THE COST OF MARKETING COSMETICS AND BEAUTY PREPARATIONS
BY ATLANTA MANUFACTURERS

A THESIS
SUBMITTED TO THE FACULTY OF ATLANTA UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF ARTS

BY

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DEPARTMENT OF ECONOMICS

ATLANTA, GEORGIA
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</table>
CHAPTER I

INTRODUCTION

Business executives are becoming more and more concerned with the increasing magnitude of marketing costs. Within the last few decades marketing costs have been attacked with vigor.\(^1\)

The limited purchasing power of consumers, on the one hand, and the ever increasing supplies of goods of manufacturers, on the other hand, constitute a problem of great importance to business executives today. Prior to the twentieth century, manufacturers were primarily concerned with manufacturing methods in an attempt to satisfy a growing domestic market. Today, with the United States approaching industrial maturity,\(^2\) manufacturers are becoming more and more concerned with marketing methods and costs.

\(^3\)It is estimated by competent authorities that marketing costs absorb approximately one-half of all consumer expenditures for merchandise. A balanced economy with steady increase in sale and consumption of goods is dependent upon costs reduction and passage of savings along to consumers in the form of lower priced merchandise.\(^5\) With this in mind, business executives are devoting more attention to marketing costs.

The manufacture of cosmetics and beauty preparations has become an established industry in the United States. The industry has expanded more than 150 per cent since 1899. Table 1, Page 2, shows the rapid growth

\(^2\)Ibid., p. 3.
\(^3\)Ibid., p. 3.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER OF ESTABLISHMENTS</th>
<th>NAMES RANKED (average for the year)</th>
<th>WAGES</th>
<th>COST OF MATERIALS, CONTAINERS, FUEL, AND PURCHASED ELECTRIC ENERGY</th>
<th>VALUE OF PRODUCT</th>
<th>VALUE ADDED BY MANUFACTURER</th>
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<td>1951</td>
<td>603</td>
<td>16,793</td>
<td>$18,446,781</td>
<td>$44,564,875</td>
<td>$192,176,829</td>
<td>$111,416,826</td>
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<tr>
<td>1952</td>
<td>519</td>
<td>11,209</td>
<td>$18,782,061</td>
<td>$40,939,879</td>
<td>$201,460,929</td>
<td>$153,141,971</td>
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<td>1953</td>
<td>703</td>
<td>12,443</td>
<td>$10,908,898</td>
<td>$32,765,546</td>
<td>$162,342,689</td>
<td>$106,655,519</td>
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<td>1954</td>
<td>606</td>
<td>9,624</td>
<td>$8,556,820</td>
<td>$48,932,669</td>
<td>$132,510,493</td>
<td>$82,577,654</td>
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<td>1955</td>
<td>409</td>
<td>6,761</td>
<td>$7,192,044</td>
<td>$57,636,903</td>
<td>$100,341,485</td>
<td>$65,666,469</td>
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<td>1956</td>
<td>402</td>
<td>5,656</td>
<td>$5,536,387</td>
<td>$24,612,720</td>
<td>$72,048,804</td>
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<td>399</td>
<td>5,565</td>
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<td>$24,167,026</td>
<td>$59,413,351</td>
<td>$35,408,565</td>
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<td>1958</td>
<td>408</td>
<td>2,057</td>
<td>$1,270,009</td>
<td>$7,496,769</td>
<td>$14,893,102</td>
<td>$9,434,216</td>
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<td>1959</td>
<td>406</td>
<td>2,375</td>
<td>$2,944,221</td>
<td>$8,439,861</td>
<td>$14,211,609</td>
<td>$9,577,863</td>
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<td>1960</td>
<td>402</td>
<td>2,662</td>
<td>$789,087</td>
<td>$4,752,608</td>
<td>$11,132,889</td>
<td>$6,551,360</td>
</tr>
<tr>
<td>1961</td>
<td>288</td>
<td>1,706</td>
<td>$592,044</td>
<td>$3,126,027</td>
<td>$7,087,764</td>
<td>$3,932,497</td>
</tr>
</tbody>
</table>

of the industry from 1899 to 1931.\(^1\)

"Perfumes, cosmetics, and other toilet preparations, to the value of $159,174,699 (at f. o. b. prices) are manufactured annually in the United States.... The more important items included in the total are as follows: Perfumes, $10,350,722; toilet waters, $4,682,925; creams, other than shaving creams, $25,124,558; lip sticks and lip rouges, $5,100,047; other rouges, $5,629,074; dentifrices, $35,699,132; hair tonics, $7,564,152; face powders, $16,871,771; talcum powders, $8,417,395; hair dressings, $5,505,819; face lotions, $5,616,761; other toilet preparations, including manicure preparations, $12,432,246."\(^2\) As long as women believe that cosmetics are necessary to help them obtain and hold their beauty, the cosmetic industry will be a major industry.\(^3\) The industry is here to stay.

Investigation showed that there were twelve major plants in Atlanta, as well as a number of individual persons who make their own preparations for their private use.

**Purpose of the Study**

The purpose of the study is to show:

1. The costs involved in the distribution of cosmetics from the manufacture to the consumer, by six manufacturing concerns in Atlanta, Georgia.

2. How the cost of distribution may be reduced.

**Limitations of the Problem**

This problem is limited to six manufacturing concerns in the City of Atlanta, as follows:

1. Dris-Kura Manufacturing Company (Company A)
2. Newnre Manufacturing Company (Company B)
3. Hi-Ja Incorporated (Company C)

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\(^2\) Dr. Justin S. Brewer, Soap, Perfume, and Cosmetic Industry in St. Louis, St. Louis Chamber of Commerce News, February, 1934, p. 17.

2. Only that information was sought which pertained to the marketing of the products, except wherein distribution and production overlapped.

3. The study is primarily concerned with percentages, rather than amounts.

**Method of Procedure**

Questionnaires, made up of those questions which are essential to a study of marketing, were submitted to the managers of the six concerns. (See Exhibit A, Page.) The questionnaires were coupled with personal interviews.

Questions involving amounts were omitted. Only those questions were asked which could be answered with percentages.

All additional information was written on white cards three inches by five inches (See Exhibit B). The face of the card contained the following information:

1. Name of the concern
2. Date
3. Nature of the information

"Students of marketing have approached the subject in three ways:

.... Third, is the functional approach, which attempts to apply to marketing, methods of analysis that have been employed with gratifying results in the scientific study of factory management. This approach breaks the subject up into processes that must be performed in the movement of goods from farm or mine to factory and from factory or farm to the ultimate consumer. Among the more important of the marketing functions are (1) buying and assembly, (2) grading, standardization, and packaging, (3) storing, (4) transportation, (5) financing, (6) risk-taking, (7) accounting and
estimating, and (8) selling.\textsuperscript{1}

The functional approach to marketing will be used in this study.

Similar Studies on the Cost of Marketing Cosmetics

\textbf{Distribution Costs of 312 Manufacturers}\textsuperscript{2}

This study was made by the Association of National Advertisers in 1931. The findings showed that 14 producers of drugs and toilet articles had an actual distribution cost of 58.80 per cent of total sales.

This was the only record obtainable on the cost of marketing cosmetics.

\textbf{Definition of Terms}

1. \textit{Marketing} is ...."all the activities of getting goods from those who are primarily responsible for the form of the commodity to those who will ultimately consume the commodity."\textsuperscript{3}

2. \textit{Cost of Marketing}, as used in this study, will mean the cost of distributing goods from the producer to the consumer.

3. \textit{Per Cent of Cost}, in this study, will mean the cost of a particular function, expressed as per cent of total sales.

4. \textit{Average} - The simple arithmetic average will be used in this study because of the small number of items. The other averages would not be appropriate for so limited a number of items.

5. \textit{Cosmetics}, as used in this study, will mean ".... an external application intended to beautify and improve the complexion, skin, or hair."\textsuperscript{4}

\textsuperscript{1} Hugh B. Kilough and Barrington Associates, \textit{op. cit.}, p. 101.
\textsuperscript{2} Ibid., p. 101.
CHAPTER XI
FUNCTIONAL DISTRIBUTION OF COSTS

The six concerns studied had an average distribution cost of 36.8 per cent. The average cost of production was 63.6 per cent. (See Table II on Page 7 and Figure 1 on Page 9.)

Buying and Assembling

The buying and assembling of raw materials, though a marketing function, was charged directly to manufacturing. Buying and assembling, as a distinct marketing function, is used in reference to wholesalers, jobbers, and retailers. It then refers to the collection of finished goods into one convenient place.

Transportation

The movement of goods from one place to another is an important function of marketing. Transportation is in itself a large and important field of economics.¹

All of the concerns studied shipped their goods by Parcel Post and Express. Two reasons were given for shipping by Parcel Post:

1. Low value in proportion to weight. A pound of cosmetics will have less value for instance, than a pound of diamonds. Parcel Post service makes provision for shipments of parcels weighing between eight ounces and seventy pounds.

2. Promptness of delivery.

The two reasons given for shipping by Express were:

1. Greater speed
2. Greater convenience

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>TOTAL COST OF PRODUCTION</th>
<th>MANUFACTURING</th>
<th>OPERATING</th>
<th>NET PROFIT</th>
<th>TOTAL MARKETING COST</th>
<th>TRANSPORTATION</th>
<th>STOR-AGE</th>
<th>PACKING</th>
<th>STANDARDIZATION</th>
<th>RESEARCH</th>
<th>FUNDING</th>
<th>INITIAL</th>
<th>ESTIMATES</th>
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<tbody>
<tr>
<td>A</td>
<td>69.5</td>
<td>43.5</td>
<td>17.0</td>
<td>5.0</td>
<td>58.5</td>
<td>8.0</td>
<td>2.0</td>
<td>0.5</td>
<td>5.0</td>
<td>4.0</td>
<td>15.5</td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>60.0</td>
<td>38.0</td>
<td>17.0</td>
<td>5.0</td>
<td>50.5</td>
<td>11.0</td>
<td>5.0</td>
<td>0.2</td>
<td>4.0</td>
<td>3.0</td>
<td>14.0</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>63.0</td>
<td>46.5</td>
<td>15.5</td>
<td>5.0</td>
<td>56.1</td>
<td>10.0</td>
<td>2.0</td>
<td>0.7</td>
<td>4.0</td>
<td>2.0</td>
<td>15.5</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>65.0</td>
<td>44.5</td>
<td>16.6</td>
<td>4.0</td>
<td>54.1</td>
<td>11.0</td>
<td>-</td>
<td>0.4</td>
<td>5.0</td>
<td>4.0</td>
<td>13.2</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>60.0</td>
<td>46.5</td>
<td>17.0</td>
<td>5.0</td>
<td>51.5</td>
<td>10.0</td>
<td>-</td>
<td>0.5</td>
<td>5.0</td>
<td>3.0</td>
<td>15.0</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>63.0</td>
<td>48.0</td>
<td>15.0</td>
<td>5.0</td>
<td>50.0</td>
<td>11.0</td>
<td>3.0</td>
<td>0.8</td>
<td>4.0</td>
<td>4.0</td>
<td>14.0</td>
<td>2.0</td>
<td></td>
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<td>16.2</td>
<td>5.0</td>
<td>52.6</td>
<td>10.2</td>
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<td>4.0</td>
<td>3.0</td>
<td>15.6</td>
<td>3.0</td>
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</table>
Fig. 1. A graphic presentation of the marketing and production costs of the six concerns studied.
The express traffic usually moves on passenger trains, fast express trains, by motor truck, aeroplane, and other means of rapid transport. Express companies offer a collection service, a delivery service, and a C. O. D. service.  

Company A charged transportation costs directly to the buyer on all C. O. D. shipments. As most of its out of town sales were C. O. D. transactions, its transportation costs were low. Only one concern, Company F, shipped by motor truck. This method was used to reach its supply stations in outlying districts. The use of a motor truck for short hauls saved the concern time and expense.

Local deliveries, though a part of transportation, will be discussed under the selling function.

Figure 2 on Page 10, gives a graphic presentation of the transportation costs of the six concerns.

Storage

The storage costs of the six concerns was relatively small. (See Figure 3 on Page 11.)

Companies D and E performed no storage, as the products were made up according to advance orders. The other concerns performed a small amount of storage, as they kept enough goods in stock to satisfy "over the counter" demand.

Records showed that the demand for these products was almost constant throughout the year. There was no seasonal peak, although there was a slight increase in demand during the summer months. This increase in demand, however, did not warrant any general increase in production, and subsequent storage of goods.

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2A small number of retail sales were made at the plants.
Fig. 3. A graphic presentation of Storage Costs in the six concerns studied
The absence of modern, efficient machinery, tended to lessen the possibilities for mass production. This, in turn, lessened the possibilities for the creation of surpluses, and enabled the producers to maintain a balance between supply and demand.

The tendency was for the six concerns to shift the storage function upon the jobbers and retailers, and rid themselves of that cost. Storage costs were 2.6 per cent of total sales. (See Table III, Page 13.)

Risk-Bearing

Business risks may be defined as consequences of uncertainty that tend to negate profits.¹ Risks of loss caused by fire, theft, spoilage, damage to goods in transit, faulty credit extensions, and changes in price are necessarily a part of the marketing cost.

Each of the six concerns was exposed to the risks which are normally prevalent in the marketing process. These risks were shifted, as far as possible, to other marketing agencies.

Insurance companies are organized agencies which assume the risks of particular concerns for small premiums, and spread the loss.²

All of the concerns, with the exception of Company F, carried fire and theft insurance, thereby shifting those risks to the other agencies. Other risks, created by spoilage and damage to goods in transit, were shifted to insurance companies, and the cost included in the transportation costs.

The greatest risk inherent in marketing operations, the price risk, is not in general insurable.³ Not being insurable, it must be borne by agency in possession of the goods at the time of the price change. All six concerns attempted to shift the price risk upon the jobbers and retailers.

¹Hugh B. Killough and Barrington Associates, op. cit., p. 140.
²Ibid., p. 140.
³Ibid., p. 140.
**TABLE III**

**DISTRIBUTION OF MARKETING COSTS**
**IN THE SIX COMPANIES**
**(X TOTAL SALES)**

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>TOTAL MARKETING COST</th>
<th>TRANSPORTATION</th>
<th>STORAGE</th>
<th>GRADING PACKAGE STANDARDS</th>
<th>RISK REASURANCE</th>
<th>FINANCING</th>
<th>SELLING (ADVERTISING DELIVERY)</th>
<th>ACCOUNTING AND ESTIMATING</th>
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<td>A</td>
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<td>2.5</td>
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<td>2.0</td>
<td>4.0</td>
<td>(a) 0.5</td>
<td>2.0</td>
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<td>B</td>
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<td>11.3</td>
<td>3.1</td>
<td>0.3</td>
<td>4.8</td>
<td>2.0</td>
<td>(a) 10.3</td>
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<tr>
<td>C</td>
<td>28.1</td>
<td>10.3</td>
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<td>-</td>
<td>0.6</td>
<td>3.0</td>
<td>4.0</td>
<td>(a) 18.3</td>
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<td>E</td>
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<td>10.0</td>
<td>-</td>
<td>0.3</td>
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<td>COMPANY</td>
<td>TOTAL AMOUNT OF GOODS SHIPPED</td>
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<td>EXPRESS</td>
<td>MOTOR TRUCK</td>
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<td>B</td>
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<tr>
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<td>E</td>
<td>100.0</td>
<td>85.0</td>
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<tr>
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<td>15.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALL COMPANIES AVERAGE</td>
<td>100.0</td>
<td>75.0</td>
<td>22.5</td>
<td>2.5</td>
<td></td>
<td></td>
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</tbody>
</table>
by keeping small inventories.

Credit and collection risks are less subject to insurance than the risks of fire and theft.\(^1\) Losses through default of debt are determined by the nature and administration of credit policies.

Investigation showed that the six concerns had an average credit loss of 5.25 per cent. (See Table VII, Page .) Such a loss is indicative of loosely administered credit policies.

It was discovered that none of the concerns maintained relationship with mercantile credit agencies. The following reasons were given for their failure to make use of the reports of credit agencies.

1. The service rendered by the agencies did not merit the expense involved in maintaining relationships.

2. The individual concerns felt that they could obtain their necessary information at less cost to themselves.

The failure of the concerns to maintain relationships with any credit agencies may account for their high credit loss.

Grading, Standardization, and Packaging

"Grading is the separation of goods into uniform lots. Goods are said to be standardized when grades and classes are so exact and are in such common and widespread use that their purchase and sale may be consummated by description and without inspection. Packaging refers, .... to the placing of goods in attractive cartons, bottles, cans, boxes, and other containers for the purpose of physical protection, improved appearance, better salability, easier identification, and greater utility to purchasers."\(^2\)

The concerns studied charged most of the packaging function to manufacturing. That part which was charged to marketing was very small.

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\(^1\)Hugh B. Killough and Barrington Associates, *op. cit.*, p. 145.

\(^2\)Ibid., p. 104.
"It is unfortunately true that women are notoriously weak in the presence of glittering packages. Manufacturers know this and count on the package to sell the contents...."¹

A test was made to determine the packaging qualities of the containers used by the six concerns. A group of one hundred young ladies was chosen. They were asked to take their choice of the containers, according to their attractiveness, convenience (shape of container), and their (young ladies') familiarity with the name of the product. The answers were copied on white cards, classified, and tabulated. (See Table V on Page 17.) It was noted that the most familiar product was made by the concern having the least lines.

The products of six concerns were graded as to size and chemical content. The grading according to chemical content appeared to be inefficient because the products were made by hand, which prevented the uniformity of successive units.

Investigation showed that there was a very small degree of standardization. None of the companies advertised on a national scale such that these products were in widespread use.

".... Furthermore, it frequently has a varied product, the result of much hard labor or style policy, which cannot be standardized."² The concerns had a wide variety of products. (See Table VI on Page 18.) They felt that it was better to sell a small amount of many articles than a large amount of one article. They felt that the sales volume of many lines would spread any loss occasioned by a drop in sales of the leading product.

The Grading, Standardization, and Packaging function was the smallest of the marketing costs, averaging 0.4 per cent of total sales. (See Table III on Page 13.)

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>MOST ATTRACTIVE</th>
<th>MOST CONVENIENT</th>
<th>MOST FAMILIAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>10</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>22</td>
<td>23</td>
<td>36</td>
</tr>
<tr>
<td>C</td>
<td>30</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>D</td>
<td>12</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>E</td>
<td>18</td>
<td>23</td>
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<td>21</td>
</tr>
<tr>
<td>TOTALS</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>COMPANY</td>
<td>HAIR PREPARATIONS</td>
<td>CREAMS</td>
<td>POWDERS</td>
</tr>
<tr>
<td>---------</td>
<td>-------------------</td>
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<td>---------</td>
</tr>
<tr>
<td>A</td>
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<td>3</td>
<td>3</td>
</tr>
<tr>
<td>E</td>
<td>2</td>
<td>5</td>
<td>2</td>
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<tr>
<td>F</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

| AVERAGE ALL COMPANIES | 3.2 | 3.7 | 4.2 | 1.3 | 1.7 | 1.3 | 2.3 | 17.0 |
Accounting and Estimating

"Accounting is no less a marketing function than it is a factory management function; estimating is more logically a marketing function than a factory management function...."¹

Accounting and Estimating was the third smallest item in the marketing costs. (See Table III, Page 13.)

All of the concerns charged the larger part of the clerical expense to operating costs. They felt that it was correct practice to include record-keeping in operating costs.

Examination showed that though the concerns kept records, most of them were far from adequate. There was no breakdown of sales territory, and no record of personal sales and stock turnover.

Company A had the most adequate book-keeping system. This system was installed and operated by a Certified Public Accountant. It was so departmentalized that a cross section of all activities could be easily shown.

Company B had the next most adequate system. Although it was not departmentalized to the same degree as that of Company A, it did show good record of stock turnover.

Financing

All of the concerns except Company B are corporations. It is a single proprietorship, that is, owned and operated by one individual.

Each of the concerns made use of commercial credit relying upon their banks for short term loans. In order to meet payrolls and other current expenses, and to obtain cash discounts on their purchases of raw materials, they found it advantageous to borrow from banks for 30, 60, and 90 day periods.

The concerns financed their sales in several ways. Cash discounts were granted to wholesalers and jobbers. The terms of the discounts were

¹Hugh B. Killough and Barrington Associates, op. cit., p. 148.
the same for each concern, namely, 2 per cent, 10 days; net 30 days.
That is, a discount of 2 per cent was allowed on the invoice price if the
accounts were settled within 10 days; otherwise, the net invoice price
would be due at the expiration of 30 days.

The reasons given for granting cash discounts were:

1. The rapidity of merchandise turnover of wholesalers and jobbers.
These agencies bought in large quantities, and their purchases were more
frequent than those of retailers. The granting of discounts to wholesalers
and jobbers encouraged these agencies to settle their accounts earlier,
which in turn, enables the producers to continue their production at the
normal rate because of the steady inflow of funds.

2. The creation of customer preference. The granting of cash
discounts encouraged the jobber and wholesalers to buy goods from the con-
cern offering the discounts.

Sales were made to retailers both for cash and by open book credit.

Goods were shipped to agents on consignment. The title to such
goods remained in the producer until the goods were sold. The goods were
sold, the agent deducting his commission, and sending the remainder to the
company.

Sometimes the agent sold the goods on credit. These accounts ulti-
mately became the accounts of the concerns, as the title to the goods re-
mained in the manufacturer until the goods were paid for, which added a
financial burden upon the companies. Such practices should be condemned,
as they are not true consignments.

The agents, having the privilege of selling goods on consignment,
sold more goods than they otherwise would have, had they been compelled to
buy the goods and then sell them.

Approximately 30 per cent of the total sales of the six companies
were credit sales. (See Table VII, Page 21.)
<table>
<thead>
<tr>
<th>Company</th>
<th>All Sales</th>
<th>Credit</th>
<th>Cash</th>
<th>Total</th>
<th>Credit</th>
<th>Cash</th>
<th>Credit Loss in Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100.0</td>
<td>62.0</td>
<td>38.0</td>
<td>100.0</td>
<td>39.0</td>
<td>61.0</td>
<td>1.0</td>
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<tr>
<td>B</td>
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<td>75.0</td>
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<td>61.0</td>
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<td>C</td>
<td>100.0</td>
<td>75.0</td>
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<td>61.0</td>
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<tr>
<td>D</td>
<td>100.0</td>
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<td>39.0</td>
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<td>100.0</td>
<td>39.0</td>
<td>61.0</td>
<td>5.0</td>
</tr>
<tr>
<td>All Companies Average</td>
<td>100.0</td>
<td>63.3</td>
<td>36.7</td>
<td>100.0</td>
<td>39.0</td>
<td>61.0</td>
<td>0.85</td>
</tr>
</tbody>
</table>
Selling

Selling was the largest item in the marketing costs. (See Table III on Page 13.) It was 13.4 per cent of total sales.

Selling, as performed by these six concerns, was of two types:

1. Personal selling, in the form of agents, or salesmen.

2. Indirect selling, in the form of advertising.

Agents received goods on consignment, paying for them as the goods were sold and collected for. Agents did not receive a salary but were granted a commission based upon the total sales made by them. These commissions ranged from 40 per cent to 50 per cent of the total sales made by the agents. Agents accounted for approximately 75 per cent of the total sales of the six concerns. (See Table VIII, Page 23.)

It was noted that previous selling experience was not necessary to become an agent for any of the concerns studied. This may account for the fact that sales are low, since most of the sales were made by agents.

Retail establishments accounted for approximately 25 per cent of the total sales. (See Table VIII, Page 23.) Among the retail establishments, were drug stores, variety stores, beauty parlors, barber shops, and grocery stores. None of the products of the six concerns were sold by department stores.

Advertising, one of the largest of the distribution costs, averaged 9.9 per cent of the total sales of the six concerns. It was expected that advertising would be one of the largest costs because of the nature of the industry.¹

All of the concerns used the same advertising media:

1. Newspapers
2. Peaters, circulars, blotters
3. Samples
4. Magazines

¹M. C. Phillips, op. cit., p. 5.
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<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
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<tr>
<td><strong>TOTAL SALT</strong></td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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<tr>
<td><strong>COMPANY</strong></td>
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<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
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<tr>
<td><strong>GRASSY SPRINGS</strong></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
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<tr>
<td><strong>HABITAT</strong></td>
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<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td><strong>HABITAT TOLIYAT</strong></td>
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<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
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<tr>
<td><strong>ALL OBSERVED</strong></td>
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</table>
Approximately 80% of all sales were made to Negroes, hence the concerns advertised for the most part in Negro newspapers. They were (1) The Atlanta Daily World, (2) The Pittsburgh Courier, (3) The Chicago Defender, (4) The Baltimore Afro-American, and (5) The Norfolk Journal and Guide.

"One of the most valuable activities in the advertising arena is that of the Audit Bureau of Circulation. Today, by standards of terms, and a detailed and invariable system to advertisers the amount, territorial distribution, and base of stability of the net paid circulation of very A. B. C. publication." All of the Negro newspapers used by these concerns were members of the Audit Bureau of Circulation.

"Of all the advertising media, that of giving samples was the most expensive. In order to make the samples effective, it was necessary to use cartons of the same size, or very nearly the same size as the original carton. The cartons must also bear the same inscription as those for sale. The distribution of samples entailed a large expense.

Only a small amount of samples were sent through the mail by the six concerns. The heavy postage charge did not warrant the mailing of samples.

An experiment was made by Company A in an effort to test the effect of its advertising. For a period of twelve months no advertising was done. A subsequent examination of the sales record showed a decrease in sales volume of 3 per cent. It cannot be truthfully said that the decrease in sales volume was a direct result of the lack of advertising, as all other conditions did not remain the same. It does, however, show an attempt on the part of the Company to test the effect of its advertising.

In discussing delivery expenses, it is difficult to determine whether local delivery is part of the transportation function, or the selling function. Since the concerns studied rendered delivery service for the benefit of the buyers, it was charged to selling costs.

Each of the six concerns made local deliveries by truck. Delivery costs, including auto repairs, average 3.9 per cent of total sales.

Total selling costs, including advertising and delivery expense, averaged 15.4 per cent of the total sales of the six concerns. (See Table III on Page 15.)
CHAPTER III

PRICING POLICIES

Acceptable market practice requires that the selling price be high enough to cover the expenses of production and of marketing plus a reasonable profit to the manufacturer.\(^1\) Companies sometimes find it necessary to cut prices below costs temporarily, and occasionally to revise the costs themselves.

A policy may be defined as a line, a course, or a plan of action to be followed consistently over a considerable period of time, usually several years.\(^2\) The concerns studied used several different pricing policies, according to the price-making forces in the price system.

The policies of Companies B, D, and E were determined by the demand for their products. "Habit is an important factor in the retail field. Consumers become accustomed to paying a certain amount for articles bought frequently and used continuously. They resent increases in the price of such merchandise."\(^3\)

These concerns discovered that the demand for their products was constant throughout the year. Goods were purchased continuously at the same price. They were reluctant toward increasing the price, and past experience had taught them that a decrease in price would not produce a corresponding increase in sales. By adjusting the supply to the demand, they are able to keep their price at the same level.

The policies of Companies A, C, and F are determined by the cost of production. "Competition among producers tends to cause them to reduce

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\(^3\) John F. Pyle, op. cit., p. 386.
prices to minimum, which is the cost of production plus a small profit.\footnote{Ibid., p. 343.}

The cosmetic industry in Atlanta is highly competitive. Operating under conditions of decreasing costs, that is, a lower per unit cost for each successive unit, these concerns stand ready to increase prices, but are prevented from so doing because of the competitive nature of the industry.

There were several policies in effect among the several concerns. Companies D and E offered trade discounts to jobbers handling their goods. A cash discount of 2 per cent of the invoice price was allowed provided the account was settled within 10 days. All other buyers were charged the full invoice price.

Companies B and F granted discounts of varying terms, based upon the classification of the buyers. Cash discounts of 2 per cent, 10 days; net 30 days were granted to jobbers, and discounts of 1 per cent, 10 days, net 30 days were granted to retail druggists. The difference in the terms of the discounts were based upon the rapidity of merchandise turnover of the buyers.

Company A, which made approximately 96 per cent of its sales to agents, did not grant trade discounts, but did grant quantity discounts, the terms depending upon the volume of goods purchased. For instance, a discount of 5 per cent might be allowed on a five dollar purchase.

The reason given for granting such a discount was the fact that the cost of selling and delivering a large order was less per unit sale than the cost of selling and delivering a small order. It was more economical to handle large orders.

The free deal policy was employed by Company G. A free deal is the
giving away an extra amount of goods with the purchase of a limited amount. For instance, with the purchase of all four of Company A's hair preparations, the Company would give to the buyers a free package of face powder.

This method was used largely to introduce new products and to promote sales. It was discovered that the free package was slightly smaller than the regular size package of face powder. This free deal amounted to a trade discount.

None of the concerns studied had reduced prices during the depression period. As the demand for their goods was constant, they did not feel that it was necessary to cut prices in order to maintain their sales volume. A reduction in price would have necessitated a reduction in the size of the product.

Company A did not reduce its prices, but it reduced the size of its leading product. This was done in an effort to prevent an ultimate increase in its cost of production.
CHAPTER IV
SUMMARY AND CONCLUSIONS

The results of this investigation showed that the six concerns studied had an average marketing cost of 35.3 per cent of total sales (See Figure 1 on Page 8.) This figure compares favorably with that found by the Association of National Advertisers,1 in its study on distribution costs of 512 manufacturers. That study showed that 14 producers of drug and toilet articles, in 1931, had an actual distribution cost of 38.80 per cent of total sales.

The Selling function was the largest of the marketing costs (7%) and the Accounting and Estimating function was the smallest (0.4%). (See Table III on Page 15.)

All of the eight marketing functions, including Buying and Assembling, were performed by the six concerns. Buying and Assembling, the bringing together of a large amount of finished goods at a convenient place, was performed by the jobbers, retailers, and agents. The buying and assembling of raw materials, as performed by these concerns, was charged directly to manufacturing.

The investigation showed clearly that there is much need for a revision of the marketing practices used by manufacturers of cosmetics and beauty preparations in Atlanta. It is apparent, from the study made, that a more efficient application of marketing principles is necessary, if the cost of distribution is to be reduced. With this point in mind, several suggestions are offered:

1. A reduction in the number of different products made by the manufacturers (See Table VI on Page 28), will reduce inventories, and give greater

1Analysis of Distribution Costs of 512 Manufacturers, "Report of the Association of National Advertisers, New York, 1931. 29
opportunity for standardization. A standardized product will tend to decrease marketing risks, and develop wider markets.¹

2. In as much as credit risks are to some extent insurable, the concerns should avail themselves of the services rendered by Mercantile Credit Agencies. A credit loss of 5.3 per cent shows that there is need for some revision in the credit policies of the concerns.

3. The financial burden of the six concerns is heavy. There are several reasons for this, such as the granting of trade and quantity discounts, the extension of open book credit, and the collection costs arising out of the extension of credit. Two ways of reducing this cost are herein stated:

(a) The concerns should prohibit their agents from selling goods consigned to them on credit. These accounts ultimately become the concerns' accounts, which places an additional financial burden on the concerns.

(b) More liberal extensions of credit, and more efficient collection policies, will tend to decrease the credit loss of 5.3 per cent.

4. Retail drug stores accounted for 7.6 per cent of the total sales of the six concerns. The concerns would do well to study the merchandise turnover of retail drug stores. "The toiletries department is unprofitable because it is highly competitive and has a very low turnover. Concentration of sales on leading items is conspicuously absent."² With a large inventory consisting of many brands, the druggist cannot push the sales of any one particular brand, unless it is well branded and advertised. The products sold to drug stores could be more profitably distributed through other retail agencies.

None of the products of the concerns studied were sold by department stores. Department stores do not find it profitable to carry goods

which are not well standardized and well known by their clientele. "Department stores are becoming an increasingly important factor in the drug trade, particularly in toilet preparations."\(^1\)

5. The packing of goods in more attractive packages will aid sales promotion. (See Table \(V\), Page 17.) "It is unfortunately true that women are notoriously weak in the presence of glittering packages. Manufacturers know this, and count on the packages to sell the contents...."\(^2\)

6. Marketing research by the concerns will also tend to decrease costs. A study of operating statements may lead to increased efficiency. This calls for an adequate accounting system, and an efficient compilation of records.

7. Advertising was the largest item in the marketing costs. As a step toward reducing this cost, it is advisable to test the effect of advertising. If advertising does not cause a proportionate increase in sales, or if the lack of advertising does not cause a decrease in sales, the expenditures for advertising are unprofitable. A reduction in the cost of advertising will result in a reduction in the cost of marketing.

Since agents and salesmen account for approximately 75 per cent of the total sales of the six concerns, a more careful selection of salesmen and agents will tend to increase sales volume. This will result in increased sales at less cost per dollar of sales.

8. "A trade association is an organization of producers or distributors of a commodity or service upon a mutual basis for the purpose of promoting the business of its branch of industry or commerce, and improving its

\(^1\) E. L. Rheadee, \textit{op. cit.}, p. 488.
\(^2\) M. C. Phillips, \textit{op. cit.}, p. 17.
service to the public."¹ None of the concerns, with the exception of Company B, were members of any trade association. Such an association, composed of the manufacturers in Atlanta, could do much toward solving the problems of the members, by establishing trade standards, and compiling and distributing information which they have in common.

9. The institution of special delivery days by the manufacturers, will reduce the per sale cost of delivery.

¹ Edward T. Kilbourne, op. cit., p. 86.
QUESTIONNAIRE

Basis for Determining the Cost of Marketing Cosmetics

Transportation
1. How are the goods transported?
2. Does the nature of the goods (fragility, perishability) have any effect upon the cost?
3. Transportation is ( %) of total sales?
4. Delivery Expense ( %) of total sales.

Storage
1. Is the product made up in large quantities?
2. Does the Company perform any storage?
3. Storage is what per cent of total sales? 

Risk-Bearing
1. Does the Company assume all risk in case of fire, theft, or price change?
2. Does the Company carry insurance to cover such losses?
3. Insurance is what per cent of total sales? 
4. Is the Company a member of any retail credit association?

Grading, Packaging, and Standardization
1. How is the product graded?
2. Does the Company make a variety of products?
3. Does the product have a trademark or patent?
4. Grading, Packaging, and Standardization is what per cent of total sales? 

Selling
1. What distribution channels are used?
   (a) Manufacturer to consumer.
   (b) Jobber to retailer
   (c) Consignee (agent)
   (d) Retailer
2. Are agents paid salaries?
3. Agents salaries are what per cent of total sales? 
4. How does the Company advertise?
   (a) Newspapers
   (b) Magazines
   (c) Posters, blotters, circulars
   (d) Samples
5. Advertising is what per cent of total sales? 

Financing
1. Is the Company a corporation or partnership?
2. Does the Company borrow from banks?
3. Does the Company grant discounts?
4. What is the nature of the discounts?
5. What are the terms of the discounts?
6. Does the Company allow open book credit?
7. What is the ratio of credit sales to cash sales?
8. What is the ratio of collections to credit sales?
Accounting and Estimating
1. Does the Company have an accounting system?
2. Does the Company have a testing laboratory?
3. Accounting and Estimating is what per cent of total sales? 

Pricing Policy
1. What determines the Company's pricing policy?
2. What policy does the Company follow?

Research
1. Does the Company do market research voluntarily?
2. Is the Company a member of any trade association?
Dris-Kura Manufacturing Company

April 1, 1935

Re: Transportation

(Reverse side of Card)
Fig. 6. A graphic presentation of risk-bearing in the six concerns studied

(\% total sales)
Fig. 6. A graphic presentation of the
financing costs of the six concerns studied
(2% total sales).

PER CENT

Company A 4%
Company B 3%
Company C 2%
Company D 2%
Company E 4%
Company F 4%
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