high-priced watches bought their watches around Christmas, the companies with the higher-priced watches concentrated their advertising in November and December. But since Timex customers bought watches all year round, Timex also advertised throughout the year, thus having exclusive use of advertising space for ten months each year. During this period Timex was in the mind of consumers and therefore became very popular. The Time Company obviously would not have attained this success without adequate knowledge of customers.

A useful source of information on consumer spending is the 1969 Survey of Consumer Finances published by the Survey

Research Center, Institute of Social Research, University of Michigan, Ann Arbor. The U.S. Bureau of Internal Revenue corporation tax returns are also a useful basis of judgment as to how many consumers are likely to buy a particular product or service.

### Advertising and Sales Promotion

Advertising and sales promotion are specialized fields which require a certain technical expertise. Like all other aspects of marketing, they should be guided by the principles of efficiency and profit.

Advertising and sales promotion are designed to prepare consumers psychologically to accept a particular product. These marketing strategies are designed to achieve the following three purposes: (1) to make the product or service known to the buyers, (2) to explain to customers why it will satisfy their need, and (3) to explain in what respect it will satisfy a certain want better than any other product in the field. To achieve these results requires a knowledge of why people buy a special product. A rough estimate of why people buy includes six general motives:<sup>18/</sup>

1. The desire for gain--money saving, speculation
2. Self-gratification--pride of possession, love of luxury
3. Utility--convenience, necessity
4. Caution--desire to provide for the future, to protect dependents

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<sup>18/</sup>Bradford, Marketing Research, p. 247.

5. Competitive spirit--ambition, pride
6. Moral and aesthetic instincts--cleanliness, love of beauty, religious motives

Advertising usually stresses one or more of these aspects. The advertiser must therefore have an intimate knowledge of the product so that he can choose qualities of the product to be emphasized. He must also have an intimate knowledge of the characteristics of customers, as well as a profound knowledge of advertising media.

There is a multiplicity of media to choose from--metropolitan dailies, county newspapers, general magazines, trade journals, car cards, direct mail, radio, television, bulletin boards, telephone directories, or sky writing among others. The medium you choose depends on the audience you want to reach. The advertisement you have placed during a popular TV or radio program may have a wide audience, yet it may not reach your logical prospects. A product that will appeal to unmarried working-class girls, for instance, should not be advertised in a program which attracts married housewives. Trade magazines are usually better for advertising industrial goods since the advertising appeal for such groups is generally different from that for general consumer goods.

Sales and promotional activities must be sustained long enough to accomplish the task required. A campaign should be long enough to cover the "use cycle" of the product so that repeat purchases can be measured. The example of a manufacturer who was about to write off a good product will illustrate this point. The initial sales resulting from the

launching of the product were quite satisfactory, but at the end of three monthly purchases the sales were negligible. Consequently, the manufacturer decided to write off the new product as a failure.

On second thought, however, he decided to check on housewives who had bought the product to find out why they did not purchase the product again. He found out that those who made the initial purchase were very satisfied with the product but had not purchased a new one because the original item had not been used up. This manufacturer therefore extended the introductory offer by sixty days and had impressive repeat purchases. The new product became successfully established in the market.

Advertising and promotional activities should not be started until the product has been delivered to the retail outlet. It could be disappointing to your prospective customers if they were to look for your product at their normal outlet and fail to find it there.

In setting up an advertising promotion, you must decide on the objective and steps necessary to attain it. It is also advisable to establish a hierarchy of importance in the various steps. Experience shows that you will not be able to afford the "ideal" plan. Having attached priorities to steps, you can eliminate the less important steps while retaining those steps critical for your objective.

### Pricing

A sound price policy is a critical factor which will determine the success or failure of your product. Price has psychological, economic, and sociological connotations. In matters of price the consumer or product user is a rather ambivalent creature. On the one hand, consumers have the contradictory expectation of high quality and low price in one product. On the other hand, some people often associate price with quality. Low price and inferior quality are also considered to be synonymous. The product is said to look expensive when it is intended to imply that the product is of high quality. Your price should not be calculated by reference to costs alone but should be adjusted to the needs of the consumer, his relation to the product, and his purchasing power. The distributor and marketing techniques should also be taken into consideration.

Your price must be competitive with the prices of existing goods which are similar or comparable in quality to your product. Do not price your product much lower than products of comparable quality in the market unless there are definite advantages to be gained from such a measure. It sometimes hurts your product to be priced lower than other products of similar quality. The example of two books which were produced at the same cost will illustrate the case. One of the books was retailed for \$5 and the other for \$2. Yet the book which sold for \$5 was a success and the one which sold for \$2 was a failure. It was found that people bought the \$5 book as a

gift for others on such occasions as graduation, while a \$2 book was not considered expensive enough for a gift. The bookseller made a profit of \$2 from the \$5 book and only 80 cents from the \$2 book. As a result he made a greater effort to promote the more profitable book and display it more conspicuously in his store.

In entering a new-product line or introducing a new product you may find it necessary to establish a schedule of discounts and allowances for wholesalers and retailers to encourage them to add your product to their line. But you should not be overgenerous to the point of not making any profits. Again remember that federal laws prohibit establishing any price policy that discriminates among individual buyers. You may, however, give larger discounts to larger buyers, but this discount must be the same for all such buyers.

Important guidelines for the formulation of a price policy have been established by the U.S. Department of Commerce:<sup>19/</sup>

1. Be certain that your scale of prices, discounts, and allowances is at least in line with long-standing trade practices.
2. Be certain that discounts and allowances are such that each factor in the distributive system, all the way from factory to retailer, not only can but should make a satisfactory profit.
3. Be certain that a proper relationship exists between all distributive elements which may handle your products so that no units or groups in your distributive setup will have so large a price advantage over other units that it is impossible for some wholesalers or retailers to compete successfully.

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<sup>19/</sup>U.S., Department of Commerce, Check List, p. 16.

The marketing information described in this section can be obtained at any stage in the development of your company. Though certain types of information are more helpful in some situations than others, any change in your business situation will have an effect on your pricing and promotion policies, your distribution practices, and your customers. Therefore, whether you are starting a new firm, expanding an existing firm, changing a product or product line, or simply making a periodic evaluation of product or company performance, it is important that you obtain sound business information to support your decision before taking action.

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