The Practice of Marketing Management

ANALYSIS, PLANNING, AND IMPLEMENTATION

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Macmillan Publishing Company
NEW YORK
Collier Macmillan Publishers
LONDON

Printed in the United States of America

Macmillan Publishing Company
866 Third Avenue, New York, New York 10022

Collier Macmillan Canada, Inc.

Library of Congress Cataloging-in-Publication Data

Cohen, William A.
The practice of marketing management.

Includes index.
1. Marketing—Management. I. Title.
HF5415.13.C635 1988 658.8 87-11281
ISBN 0-02-323150-5

Printing: 12345678 Year:8901 234567

The Southwestern Company

CASE 3

History

The Southwestern Company was founded in Nashville, Tennessee, in 1855. The first college students began selling books door to door in 1868, and the Company has had a student program continuously since then. In 1986, students from more than 500 colleges and universities across the country participated in the program.

Business Plan

Southwestern is a publisher of home reference, religious, and children's books. These books are sold at wholesale prices to independent contractors (virtually all of whom are college students), who sell the books at retail to individual consumers in their homes during the summer months each year.

Students travel to Nashville at their own expense at the beginning of the summer for an intensive week of training in selling, business management, and attitude. This week of training, known as Sales School, is designed to teach people who have never sold anything before how to be successful in door-to-door sales. It includes all the elements of effective personal selling, but in addition teaches the rudiments of business management and record keeping, since each dealer is responsible for his or her own merchandise and money.

Students then travel to another part of the country generally quite removed from where they attend college. In Sales School, they are taught how to locate a place to stay in a private home, and students live and work in the same community for the entire summer. First-year dealers usually work alone, although experienced dealers (called Student Managers) frequently are accompanied by first-year dealers for further training as they make their calls.

Dealers understand that their profits depend entirely on how much they sell and that perseverance and long hours are prerequisites for financial success. A sales meeting held each Sunday afternoon provides positive feedback, further guidance in sales technique, competition, and esprit de corps.

Each dealer may pay cash with each order or (as virtually all do) may submit a Letter of Credit signed by two financially secure individuals who agree to be responsible for up to $500 each, in the event of a default in payment by the dealer. This opens a merchandise account in the name of the dealer.

This case was developed and written by Daniel W Moore, vice president of, The Southwestern Company.

As sales are made, deposits are collected by the dealer. From these deposits, dealers pay their expenses, and remit the balance to their accounts at the Company. At the end of the summer, dealers order books for delivery to their customers, collect the balances due upon delivery, and then return to Nashville to wrap up their summers. The amount charged to their accounts is subtracted from the amount remitted, and a check for the credit balance is issued.

Experienced dealers who return for additional summers have the opportunity to recruit other dealers and receive dealer discounts from the company based on the sales of those dealers. This provides additional profits for dealers and encourages them to return each year and continue building a sales organization, as these discounts encompass anyone within their organization or the organizations built by those they initially recruited.

Products

Southwestern publishes a line of home reference, children's and specialty books, all of which are available only through student dealers. While Southwestern owns the copyrights on virtually all books sold, both editorial and printing work are contracted out.

Dealers sell in one of two distinct product divisions, each having an array of four or five titles. While this is not a large number, the books are written with broad appeal, so that almost every family will find something of interest in a dealer's sample case.

Editorial investment is an important priority for the company, since keeping products current and exciting is a significant part of keeping dealers enthused about what they are selling. The company's Marketing Department conducts regular surveys both of dealers and ultimate consumers which form the basis for product revisions or new product creation.

Southwestern books are moderately priced; the average retail sale is about $75. Dealer profit averages about 40 per cent of suggested retail, or approximately $30. A dealer averaging two sales a day during a 66-day summer would therefore have a gross profit of just under $4,000. Expenses vary depending upon the spending habits of the individual. Average expenses are about $1,500 for the summer.

Ownership

Southwestern was privately held by executives from its origin until 1969, when it was acquired by the Times-Mirror Company of Los Angeles. In 1982, a group of employees bought back the company in a leveraged buyout, and the company is once again privately held by those who manage it.

Organization

Southwestern employs more than 150 people full time in both sales management and administrative positions.

Sales Organization

In addition to several thousand first-year and experienced independent dealers, the company has several levels of employee managers. District sales managers, sales directors, vice-presidents, and the president all sold books for several summers as college students.

Administrative Organization

Accounting, Data Processing, Operations, Secretarial Services, Traffic, and Marketing all exist as separate support functions for the sales organization. In some cases, individuals heading these departments sold books as students, but the majority have different backgrounds.

The company is highly sales driven, which in the direct selling industry also translates into recruiting driven. Support staff is therefore oriented toward the importance of supporting the sales managers as they travel campuses throughout the school year recruiting dealers. In the summer, of course, attention is directed exclusively toward the sales effort.

Results

Average dealer profit in 1986 was $2,006.68 per month, ranging from an average of $1,482 per month for first-year dealers, to an average of $3,614 per month for fourth-year dealers (figures based upon dealers working more than 20 days). Although not all dealers finish the summer, about 70 per cent do.

Abbreviated financial statements appear on the last page of this summary.

Diversifications

Southwestern management has from time to time developed other businesses to leverage on existing strengths in the areas of sales training, motivation, and ability to sell effectively on a cold-call basis.

Student Buying Service

The intention was to provide large-scale buying power for student dealers through wholesale buying.

However, the base of dealers was simply not large enough to secure adequate discounts; the diversity of items wanted created ordering and fulfillment problems; and the advent of the mass merchandisers at approximately the same time eliminated the competitive price advantage. The Tasks and Responsibilities venture was therefore short-lived. Among the lessons learned was the importance of thinking carefully through the *implementation* issues for a good idea before getting into it, as well as listing the potential gains.

Fund-raising

Many students who had graduated from college were not willing to make career commitments, because of desires to travel, continue recruiting, go eventually to graduate school, and other reasons. This left them with “free time” in the fall of the year, before recruiting season began. A program was started in which these dealers called on elementary and high school groups, setting up fund-raising programs through selling Southwestern products in their communities. This program expanded to become the School and Club Division, and eventually a separate company, Great American Opportunities, which is now in some 35 states and with a full-time sales force of more than 150 people.

Direct Sales of Home Devotional Program

In an effort to retain still more of the highly trained student dealers who would otherwise go with other companies, Southwestern started a full-time division selling religious products on an appointment referral basis as opposed to door to door. The product had an average price of more than $500, compared to about $70 in the student business. Many of the new recruits had evangelical backgrounds, which gave them conviction in the product line, but also limited their available selling time because of extensive church and family commitments. In addition, a competitive home devotional product sold through direct sales hit the market at about the same time which offered just as much but at a lower price.

This operation was discontinued after approximately four years. Among the lessons learned was the importance of recruiting a sales force with both sufficient time to make the number of presentations necessary for success and proclivity toward the product. Since sales of this magnitude usually require both spouses to be present, selling in the evenings was very important, yet it was the sellers’ evening hours which were occupied by other events.

Career Placement

As a service to students, a full-time placement counselor was hired to help set up career job interviews with interested companies wanting to hire students with this kind of sales experience. After a short time, the decision was made to charge companies a fee for this service, in recognition of the value employers placed on dealers’ background.

This operation has grown steadily so that now four full-time counselors work with more than 100 companies in placement activities, and the division has a positive net contribution to Southwestern from its operations. It is a licensed placement agency and has expanded into executive-level searches as well as placement of people without Southwestern background. Continued growth is planned for the future.

Direct Response

Beginning initially with attempts to sell additional product to dealers' customers, the direct response operation split off to become a completely separate company in 1984. Concentrating on selling collectibles and annual book programs, this company is showing rapid sales growth.

Athletes' Division

In March 1986, Southwestern hired the former head football coach of a major Southeastern Conference university to build a new division oriented toward college athletes. This new division involves direct sales during the summer, but these athletes stay in their home areas and sell to people in their personal "networks"— people they know and people to whom they are referred. The product line involves health and safety-oriented products, including fire extinguishers and water purification systems. Summer 1987 is scheduled for the first full-scale rollout of the program.

Market Outlook

The company's most recent strategic plan highlighted the following threats and opportunities during the next five to ten years.

Threats:

1. Increased general affluence of the population means parents have more resources to finance their children's college education—less need for students to make large amounts of money in the summer may dampen recruiting.
2. Shrinking numbers of teenagers and college-age students reduces available recruiting pool and bids up wages of competing summer opportunities, putting pressure on Southwestern's comparative financial advantage.
3. Increasing percentage of working women means fewer people home during the day. More than 60 percent of mothers are projected to be working outside the home by 1990.
4. Stricter regulation of door-to-door sales in many localities hampers placement of dealers.
5. Alternative buying methods (retail, direct mail, TV advertising) make book purchases from other sources easier for the consumer.

6. “Life-style”—oriented value structure reduces number of students interested in becoming district sales managers despite its excellent financial potential, because of the heavy travel and long hours involved in such a career.

Opportunities:

1. Cuts in federal financial aid and disproportionate increases in tuition and school expenses put pressure on students to find summer work with potentially higher profits.
2. College students are generally “probusiness” in their attitudes. The most recent UCLA/Department of Education study found that 25 percent of incoming freshmen are planning on majoring in and finding careers in business, the highest percentage in several decades. This enhances Southwestern’s appeal.
3. “Mommy boom” means large growth in population of preschooler and primary-age children during next ten years. This is Southwestern’s main target market for its educational and reading books. This segment is prepared to invest in educational materials for children.
4. Growth in suburban and small-town populations increases available prospects for books in Company’s traditional selling areas.
5. Continued payback of obligations frees up capital for investment in both current and new ventures.
6. Highly trained dealers are much in demand by other companies anxious to hire recent college graduates with a proven track record of success at an early age.

APPENDICES

Appendix A. Abbreviated Income Statement

(Note: Southwestern is a closely held corporation, which does not release financial information. These figures consequently have been modified, but do represent accurate ratios. This information is confidential, and is for use by participants during this DSEF seminar only.)

Years Ending December 31, 1986 and December 31, 1985 ($000)

	1986	1985
Total revenues	$25,400	$24,600
Cost of sales	6,200	6,200
Selling expenses	8,800	8,200
General and administrative expenses	2,800	2,200
Depreciation and interest	4,700	5,800
Total expenses	22,500	22,400
Pre-Tax income	2,900	2,300

Appendix B. Recent Recruiting Results

After three years of declining numbers of student dealers, Southwestern reversed this downtrend in 1986, increasing in the numbers of both first-year and experienced dealers. Another increase is anticipated in 1987.

Appendix C. Excerpts from "Criteria for Starting a New Profit Center," Internal Paper, The Southwestern Company, October 1985

I. Fundamental Criteria for New Ventures

A. New profit centers should only be started when the eventual returns from their development have a positive net present value, and ideally equal or exceed those that could be achieved if the same resources were devoted to existing businesses. Target return on sales before taxes is 12 percent.

1. What can the new business do that a new product or an enhancement of the current business could not do?
2. How does the new venture fit into the company's overall business philosophy?
3. Is it truly a sound business move, or is it a knee-jerk reaction to competition, a place to put disaffected managers, or jumping onto a trend- wagon without proper thought?

B. How would profits generated by the new venture be additional profits, not simply profits cannibalized from portions of the existing business?

C. Cost calculations for developing the new business should include the following, hard-to-quantify costs:

1. The cost to the current business of management time diverted into the new business.
2. The dollar impact of retaliation by other firms already in the business, including potential price-cutting which could lower the margins that may have attracted us in the first place.
3. The "costs of learning" involved in developing procedures and personnel which will operate the new business most effectively.

D. Do we currently possess the management skills required for the new business, and if not, how much are we willing to invest to acquire those skills?

E. What is the synergy with our existing businesses we plan to create?

F. What is our distinct comparative advantage which leads us to believe we are well-suited to the business?

II. Positioning the New Venture

A. What need will the new business address?

1. Who are we targeting as customers?
2. What is the potential of this market segment?
3. Who is already addressing this market?
    a. What are their resources, weaknesses, and strategies?
    b. How do they currently address the market need?

4. How will our new business specifically address this need?
    a. What are the comparative advantages to the customer of our approach?
    b. How will we communicate these advantages to potential customers?
    c. Why hasn't this idea been tried before? Will it be easy for others to copy our advantage? How long will that take?

Appendix D. Statement of Mission and Purpose

To excel within our industries in product and service quality, building for the future as we fulfill our commitments to our customers, our employees, and our investors.

Question

1. How should The Southwestern Company diversify into other businesses without jeopardizing the success of the core business? What other businesses should the Company consider? Why? How should it go about getting started in those businesses?