THE DEVELOPMENT OF POLICIES AFFECTING
THE MARKETING OPERATIONS OF THE
JEWEL TEA COMPANY, INC., 1901-1951

DISSERTATION

Presented in Partial Fulfillment of the Requirements
for the Degree Doctor of Philosophy in the
Graduate School of The Ohio State
University

By

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The Ohio State University
1954

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[Signature]
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CHAPTER I

INTRODUCTION

Since man first applied the principle of division of labor to his productive activities, he has been looking for different and better methods of distribution. As economic systems became more complex, specialization brought a new type of producer, who created not form utility but rather the utilities of time, place, and possession. These men of trade have intensified the search for channels of distribution which might be more efficient than those previously used.

This study is designed to examine critically a small, yet important, phase of this hunt for new and better ways of performing the function of moving goods from producer to consumer. The home-service industry furnishes a fine example of specialization in the field of distribution; its history is interesting and contains considerable valid information for the student of marketing.

I. NATURE OF THE STUDY

In a sentence, this study can be described as a business history of the development of policies affecting the marketing operations of the Jewel Tea Company, Inc., for a fifty-year period running from 1901 through 1951. This
brief statement raises many questions; hence, clarification is in order. These questions include the following:

1) What is business history?
2) What are policies?
3) What are marketing operations?
4) What is the Jewel Tea Company, Inc?

Business history. American historians with rare exception have treated the businessman somewhat unfairly. He has sometimes been portrayed as a spoiler and an exploiter, while probably not enough attention has been given to his creditable activities, particularly those leading to rapid national expansion. One present-day American historian has analyzed the forces behind this attitude on the part of his predecessors.¹ His thesis is that most of our early historians, such as Parkman, Prescott, Motley, Charles Francis Adams, and Henry Adams, were patricians who held the typical contempt of their class for men of trade and commerce, even though their family fortunes may have sprung from those pursuits. Later, the "muckrackers" including Ida Tarbell and Lincoln Steffens continued this anti-business attitude by their journalistic histories of certain American families and their wealth. The coup de

The work came in 1913 when Charles A. Beard wrote his *An Economic Interpretation of the Constitution*. This work placed the very foundations of our political life on the economic motives of the writers of the Constitution. This point of view was generally accepted by Beard's contemporaries, and thus for more than a century public school and college students alike have been exposed to a one-sided view of the role of the American businessman in our national life.

Apparently, the first serious recognition of the dangers inherent in this situation accompanied by an affirmative remedial step came in 1927 when the faculty of the Harvard Graduate School of Business Administration added a course in business history to the curriculum. This was the first step "toward establishing research and teaching in the history of business as a separate and specialized field of effort." Under the guidance of Professor N. S. B. Gras, Harvard has developed a small group of business historians who have made contributions in this specialized area of knowledge.

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3*Loc. cit.*

Professor Gras has defined business history many times and for varied purposes. Two of these definitions are as follows:

- Business history is primarily the study of the administration of business units in the past. This administration consists in policy-formulation and management. Policy includes organization, production, distribution, and finance. Management covers the same aspects of the business but is concerned with the adaptation and execution of policy. In practice, in actual business, all these are woven together into a living undivided stream of effort, partly conscious and partly unconscious.

Business history is a study of the service that business has rendered to society and of the advantages that have accrued to business men. It deals with facts and factors in the development of business organization and administration. The administration is made up of policy formulation and actual management in the fields of production, marketing, and private finance.

In this study the policy formulation aspect of business administration is stressed. The development of the Jewel Tea Company and its actual management are discussed only when essential to the story of policy formulation. In a similar manner the field of marketing is emphasized but production and finance are not ignored.

Policies. There is a marked disagreement among


business leaders as to what policies are; this confusion is often shared by management students and writers. All are agreed that policies are desirable, even essential, for business success, yet no clear-cut agreement exists as to definition. A standard dictionary furnishes a starting point by defining a policy as "a settled course adopted and followed by a government, institution, body, or individual." 7

Some authorities believe that this definition is too broad when used to describe a company policy, as it would seem to include rules which are specific guides to action, while a "company policy merely indicates the general direction in which top management wants to go. . . . Policies are dynamic, not static, guides for future decisions." 8

A leading writer in the management field defines business policy as "a principle or group of related principles, with their consequent rules of action, that condition and govern the successful achievement of certain business objectives toward which they are directed." 9 This


he amplifies by stating that "a body of policy serves, therefore, as a guide for the organization's thought and action in the accomplishment of its objectives," and he cautions against the "tendency to confuse policy with plans, objectives, procedures, and other business factors."¹⁰ This authority divides business policies into three principal classes: general, which guide the thought and action of the entire organization; major, which perform a similar function for the major divisions and subdivisions of the organization; and minor, which serve the various departments of major divisions.¹¹

The strict interpretation of the term is used in this study, that is, the idea that policies are bodies of principles which are followed in the achievement of business objectives. Nevertheless, business plans, procedures, and objectives are so interlaced with business policies that appreciable attention must be given to them. Primarily, emphasis is placed on general policies; however, inasmuch as the study is concerned with a major function of the firm's operation, namely marketing, major policies are also discussed at some length.

Marketing operations. Marketing has been defined as

¹⁰Davis, op. cit., p. 175.
¹¹Ibid., p. 188.
covering "all business activities necessary to effect transfers in the ownership of goods and to provide for their physical distribution." The marketing process is said to consist of eight functions, namely, buying, selling, transportation, storage, financing, risk-bearing, standardization and grading, and marketing information. All of these major activities pooled together constitute marketing. Although each is important to the success of a firm engaged in distributive activities, the selling function receives the bulk of the analysis in this study.

The Jewel Tea Company, Inc. This company is a New York corporation with headquarters located in Barrington, Illinois. It was started as a partnership in 1901 when tea, coffee, and other specialty grocery items were sold in the Chicago area by means of the home-service method of operation. This involved a process whereby a salesman went from house-to-house and solicited orders from housewives to be delivered later by a route manager who would then continue to make regular calls.

13 Ibid., pp. 36-7.
14 Chapter II contains a discussion of the method of operation used by the company.
After a business history marked by noteworthy successes and dismal failures during the fifty years under study, the company was operating more than two thousand routes at the end of 1951. It was doing business in forty-two states and the District of Columbia in a manner similar to that used at its inception. Furthermore, a chain of more than one-hundred and fifty grocery stores was owned and operated in the Chicago area. An overall annual sales volume in excess of $200,000,000 was achieved by the company, which was considered to be the leader in the home-service industry, in that year.  

II. NEED FOR THE STUDY

Often marketing students recognize only three major approaches to its study: functional, institutional, and commodity. Little recognition, beyond mere mention, has been given to the historical aspects of marketing. While the tenet, "history repeats itself," may be subject to criticism, the success, or failure, of past business decisions and operations should furnish a guide for present and future activities. A series of business histories of firms engaged in marketing would provide a backdrop of understanding for future operations and would also provide supplemental information which would be helpful when using

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one of the other approaches.

More than a decade ago Dr. Phillips analyzed the problem of appropriate areas for research by students of marketing. Historical studies were suggested in the following words:

While the statement is a broad one, it is quite true that detailed investigations of the historical aspects of marketing in this country are conspicuous by their absence. This does not mean that many historical data are not available. But such treatment as is made in the majority of the existing sources is very general in nature.

Perhaps the approach to this historical material can best be made through a number of case studies. 16


In recent years attempts have been made to approach the study of marketing from an historical point of view. This involves a careful analysis of marketing functions and institutions from an evolutionary angle, searching for causes of their genesis, growth or decline, and attempting to discover shifts in emphasis. As the literature on marketing comes of age, it is but natural to expect a growing interest in the historical aspects of the subject, but for some time to come the approach is likely to remain in the background, such material being used more or less in a supplementary fashion.
the University of Chicago, and the Bulletin of the Business Historical Society, clearly indicates that few scholarly studies of marketing firms have been or are being written. Moreover, books fitting this description are also lacking.17

This is only one side of the coin, for not only is business history quite lacking in the area of general marketing but knowledge concerning both marketing policy and the home-service industry is inadequate. Standard marketing textbooks have attempted to fill the gap in the case of marketing policy, but the absence of specific case studies ...

17There are two notable exceptions to this statement: Boris Emmet and John E. Jeuck, Catalogues and Counters (Chicago, University of Chicago Press, 1950), 788 pp., is an excellent history of Sears, Roebuck and Company.
Ralph M. Hower, History of Macy's of New York, 1858-1919 (Cambridge, Massachusetts: Harvard University Press, 1943), 500 pp. was a pioneer history of a marketing institution, in this case a department store.

A number of serious studies have been made of firms engaged in production or finance activities, and there are several business histories of marketing organizations which are popular in nature, as contrasted to the scholarly works mentioned above. Among the latter group can be included the following:

has made it necessary for their treatment to be general in nature and to a large extent derived from the writings of management experts. In a like manner the home-service industry apparently has been ignored when suitable material for research in marketing was being sought. Only a score of popular articles in publications such as *Printer's Ink*, *Sales Management*, *Fortune*, and *Business Week* are available. These are mostly descriptions of current developments; broad principles governing the activities of the industry have remained unexplored.

III. METHOD OF RESEARCH

This study was made possible by the whole-hearted cooperation of the Jewel Tea Company management. During

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19 In fairness, however, it should be pointed out that the industry constitutes only a very small part of all marketing institutions, both numerically and in sales volume. Its relative importance is discussed in Chapter II.

20 This was secured through a personal contact by the writer with John M. Hancock, Chairman of the Board of Directors for the company. His progressive-mindedness coupled with school loyalty (both Hancock and the writer are graduates of the University of North Dakota) motivated his interest in the study.
a ten-week period spent at the company's home-office located in Barrington, Illinois, a thorough examination was made of its internal records, including the minutes of annual and special stockholders' meetings, minutes of the meetings of the board of directors, reports of the president to the board of directors, financial statements, accounting records, stockholders' reports, employee publications and other company records. The most important source was the minutes of the board meetings, for in these meetings policy decisions are made. They furnished the framework upon which the study was built.

At the same time an opportunity was provided to study present-day operations completely, including home-office procedures, plant operation, and branch and route activities. All of these were observed first-hand. Personal interviews and correspondence with past and present company executives were useful in supplementing the information found in internal records. Executives active in management as long ago as 1916 were available for interview. Trade journals, newspapers, magazines, and governmental publications were also consulted.

IV. OBJECTIVES

At least three major objectives can be cited for this study. One, it furnishes students and practitioners of
marketing with a business history of a marketing firm. Such studies are rare, yet much needed, for only through an understanding of the background of current operations and policies can improvements in them be made. If the efficiency of the marketing mechanism is to be improved, research into past activities is essential. As similar studies are made, a body of principles should be developed which will be useful in the planning of future marketing activities. In this way the study adds to the body of marketing knowledge.

The process of marketing policy formulation has likewise been little explored. The forces, factors, and effects behind such policies as developed within one company is the major theme of this study. The respective places of planning, expediency, fortuity, good leadership, and similar factors are examined. It is possible that some principles can be developed from this information.

The home-service industry segment of American retailing is critically analyzed. It is a modern-day adaptation of an ancient form of selling and illustrates the staying power of an existing method of operation in the face of changing environments. Many misconceptions about the method should be dispelled by the study. All in all, the study consists of the employment of the historical approach to research into marketing.
CHAPTER II

THE COMPANY, ITS METHOD OF OPERATION, AND THE INDUSTRY

In order to understand policy formulation and development within a particular company, something must be known of the company, its functions, internal structure, method of operation, economic role, history, and its industry. With the exception of company history, all of these are examined in this chapter.¹

I. THE COMPANY

Many business firms commence their operations as specialists in either productive or marketing activities, often only in sub-parts of one or the other. Additional activities may, in time, be performed through the adoption of a policy of integration. For instance, a production firm may add its own sales organization, while a marketing firm may decide to manufacture the merchandise it sells. Usually, however, integration comes within the circle of one particular activity, so that marketing firms take on more of the various sub-parts of the distributive job, such as the storage and transportation functions.

The Jewel Tea Company, Inc. furnishes a good

¹Chapter III consists of a short history of the Jewel Tea Company, Inc.
illustration of these principles of integration. The company is basically engaged in marketing activities. At its inception the founders sold a limited line of food and household products directly to the ultimate consumer. This process was accomplished through the operation of wagon, and later automotive, routes. Each route manager\(^2\) called at individual homes every two weeks at which time he took orders for delivery on the next trip. These route operations, discussed at length later in this chapter, have been expanded through the fifty-year period under study until at year-end 1951, 2,089 routes were in operation.\(^3\)

The potentialities of vertical integration were seen by the original owners, and some productive activities such as coffee-roasting and the manufacture and processing of simple products including baking powder, condiments, household cleanser, and soaps, were soon performed by the company.\(^4\) Later, the firm engaged in horizontal integration with the purchase of a grocery store chain in the Chicago area in 1932. This phase of the business has likewise

\(^2\)Various titles have been given to the men operating the routes including routeman, route salesman, wagon operator, driver, driver-salesman, etc. Route manager is used throughout this study, as it has been adopted by the company.

\(^3\)Annual Report 1951, Jewel Tea Company, Inc., p. 2.

\(^4\)Manufacturing operations are discussed in Chapter VIII.
grown; a total of one-hundred and fifty-seven retail stores was being operated at the end of 1951.\(^5\)

The Routes Department has always performed most of the distributive functions. Buying has always been done centrally even though the routes are run in almost the entire nation. In many respects this part of the business can be likened to a grocery chain-store type of operation with each route as a sort of rolling unit in the chain. Route managers are permitted to sell only merchandise listed on the company product lists. A difference exists in the analogy, however, for orders sent to the centralized warehouse are merely compilations of individual consumer orders; no anticipation of their wants is necessary as in the case of the chain store manager.

The extent of company operations is illustrated in Chart I which shows the locations of the seventy-six branch warehouses used in supplying more than two thousand routes. Forty-two states and the District of Columbia are included, while only Maine, Connecticut, Rhode Island, Arizona, Montana, and Washington are excluded. Factors such as low density of population, distance from home-office, adverse legislation, and severe winter weather, account for non-operation in these six states.

CHART I

LOCATION OF THE SEVENTY-SIX BRANCH WAREHOUSES
OPERATED BY THE JEWEL TEA COMPANY, INC. IN 1951
(Shaded states are not served)

SOURCE: Obtained from Sales Manager's Office,
Since the branch warehouses are important to the performance of the wholesaling activities of storage and transportation, a mechanism for the consolidation and forwarding of the orders of individual route managers was essential, if the economies of carlot shipping were to be obtained. Furthermore, a procedure for dispersion of these orders to route managers for delivery to consumers was needed. To achieve these objectives the company has divided its routes among seventy-six branches. In addition to the operation of a limited wholesaling warehouse function, the branch managers supervise the entire operation of the routes under their jurisdictions, including the selection, training, stimulation, and supervision of the sales force. For purposes of control and supervision these seventy-six branches are divided into eight divisions which compete with each other for sales and operating performance records.

Understanding of company organization can be clarified by examination of Chart II. Company operations are divided into three principal types, namely Finance, Stores, and Routes Departments. The last two departments operate much as separate and independent firms, for their

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6This organization chart has been devised from a roster of the executive personnel found on page 20 and 21 of the Annual Report 1951, Jewel Tea Company, Inc. Management of the company believes that organization charts tend to destroy a desirable informal climate between various members of the firm, therefore such charts do not exist.
CHART II - PARTIAL ORGANIZATION CHART, JEWEL TEA COMPANY, INC.

SOURCE: ANNUAL REPORT, 1951, JEWEL TEA COMPANY, INC. PP 80-81.
methods of operation, problems of management and merchandising, and competition are almost completely different. Actually two companies are joined together under the same top-management. The Finance Department services their needs for capital and financial control. The Imports Division defies accurate classification. Its function is that of a coffee-buying and importing business with offices in New York City and does not warrant equal ranking with the other three departments of the business. Inasmuch as most of its purchases are processed and sold by the Routes Department, it could be made subordinate to that department rather than to the company president.

The Routes Department is subdivided on a functional basis into three major divisions: Manufacturing, Sales, and Merchandising, each under the supervision of a manager. The Manufacturing Manager has charge of the Barrington plant, as well as a small coffee-roasting operation located in Los Angeles. The Sales Manager is responsible for the functioning of the sales force which is accomplished through a mechanism of eight divisions and seventy-six branches. The Merchandise Manager supervises the product line, that is, the items to be carried and promoted; this function is particularly important in the choice of premium merchandise

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7See Chapter VIII for a discussion of manufacturing operations.
which in many ways has been the backbone of the Routes Department operation. Of course, most major decisions of these managers, especially those of the sales and merchandise managers, result from joint discussion.

II. METHOD OF OPERATION

By means of trial-and-error experimentation, adaptation, and borrowing from competitors, the company has developed a rather stylized method of operation. A step-by-step description tracing one transaction from inception to consummation follows. An examination of the steps in a typical sale should permit an understanding of the process as it occurs in approximately one million American homes every two weeks.

Initial solicitation. The typical new customer of the Jewel Tea Company is acquired through the efforts of the advance salesman. This company employee, a house-to-house canvasser, goes from home to home, ringing doorbells, explaining the company's method of merchandising and asking the housewife to become a customer. His sales talk is built around a premium offer, such as a cookbook, ironing board, cooking utensil, chinaware, or one of a myriad other products. This featured premium is given in exchange for a promise to buy certain amounts of merchandise from the company. In addition to the premium order, the salesman
solicits an order for regular items in the product line for delivery by the route manager in the area.

The call of the route manager. Of course, the first step in the selling process is to deliver. The route manager greets the housewife as he enters the kitchen. On his arm is an aluminum basket containing previously ordered merchandise. The items are taken from it and attractively arranged on the kitchen table. This is followed by impulse selling. In his basket, or in a smaller carrier known as a "Shop Box," are a number of special items which are shown to the housewife for possible purchase on the spur-of-the-moment.8

The third step, order-taking, starts a new transaction. The route manager writes down the customer's standing order. An important part of the company's merchandising strategy involves persuading each customer to buy certain products, particularly coffee, on a regular basis. After verification of the standing order by the customer, she is asked if there are additional items to be ordered. This step is facilitated by an advertising flyer, known as a "Sales Ad," which is similar to a newspaper advertisement

8The use of this step is somewhat restricted by the various interpretations of anti-peddling ordinances. In some cases, the procedure has been declared illegal on the ground that it constituted peddling.
of a regular grocery store and lists merchandise and prices.

After this has been accomplished, a more creative part of the call commences with bargain selling. Both the company and the route manager wish to obtain as large an order from each customer as possible. Thus, special offerings for the next delivery are featured on each call. Much of the appeal is made by giving increased premium credits on featured items. Home-office merchandising furnishes something different to offer the housewife, thereby varying the sales approach.

If the customer's premium balance is low, i.e., the premium is nearly earned through purchases, the route manager should engage in premium selling. This procedure can be likened to a mild form of peonage wherein the customer always finds herself in debt to the company. Generally speaking, as long as a housewife is earning a premium, she will remain a customer; thus, it behooves the route manager to keep her in debt as far as premium merchandise is concerned.

Another creative selling task is budget plan and mail-order selling. Following World War II efforts were made to increase sales volume by adding relatively expensive general merchandise to the product line. This was an outgrowth of a long-standing practice of selling premiums outright. Instalment credit then could be obtained by the
customer to finance these purchases. Later, many items were delivered directly to the customer from the company's central warehouse rather than passing through the hands of the route manager; in other words, a mail-order business was established with orders solicited by him. During each call an endeavor is made to sell merchandise from the mail-order catalog published by the company, as well as general merchandise items for delivery from the route truck.

The last two steps are to **collect** and to **post**. All merchandise is sold for cash which is collected at the close of the transaction, as are any installment plan payments to be made. Each housewife possesses a housecard, a calendar-like device used as a permanent record of premium credits earned through the purchase of merchandise. Thus, after each delivery and payment the route manager writes the credits earned and the new premium balance on the housecard. He keeps a record of this information on his customer card. The new balance is verified by the customer, and the call is completed. Often a request for the name of a friend or neighbor who might be a customer prospect is made before departure.

The average route manager has a full day, for he makes 425 calls every two weeks, or over forty-two a day. This equals more than five an hour in an eight-hour selling day. As driving time from house to house, often scattered,
must be included in the eight-hour day, it can be seen that the typical transaction described above must be handled efficiently.

Non-selling activities. The work behind a typical order is quite extensive. The company uses, as do many marketing organizations, the periodic calendar which consists of thirteen periods of four weeks in a year. Each of these four-week periods contains two selling programs which are divided into an "A" week (the first week of the two weeks period) and a "B" week (the second week of the two weeks period). Each route manager maintains ten route books, one for each of the ten days in the two-week period. Customer accounts are filed in these books in order of call and are labeled by day of week and week of the two-week period, thusly, 1A for Monday of the first week, 2A for Tuesday of the first week, and 1B for Monday of the second week, etc.

Using this information the routine non-selling activities of the route manager can be traced. On Monday (1A) he returns to his warehouse upon completion of the day's selling activities and loads the truck for deliveries to be made on 2A (Tuesday). This process is repeated daily. On 6A (Saturday), which is not a selling day, orders for the week are consolidated and given to the branch manager.
Collections for 3A (Wednesday), 4A (Thursday), and 5A (Friday) are also remitted, and deliveries for 2B (Monday) are loaded. A similar schedule is followed during the "B" week, and on 6B (Saturday) the shipment of the next week's deliveries is unpacked. Route managers are supposedly on a five-day week of eight-hour days, but this covers only selling time. Every evening his truck must be loaded for the next day's deliveries, furthermore orders must be consolidated and collections remitted periodically. The work of the route manager is both time-consuming and difficult.

III. THE HOME-SERVICE INDUSTRY

History of the industry. Even in the earliest days of trade, different methods of selling were utilized. One writer observes that these early attempts pursued one of two alternatives: either the customer was brought to the merchandise; or, it was taken to him. The modern retail store is the outgrowth of the former alternative which

9For the purposes of this study the various business firms using the method of operation described in the previous section are labeled collectively as the "home-service industry." This seems to be the most satisfactory choice available and considerably more desirable than its former name, "tea-wagon industry." The wagon has been replaced by the motorized truck, and coffee has outsold tea since before the beginning of the twentieth century, if not prior to that time.

received its first manifestation in the bazaars and fairs held throughout Europe during the Middle Ages.

Itinerant peddlers, following the latter approach, have been active in Europe for centuries. They first sold luxuries to the wealthy, but with the gradual breakdown of the feudal system, sales of staples or inexpensive luxuries could be made to the poorer classes. However, these selling activities seldom were performed in a businesslike manner until the method was adopted in the United States.

Peddling became a profitable, albeit unesteemed, vocation following the American Revolution, and it gained in importance as the factories of New England expanded their facilities. These factories needed markets, and the Yankee Peddler sold an assortment of notions such as pins, needles, scissors, razors, combs, small hardware, books, lace, perfume, etc., to settlers in the isolated parts of the country. The peddler who sold small wares was known as "trunk peddler," for he carried his wares in small oblong tin boxes strapped to his back. Gradually merchandise lines were expanded, and when roads were improved, horse-drawn wagons were employed. 11

The home-service industry has these early-day

peddlers for its ancestry; its method of operation is but a refinement of the one used by them. The first "tea wagon" was operated by the Great Atlantic and Pacific Tea Company, known at the time as the Great American Tea Company. Entry into the industry was indirect, coming from John Hartford's idea of tea stores. In 1859 tea was selling for one dollar a pound in the retail stores of New York City, while it could be purchased directly off ships in the harbor at a price which permitted Hartford to retail tea for thirty cents a pound in the store which he had established. This store had only one product to sell, tea. Its success led to the opening of more stores in the city, and eventually other items were added to the stock, and the company was on its way toward becoming the nation's largest chain of grocery stores.

While this expansion was taking place, an idea was developed which was designed to permit the company to tap rural markets. A "club plan" was extensively promoted by circulars and newspaper and periodical advertising. It was essentially a pooling-purchase plan under which individual users of tea were urged to combine their orders and submit them to the company jointly. Savings up to one-third would

12"Red Circle and Gold Leaf," Time, November 13, 1950, pp. 89-98.
result from joining the plan.\textsuperscript{13} This was a form of mail-order selling.

Premiums and gifts were used in the 1870's to induce customers into the stores. This promotional scheme and the mail-order feature had been supplanted by a system of horse-drawn wagons from which coffee and tea were peddled from house-to-house with premiums given as a sales inducement.\textsuperscript{14} Little information is known of this operation, for the company apparently has no records for the period; however, it has been estimated that five thousand routes were operated at one time.\textsuperscript{15} The method of operation used included order-taking for future delivery, regular routes of customers, and premium merchandising. Many imitators entered the field during the two decades following 1890, including, of course, the Jewel Tea Company. Hartford substituted the "cash-and-carry" principle for premium-giving in the retail stores in 1913, and the Economy Store era in the company's history was then started. A full line of groceries supplemented coffee and tea, and the real start of


\textsuperscript{15} Ibid., p. 66.
the modern grocery store chain was made. Nevertheless, the company still operates more than six hundred routes, as a subsidiary corporation bearing the former name, the Great American Tea Company. Although now a minor part of the Great Atlantic and Pacific Tea Company operation, it was the first company in the industry. This historical review of the origins of the home-service industry vitiates the long-established belief that the chain store evolved from the operations of tea wagons, while the converse is more truly the case.

Some leaders trace the start of the industry to B. T. Babbit, who introduced the premium merchandising idea to American retailers. When encountering difficulty in selling packaged soap, he increased sales by offering premiums in exchange for a number of soap wrappers. Credit may be due to him for the premium method of retailing, but not for home-service retailing, which was originated by the Great Atlantic and Pacific Tea Company who adapted his idea to its method of operation.

The present status of the industry. The membership

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16 Ibid., p. 66.
roster of the National Retail Tea and Coffee Merchants Association consisted of one-hundred and fifty companies at year-end 1951. This organization acts as a trade association for the industry, and all major companies are members. Approximately 5,500 routes were operated by members at that time. Assuming each route does a weekly business of six hundred dollars, an estimated sales volume of $172,600,000 is achieved by the industry. This is a conservative estimate, for it is based upon trade association members, not the industry as a whole.

Relative importance of the industry. The home-service industry contributes only a minute amount to total retail sales of the United States. Its method of operation is a form of direct selling, which is defined as "the process whereby the producer sells to the user, ultimate

19Letter, Oliver J. Corbett, Secretary-Manager, National Retail Tea and Coffee Merchants Association, to the author, dated April 14, 1952.

20Another estimate of industry size is that it contains 178 companies, 8,762 routes and 3,000,000 customers contacted every two weeks. (Personal interview with Oliver J. Corbett, see previous footnote, March 29, 1952.) If a weekly average per route of $500 is applied to this estimate (the reduction from $600 being made in order to adjust for possible smaller sales volume by non-members of the industry trade association), a figure of $227,812,000 is realized. Thus, placing industry sales for 1951 at $200,000,000 is probably justified.
consumer, or retailer without intervening middlemen." More important in wholesaling than in retailing activities, direct selling has four channels available through which retail sales can be made: factory salesroom; mail-order; manufacturers' own retail stores; and, house-to-house selling. The last mentioned method is used by the home-service industry. In 1939 house-to-house selling organizations achieved a sales volume of $153,397,000, which was 0.4 per cent of all retail sales for the year, while such sales were $634,763,000 or nearly 0.5 per cent of total retail sales in 1948. If this percentage is applied to the total retail sales figure for 1951, estimated at


"Direct selling offices" are defined as follows: "These establishments are the sales offices or headquarters from which crews of canvassers operate to sell from house-to-house. However, milk dealers who make door-to-door deliveries and bakeries which sell house-to-house are, for census purposes, not considered to be direct-selling organizations." Home-service companies fit this definition.

$150,589,000,000,^{25}$ it is found that the method accounted for approximately $750,000,000 in retail sales volume. This means that the home-service industry contributed somewhat more than one-third of the total sales by "direct selling offices," ($200,000,000 + $750,000,000) or 0.13 per cent of all retail sales. The amount is obviously not significant in the overall picture of American retailing.

**Position of the Jewel Tea Company in the industry.**

The Jewel Tea Company is the dominant firm in the industry. Its routes exceed two thousand in number, or more than one-third of the number operated by all trade association members and nearly one-fourth of all routes. Grand Union is the second most important company with over eight hundred routes;^{26} third-ranking company is the Great Atlantic and Pacific Tea Company subsidiary, the Great American Tea Company, which operates more than six-hundred and fifty routes. The remaining companies are relatively small; many are local operations with one to twenty routes. Often they were founded by former employees of the big companies.

Thus, the Jewel Tea Company has gained a position of

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^{26} Interview, Oliver J. Corbett, March 29, 1952. (See footnotes above.)
industry dominance in a field of merchandising relegated to a position of secondary importance by its innovator, the Great Atlantic and Pacific Tea Company. The latter company was joined in its participation in the grocery chain store field by the Jewel Tea Company in 1932. Here is furnished an interesting illustration of the diverse approaches available to the entrepreneur in arriving at a *modus operandi*.

IV. THE ECONOMICS OF THE HOME-SERVICE INDUSTRY

The home-service method of distribution is a form of house-to-house selling; before its economic implications can be analyzed, considerable attention must be given to that broader field.

**House-to-house selling.** A manufacturer selects this method of selling for a variety of reasons including a desire to control every stage of distribution in order to allow more rapid expansion by intensive selling, failure of other outlets to accept the product, or when consumer education is needed to sell the item because of its complexity or revolutionary nature. If certain conditions are present, a favorable climate for use of the method exists. Basically,

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these conditions are four in number:

1. A sample of the product can be carried by the salesman.
2. The product is a specialty of high unit-value.
3. A variety of products can be offered for sale.
4. Selling crews can be obtained, trained, and maintained on an economical basis.  

The last condition must always be present, while the remaining three are both alternative and complementary in nature. If any one of them fits a particular product eminently well, the selling method may be used; moreover the presence of two, or all three, conditions in less perfect form may in combination provide an opportunity for employment of the house-to-house technique. The mere presence of a set of conditions favorable to its use does not mean that house-to-house selling should be used, but instead they should be treated as negative criteria; if absent, no attempt should be made to sell via the method.

"Few manufacturers, and no students of marketing, claim that house-to-house selling is an economical method."  

Merchandise can rarely be sold on a competitive basis when the method is used because of the high labor costs incident to its employment. Alternative distributive


methods usually have lower operating costs which are reflected in lower prices to consumers. If a case is to be built for house-to-house selling, it is usually done on the basis of service to the customer. He must feel that the additional price paid has been earned by superior service. In some instances justification can be made on the basis of product differentiation. If the product is superior in quality, or if the customer is made to feel that it is, by advertising or salesmanship, he will pay more for it than for similar merchandise. Thus, the method is justified from the individual point of view either by service to the customer or differentiation of the product sold. Economic justification on a broader scale is to be found, possibly, in the raising of the standard of living through the introduction of new products which would not otherwise have reached the consumer.

It seems unlikely that this form of selling will ever become more important relatively. Instead, it will remain as a mechanism for the fulfillment of specialized needs. When regular channels are closed, house-to-house selling may open the way. The method may also be useful to the seller desiring to achieve sales volume greater than regular channels provide.

The home-service industry. When examined in light of the four conditions given above as favorable to the use
of the house-to-house selling method, the home-service segment does not make a strong showing. The first condition, which is concerned with the possibilities of selling by means of a sample, is inapplicable except for the premium line. A specialty item of relatively high unit value is the second condition, and it is present in the operations of the industry only to a limited degree. At one time tea and coffee fulfilled this requirement, but changing methods of grocery retailing have altered their status; now emphasis is placed upon a varied line of products instead of a few specialty items. This leaves the third condition, which requires a variety of products to be sold at one call, as the only basis for the use of the house-to-house method. The essential condition respecting the economical maintenance of a sales force is constantly a pressing operational problem for management in the industry.

Thus, a reason for the employment of the method in spite of a somewhat weak case for its use must be sought. This method of distribution was not chosen because of any need for consumer education, nor because of the nonavailability of other outlets. Tea, coffee, and the other items in the merchandise line were in general use and were sold in grocery and specialty stores when the industry started operations; therefore, it must be deduced that the choice sprang from a desire for greater exploitation of the market
as a means of faster expansion and greater sales volume. The history of the Jewel Tea Company tends to justify this deduction.30

As for most house-to-house selling, patronage motives for home-service customers cannot be found in the price factor. The industry is one of great manpower demands with machinery needed primarily for locomotion in the operation of the routes. High operating costs coupled with increasing efficiency of competing retail outlets, such as grocery chains and supermarkets, make price competition impossible. An argument for patronage based upon service does not stand close scrutiny, for while the route manager comes directly to the customer, this makes a trip to a grocery store unnecessary only for the items he sells. In addition to the limitations of the product line, the infrequency of deliveries, which are once every two weeks, often necessitates purchases of these items at grocery stores between calls of the route manager.

Another explanation for patronage must be offered; it is to be found in product differentiation. In most instances, quality products are sold by the industry. Furthermore, the personal loyalty and good feeling between customer and route manager is an important factor. The

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30 Chapter III contains a discussion of the rapid expansion of the company.
premium has a strong, alluring power for many persons, for the idea of "something for nothing" is appealing. Habit and inertia may also help explain continued patronage in face of prices which are often higher than charged by competitive outlets. The housewife buys from the route manager because of his services of calling at the home, quality products, friendliness, and premium merchandising.

The industry is adaptable to changing business conditions. In times of prosperity its strength lies in the frequent visits made to customers' homes. Each call provides opportunities to obtain a part of the consumer's discretionary buying power, as well as a portion of the amounts spent for staples. Budget plans, mail-order selling, and extension of the product line to include higher-priced general merchandise enter the operations of the home-service distributor. When times are depressed, business results remain good as the manpower situation is eased and the premium takes on new importance, and of course, coffee is always considered a necessity by Americans. In spite of dire predictions to the contrary, the industry appears to be firmly entrenched in the American business scene. Although not justifiable to many persons when examined from the viewpoint of economics, the industry will remain as long as consumers make their choices between alternative methods of distribution known through their purchases.
CHAPTER III

A SHORT HISTORY OF THE COMPANY

Opinions differ as to the importance and usefulness of history. It is often claimed that "history repeats itself," that there are certain rhythms in the course of events which have predictive value, and therefore, the critical study of past happenings reveals something of the future. Furthermore, in order to have a thorough understanding of the present, knowledge of the past is essential. Modern institutions and problems have evolved from past events; thus, familiarity with them may explain present-day practices which seem illogical and unwarranted.¹

Essentially, this entire study is by nature a history; however, it is specialized, involving only the development of marketing policies by the management of one firm. Before this task is approached, something should be known of the total history of the company. Often the formulation of policies in one aspect of business operations is merely a reflection of happenings in other divisions of the business, of past events, or even of events external to the company itself. The purpose of this chapter is that of

furnishing a backdrop of understanding for the rest of the study by calling attention to those broad forces which have influenced the course of the company's successes and failures. No attempt is made toward completeness, but rather only significant highlights are included.

The Jewel Tea Company furnishes a good illustration of the point of view that "an institution is but the lengthened shadow of a man," for it has been almost continuously under strong personal leadership. The fifty years under study can be divided into periods coincidental to the terms of various men in the company presidency. The first period ran from 1901 through 1915 when F. V. Skiff and his brother-in-law, F. P. Ross, reigned jointly. This was followed by an interregnum period of no positive leadership from 1916 through 1919, the firm's critical period. Strong leadership returned with the introduction of John M. Hancock into the company management where he remained until 1924. He was followed by his picked lieutenant, Maurice Karker. This fourth period, 1924-1942, was the longest time any man retained the presidency of the company. Franklin J. Lunding rounded out the fifty-year period, serving as president from 1942 through 1950 when he was elevated to the post of Chief Executive Officer. The five distinct periods of company history are now examined in chronological order. Although George Clements was president in 1951, Lunding's
influence was still dominant; thus, a sixth period does not seem warranted.

I. THE SKIFF-ROSS ERA: 1901-1916

Frank Vernon Skiff, a small town boy from Newton, Iowa, moved to Chicago in 1898 with an avowed goal of making his fortune in the home-service industry, then known as the "tea-wagon business." His work experience had been as a clerk in his father's grocery store. He found employment with the India Tea Company as a solicitor calling from house-to-house in order to persuade housewives to buy from the company. Early the next year Skiff was ready for

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2 Company records for this period are meagre. Until the company was incorporated in 1904 no records seem to have been kept; at least an exhaustive search of company files failed to reveal them. For the period of the Illinois incorporation the only record extant is a corporation minute book of some sixty-seven pages filled with a minimum of information. Fortunately, however, the founders lived for many years and information was obtained from them during the days of their retirement, for inclusion in various company publications. Much of the material in this section of Chapter III has been gleaned from these publications. Naturally some caution must be taken in its evaluation for recollective or hindsight history is filled with many pitfalls, particularly when obtained from the principals involved and written by their indirect subordinates.

The most useful company publications were:


entrepreneurship. He entered into a partnership which rented a horse, bought a wagon, and started business with a capital fund of seven hundred dollars. Skiff solicited trade, while his partner delivered merchandise. The two young men were marginal operators who bought merchandise to fill the orders for the next day's delivery at the close of each day's business. The partner soon wished to dissolve the partnership, and Skiff's first business venture went out of existence.

A problem was posed for Skiff, for he did not wish to return to the small town with its limited opportunities. Finally, he persuaded his brother-in-law, Frank P. Ross, station-master at the Newton railroad depot, to enter into a similar partnership in February, 1901. This date is the start of continuous business operations by the Jewel Tea Company. The first move of the new partners was to get the business on a sound financial basis, and a capital fund of four thousand dollars was created. This eliminated the hand-to-mouth buying which characterized Skiff's first attempt in the home-service industry; merchandise could be bought in bulk with consequent savings.

The two partners were ambitious; they spent their days soliciting orders and their evenings packing coffee and order-picking the next day's deliveries. By December customers were being sought for their third route. In
addition to sounder financing and the savings from quantity buying, success can be attributed to better merchandising. Private brands were developed featuring the Jewel label.³ Bi-weekly deliveries and the advanced premium plan were important merchandising strategies.⁴

Sales for the first year were $11,000; no inventory was taken and no profit and loss statement made. When sufficient money was available, that is, enough to buy a wagon and horse, a new route was started. The industry was one of stiff competition. Labor piracy was prevalent, for success depended a great deal upon the personality of individual route managers. High standards of quality in service, products, and premiums plus a high level of fighting spirit among its labor force made for early company success.

As the firm grew Frank Skiff devoted his time to purchasing and merchandising, while Frank Ross supervised the sales function. This relationship between Skiff and Ross is an illustration of the ideal partnership team, two men of complementary personalities and talents.

When a financial balance was finally struck in 1903,

³The origin of the trade-name "Jewel" is unknown although it is believed to have resulted from a popular colloquialism of the period, "It's a jewel."

⁴See Chapter IV for a discussion of these early-day policies.
the company was found to be worth $25,000 and was incorporated as an Illinois corporation.\(^5\) The object of the charter was to engage as "wholesale and retail dealers in tea, coffee, spices, crockery, china and glassware, and to buy and sell and deal in all kinds of merchandise and do any and all things pertaining thereto."\(^6\) The incorporation furnished a vehicle for rapid expansion, and the next twelve years was a period of hectic growth. Sales reached the million dollar mark in 1910, and capitalization had been successively raised from the initial $25,000 to $100,000 in 1906, and $500,000 in 1910. By 1914 the joint heads of the company were each receiving salaries of $100,000, and the surplus account for the company exceeded two million dollars. The stage was being set for the New York incorporation of 1916.

Other signs of development were present. In 1905 a three-store building was leased in Chicago for use as a packaging and warehousing center. The next year some efforts toward manufacturing were made with the installation of food-processing machinery. In 1908 an interesting

\(^5\) The two-hundred and fifty shares of $100 par value stock were distributed as follows: ninety-three to each of the former partners, Skiff and Ross; thirty-seven to Skiff's father; twelve to Skiff's wife; and, fifteen to the sister of Ross. This would seem to indicate that some financial assistance had been received when the company was started.

purchase was made when 1,600,000 pounds of coffee were imported by the company at one time. This was the largest single importation of coffee into the United States by any buyer to that date. The company built a manufacturing plant in Chicago in 1909.

Naturally this increase was the result of substantial increase in field operations. One hundred routes were first operated in 1909, one year prior to reaching one million dollars in sales volume. The number of routes totaled more than four hundred in 1912, and had risen to 850 by the end of 1915. From a one-wagon operation the company had grown to one of 850 units in fifteen years. Annual sales had increased from $11,000 to over eight million dollars in the same period. Skiff thought the company had reached its zenith and wished to withdraw his money from it. This set the stage for the New York incorporation and the offering of company stock for public ownership. An era had ended.

II. EXPANSION AND COLLAPSE: 1916-1919

The Illinois corporation (Jewel Tea Company), was dissolved on March 9, 1916, and the Jewel Tea Company, Inc. was granted a certificate of incorporation by the State of New York which set forth the following purposes:

(1) to purchase the Jewel Tea Company
(2) to buy, import, blend, roast, vend and sell coffee. To buy, import, vend and sell tea; to buy, import, manufacture, prepare, produce, vend and sell coffee.
soap, baking powder, groceries, china, glassware, crockery and other household fittings and utensils, leather goods, household furniture, bric-a-brac, stationery, notions, toys and fancy goods and other articles and commodities of personal and household use and consumption, and any and all other manufactured goods, materials, provisions and produce, and to conduct a general importing, manufacturing, vending, store, delivery and mail order business.

The capital structure of the new company consisted of 40,000 shares of $100 par 7 per cent cumulative preferred stock ($4,000,000) and 120,000 shares of $100 par common stock ($12,000,000), for a total capitalization of $16,000,000. The securities were listed on the New York Stock Exchange and were underwritten by the investment houses of Lehman Brothers and Goldman, Sachs & Company, who undoubtedly considered it a routine underwriting job unaware that they would soon become active in company management in order to fulfill a moral obligation toward investors in the securities. The old partners were then in a position to liquidate their holdings, if they so desired.

The contract included an agreement by Skiff and Ross that they would not work for another home-service company for a period of ten years. Furthermore, they were retained in their old positions at salaries of not less than $40,000 a year. Thus, the company did not undergo any major change in its leadership.

The trouble which the company soon experienced in its financial affairs can be traced to the capitalization of
assets during the New York incorporation. To say that the new company was over-capitalized would be an understatement, for its capitalization pattern was reminiscent of American railroads in the heyday of the financiers. Its Initial Balance Sheet, as shown in Table I, reveals actual tangible assets equalling only $6,317,117.83, probably of exaggerated values. When a deduction is made for the $4,000,000 capitalization in preferred stock, a sum of $2,317,117.83 remains as equity for an issue of $12,000,000 in common stock. The Good Will item accounts for this discrepancy; it was given a value of $12,000,000, an amount equal to all of the common stock. When the company encountered a period of reduced earnings, dividends were not paid even to preferred stockholders.

The new company began a period of reckless expansion. Ross' optimistic philosophy of limitless growth seems to have taken hold, and Frank Skiff's conservatism weakened following the New York incorporation, possibly because his financial interest had been lessened. The expansion program for 1916 had for its major objective the doubling of the number of routes operated. This was nearly accomplished, for at year-end there were 1,645 routes, only fifty-five short of the goal.

New areas were opened to company operations, such as New England, the Rocky Mountain region, and the West Coast.
### TABLE

**INITIAL BALANCE SHEET, JEWEL TEA CO.**

<table>
<thead>
<tr>
<th>ASSETS:</th>
<th>C</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital:</strong></td>
<td></td>
<td>85,000.00</td>
</tr>
<tr>
<td>Real Estate, Chicago</td>
<td>$123,157.02</td>
<td></td>
</tr>
<tr>
<td>Building, Chicago</td>
<td>$14,809.35</td>
<td></td>
</tr>
<tr>
<td>Mach., Furn., &amp; Fixtures, Chicago</td>
<td>$43,021.97</td>
<td></td>
</tr>
<tr>
<td>Horses, Wagons, Chicago</td>
<td>$498,172.00</td>
<td></td>
</tr>
<tr>
<td>Horses, Wagons, Branches</td>
<td>$5,000,000.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total Capital Assets</strong></td>
<td>12,764,160.34</td>
<td></td>
</tr>
<tr>
<td><strong>Current:</strong></td>
<td>3,131,396.82</td>
<td></td>
</tr>
<tr>
<td>Inventories of Mdse. &amp; Premiums</td>
<td>4,483.90</td>
<td></td>
</tr>
<tr>
<td>Mortgages &amp; Notes Receivable</td>
<td>361,880.73</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable (less reserve)</td>
<td>13,833.76</td>
<td></td>
</tr>
<tr>
<td>Trust Funds—investments</td>
<td>1,235,481.23</td>
<td></td>
</tr>
<tr>
<td>Cash at Bank</td>
<td>4,747,076.44</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>805,881.05</td>
<td></td>
</tr>
<tr>
<td><strong>Deferred Charges to Operations:</strong></td>
<td>18,317,117.83</td>
<td></td>
</tr>
<tr>
<td>Premiums advanced to customers</td>
<td>712,760.70</td>
<td></td>
</tr>
<tr>
<td>Inventories, expense supplies</td>
<td>75,463.26</td>
<td></td>
</tr>
<tr>
<td>Unexpired Insurance, prepaid rent</td>
<td>17,657.09</td>
<td></td>
</tr>
<tr>
<td><strong>Total Deferred Charges</strong></td>
<td>8,317,117.83</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Minute Book I, Jewel Tea Company, Inc. Kept in the office.
I COMPANY, INC., JANUARY 14, 1916

CAPITAL AND LIABILITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>7% Cumulative Preferred Stock (40,000 shares)</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Common Stock (120,000 shares)</td>
<td>$12,000,000</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$1,502,310.85</td>
</tr>
<tr>
<td>For letters of credit issued against coffee contracts</td>
<td>$840,724.74</td>
</tr>
<tr>
<td>Total current Liabilities</td>
<td>$18,317,117.83</td>
</tr>
<tr>
<td>Capital Surplus</td>
<td>$814,806.98</td>
</tr>
</tbody>
</table>

President of the Company Secretary, Barrington, Illinois.
Prior expansion had been more or less orderly with concentric circles fanning out from the home area of Chicago; now expansion leap-frogged over large regions. New coffee roasting plants and distribution centers were established in San Francisco, New Orleans, and Hoboken, New Jersey; the latter was the world's largest coffee roasting plant.

Sales volume for 1916 was nearly thirteen million dollars, and net earnings equalled almost one and one-half million dollars which meant that earnings were approximately eleven and one-half per cent of sales for the year. There was no visible evidence of impending disaster. Further expansion was contemplated for 1917, but when the year was over only sixty-nine routes had been added, bringing the total to 1,714. In April of that year American entry into World War I brought operational problems of a new nature. Manpower for the first time became difficult to obtain. Young men were being drained off into the armed forces and older men into better-paying war employment. In spite of these hardships the company had a good year with sales of nearly sixteen million dollars and net earnings of over one and one-half million dollars.

7 Annual sales figures for the company for the years 1916 through 1951 are listed in Table II. Table III contains both annual net earnings and percentage of net earnings to sales data for the same period. Further reference to these tables is not made in the body of the manuscript, but sales and earnings figures are derived from them.
# TABLE II

**ANNUAL SALES, JEWEL TEA COMPANY, INC.**

1916-1951

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Sales</th>
<th>Year</th>
<th>Annual Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>$12,892,507</td>
<td>1934</td>
<td>$17,217,177</td>
</tr>
<tr>
<td>1917</td>
<td>15,817,604</td>
<td>1935</td>
<td>18,804,498</td>
</tr>
<tr>
<td>1918</td>
<td>15,598,496</td>
<td>1936</td>
<td>20,762,707</td>
</tr>
<tr>
<td>1919</td>
<td>16,538,653</td>
<td>1937</td>
<td>23,277,441</td>
</tr>
<tr>
<td>1920</td>
<td>17,573,054</td>
<td>1938</td>
<td>23,726,533</td>
</tr>
<tr>
<td>1921</td>
<td>11,210,388</td>
<td>1939</td>
<td>24,782,383</td>
</tr>
<tr>
<td>1922</td>
<td>10,240,810</td>
<td>1940</td>
<td>29,231,608</td>
</tr>
<tr>
<td>1923</td>
<td>12,554,875</td>
<td>1941</td>
<td>41,702,980</td>
</tr>
<tr>
<td>1924</td>
<td>13,602,745</td>
<td>1942</td>
<td>53,077,779</td>
</tr>
<tr>
<td>1925</td>
<td>14,178,478</td>
<td>1943</td>
<td>52,212,105</td>
</tr>
<tr>
<td>1926</td>
<td>14,568,258</td>
<td>1944</td>
<td>56,899,845</td>
</tr>
<tr>
<td>1927</td>
<td>14,532,336</td>
<td>1945</td>
<td>63,364,000</td>
</tr>
<tr>
<td>1928</td>
<td>15,970,893</td>
<td>1946</td>
<td>88,237,518</td>
</tr>
<tr>
<td>1929</td>
<td>16,844,110</td>
<td>1947</td>
<td>130,477,490</td>
</tr>
<tr>
<td>1930</td>
<td>15,521,791</td>
<td>1948</td>
<td>152,990,515</td>
</tr>
<tr>
<td>1931</td>
<td>13,742,691</td>
<td>1949</td>
<td>168,787,620</td>
</tr>
<tr>
<td>1932</td>
<td>14,662,252</td>
<td>1950</td>
<td>188,688,928</td>
</tr>
<tr>
<td>1933</td>
<td>14,377,593</td>
<td>1951</td>
<td>209,918,117</td>
</tr>
</tbody>
</table>

**SOURCE:** Compiled from company records kept in the Controller's Office, Jewel Tea Company, Inc., Barrington, Illinois.
### TABLE III

**ANNUAL NET EARNINGS AND PER CENT OF NET EARNINGS TO SALES**

**JEWEL TEA COMPANY, INC., 1916-1951**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Earnings</th>
<th>Per cent of net earnings to sales</th>
<th>Year</th>
<th>Net Earnings</th>
<th>Per cent of net earnings to sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>$1,479,673</td>
<td>11.48</td>
<td>1934</td>
<td>$1,243,123</td>
<td>7.22</td>
</tr>
<tr>
<td>1917</td>
<td>1,558,351</td>
<td>9.83</td>
<td>1935</td>
<td>1,536,186</td>
<td>8.14</td>
</tr>
<tr>
<td>1918</td>
<td>695,738</td>
<td>4.46</td>
<td>1936</td>
<td>1,794,101</td>
<td>8.64</td>
</tr>
<tr>
<td>1919</td>
<td>(1,607,602)</td>
<td>——</td>
<td>1937</td>
<td>1,452,120</td>
<td>6.24</td>
</tr>
<tr>
<td>1920</td>
<td>(2,183,506)</td>
<td>——</td>
<td>1938</td>
<td>1,423,959</td>
<td>6.00</td>
</tr>
<tr>
<td>1921</td>
<td>321,457</td>
<td>2.87</td>
<td>1939</td>
<td>1,583,177</td>
<td>6.39</td>
</tr>
<tr>
<td>1922</td>
<td>152,149</td>
<td>1.49</td>
<td>1940</td>
<td>1,576,994</td>
<td>5.39</td>
</tr>
<tr>
<td>1923</td>
<td>624,200</td>
<td>4.97</td>
<td>1941</td>
<td>1,518,871</td>
<td>3.64</td>
</tr>
<tr>
<td>1924</td>
<td>855,076</td>
<td>6.29</td>
<td>1942</td>
<td>1,348,648</td>
<td>2.53</td>
</tr>
<tr>
<td>1925</td>
<td>838,947</td>
<td>5.92</td>
<td>1943</td>
<td>1,153,833</td>
<td>2.18</td>
</tr>
<tr>
<td>1926</td>
<td>1,258,052</td>
<td>8.63</td>
<td>1944</td>
<td>1,392,581</td>
<td>2.39</td>
</tr>
<tr>
<td>1927</td>
<td>1,261,391</td>
<td>8.68</td>
<td>1945</td>
<td>1,505,747</td>
<td>2.33</td>
</tr>
<tr>
<td>1928</td>
<td>1,530,888</td>
<td>9.59</td>
<td>1946</td>
<td>2,839,784</td>
<td>3.20</td>
</tr>
<tr>
<td>1929</td>
<td>1,691,302</td>
<td>10.04</td>
<td>1947</td>
<td>3,381,040</td>
<td>2.58</td>
</tr>
<tr>
<td>1930</td>
<td>1,705,293</td>
<td>10.99</td>
<td>1948</td>
<td>4,013,355</td>
<td>2.62</td>
</tr>
<tr>
<td>1931</td>
<td>1,363,780</td>
<td>9.92</td>
<td>1949</td>
<td>4,171,929</td>
<td>2.47</td>
</tr>
<tr>
<td>1932</td>
<td>1,053,626</td>
<td>9.23</td>
<td>1950</td>
<td>4,313,089</td>
<td>2.32</td>
</tr>
<tr>
<td>1933</td>
<td>909,325</td>
<td>6.32</td>
<td>1951</td>
<td>3,584,299</td>
<td>1.70</td>
</tr>
</tbody>
</table>

1^Deficit.

2^Adjustment made for Food Stores Department losses.

3^Commencing with 1933 data are on a consolidated basis including both Routes and Food Stores Departments.

**SOURCE:** Compiled from company records kept in the Controller's Office, Jewel Tea Company, Inc., Barrington, Illinois.
In addition to the intensification of operating problems connected with the labor force, raw material and production costs increased substantially in 1918. The government commandeered the Hoboken plant for use as a munitions factory. Substitute arrangements were made by leasing a plant in Newark which pushed costs even higher. While total sales remained approximately the same as in the previous year and the number of routes was increased to 1,737, net earnings fell to less than $700,000, a drop of over $850,000. This meant that net earnings as a percentage of sales had fallen to approximately forty per cent of the 1916 figure, from 11.46 per cent to 4.46 per cent. By mid-year 1919 the old management was forced out in the face of failure and under fire. Capable of building a company in a period of general prosperity, Skiff and Ross were unable to consolidate their gains and protect the operation in periods of stress. This is a pattern frequently occurring in business; the innovators and builders give way to men skilled in the techniques of control.

The business was in a precarious position which was attributed to high raw coffee prices, labor difficulties, and war conditions. Raymond E. Durham, a Chicago banker, was elected president on July 11, 1919. Sales again increased by approximately one million dollars, but the company suffered its first loss, $1,607,602. On October 20,
1919, John M. Hancock was elected administrative vice-president of the company, as well as treasurer, and the fight for survival began. Mr. Hancock has summarized the forces behind the crisis in the following words:

...the crisis came about as the result of inexperienced management which had been expanding the business too fast, for the limited personnel in the management group. The effect of war, and the draft on the number of salesmen, was also very drastic; and the shortages created by war induced the management to carry an excess of inventories which had to be disposed of in the postwar depression. The Company's most productive plant had been commandeered by the Army at the outset of the war. There were no available plants for coffee roasting in the commercial industry which were adequate to meet Jewel's needs. Operating costs were higher and inventory prices rose to a level that had never been heard of up to that time.

III. HANCOCK AND RE-ENTRENCHMENT: 1919-1924

The life of John M. Hancock has been unusual and filled with paradoxes. He moved from farm-boy to naval officer to business executive in successive, sure steps. After an outstanding academic record at the University of North Dakota, he entered the United States Navy in 1903 as an assistant paymaster with the rank of ensign. During World War I Captain Hancock was in charge of Navy procurement, and in the performance of his duties made many contacts with men of business and finance who urged him to

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8Letter, John M. Hancock to the author, dated November 26, 1952.
leave the Navy and join their firms. Lehman Brothers, a New York investment firm, persuaded him to join the Jewel Tea Company, Inc. management in order to introduce control methods to the company's operation.

The United States Navy has long had a reputation for its use of control procedures which are so essential to an organization which is both large and widely-spread geographically. They act as a substitute for personal supervision by top-level leaders. In many ways there existed a parallel between Navy and Jewel Tea Company operations, therefore the choice of Hancock proved to be a wise one.

President Durham and his assistant faced a steadily worsening environment in the company, but they actively strove to better conditions. Inspections of all eighteen districts of the field operation were made by the men by January 5, 1920, and a program of contraction was set into operation with the planned elimination of all routes averaging less than $200 per week by March 1, 1920. New methods of operation were being experimented with, and a claim for refund of excess profits taxes paid during the war was prosecuted. At mid-year 1920 the president cited the decline in gross margins from fifty per cent to thirty-six per cent in 1919 and competitive conditions resulting from the development of the chain and cash-and-carry stores as important factors in the unsatisfactory performance being
achieved by the company. He proposed the establishment of a chain store division, but action was deferred until current operations could be improved. In the fall of 1920 a serious re-entrenchment program was inaugurated; its goal was the reduction in the number of routes from 1,600 to 1,000. New England, parts of New York and Pennsylvania, the South, Rocky Mountain and West Coast regions all left the company.

President Durham became a prophet of doom. He pessimistically stated that the home-service method of merchandising was outmoded and economically unsound and recommended that the company be sold, or if that were not possible, liquidated. The results for the year were the worst in company history, past or future. With a sales volume of more than seventeen and one-half million dollars a net loss of over two million dollars was incurred. No buyer could be found, and reliance had to be placed upon the re-entrenchment program if anything was to be salvaged.

Full attention was then given to that program, and by the February 19, 1921, meeting of the board of directors it could be reported that the business had returned to a profit-earning basis, although estimated sales potential had been reduced from seventeen to twelve and one-half million dollars because of the elimination of a great number of routes. Much of the credit was given Hancock who had established improved control methods in purchasing and
distribution departments. With the elimination of unprofitable routes problem well in hand, attention could be given to expense reduction and sales volume increase. Moreover, gross margin percentages were being raised radically; for the month of January 1921 the overall figure was fifty-five per cent. The year was one of application of scientific business management techniques to company operations. While sales reached only slightly over eleven million dollars, which was more than six million dollars less than in 1920, net earnings were over three hundred thousand dollars, or two and one-half million dollars greater than in the previous year. Once again the net earnings as a percentage of sales figure took on significance; it stood at nearly three per cent.

In February 1922, President Durham resigned, and on April 4, John M. Hancock was elected to the office by the board of directors. His first move was the inauguration of a vigorous drive to increase business through the solicitation of new customers by advance salesmen. The operating statement for the year was not good; sales had dropped off approximately one million dollars to around ten and one-quarter million dollars, the lowest volume of sales since the New York incorporation in 1916. Furthermore, net earnings dwindled to a little over one hundred and fifty thousand dollars which was one and one-half per cent of
sales. Excepting 1919 and 1920, the years when the company experienced deficits, both of these figures were the lowest recorded during the period from 1916 through 1951. The overall financial picture of the company had, nevertheless, improved. In May 1922, the last of company indebtedness was paid, and the firm was operating on a sound financial basis. An important aid in the achievement of this condition was the collection of nearly one-half million dollars from the federal government for damages to the company's Hoboken plant during the period of its use as a munitions plant.

Maurice H. Karker came into the organization from the United States Navy in 1923 to fill the vacancy created by Hancock's promotion to the presidency. Sales for the year were up by over two million dollars to a figure slightly more than twelve and one-half million dollars, while net earnings climbed by over four hundred and fifty thousand dollars to approximately six hundred and twenty-five thousand dollars. Percentage-wise (net earnings to sales) this was a considerably better performance than that made in 1918, and, of course, in any of the intervening years. A pattern of regular, healthy growth was being set, although only two routes were added during the year. Problems facing management were routine in nature, such as face executives of any going business. Stability had been returned to the company, and the re-entrenchment program was a success.
IV. THE KARKER PERIOD
OF STABILITY AND MATURITY: 1924-1942

When John Hancock resigned the Jewel Tea Company presidency in June 1924, in order to become a partner in Lehman Brothers, an investment banking firm, Karker again filled a vacancy created by his former associate in the United States Navy. He had been an upstate New York farm boy who joined the Navy as a landsman in 1905 and was soon promoted to the rank of ensign in the Pay Corps. During World War I he came to Hancock's attention and was brought into the Jewel Tea Company management as his protege. Karker was control personified, and the company entered an era of closely controlled operations under his leadership. These control methods were to strengthen the financial position gained under Durham and Hancock.

The Karker period was one of growing financial strength for the company. In 1925 the Goodwill item on the balance sheet was written down from the unrealistic $12,000,000 figure to $120,000, and subsequently in 1928 to a nominal sum of one dollar. Preferred stock dividend payments, long in arrears, were resumed in 1925, and on April 1, 1929, preferred stock still outstanding was called. In 1933 the president of the company stressed the possibility of currency inflation under the Roosevelt administration and the need for policy-development to meet this
contingency. He became concerned over the surplus account on the company's balance sheet; it had grown from six-hundred and fifty thousand dollars in 1924 to nearly two million dollars by 1931. The account was reduced approximately one million dollars the following year when the company entered the grocery chain store field by the purchase of a number of stores in the Chicago area; however, by 1942 over two million dollars were available for other possible investment opportunities.

Sales volume followed a pattern of gradual increase during the eighteen years that Karker was president. Only in the depression years of 1931, 1932, and 1933 were there any significant declines, and these were mainly due to lower price levels rather than loss of unit sales. This improvement in sales volume was due principally to a gradual increase in the number of routes operated by the company. An expansion program, scientifically planned and cautiously executed, was responsible for the addition of from ten to fifty new routes annually; for during the eighteen-year period 610 routes were added, an average of thirty-four per year. Sales volume for 1942 was nearly four times that of 1924.9

9 The role of the Food Stores Department in the increase of both sales volume and net earnings is discussed in Chapter X.
Consistent earnings were attained during the period. By 1926 the company was returning over one and one-quarter millions of dollars from its operations. A gradual rise continued until 1932 when losses suffered by the Food Stores Department were felt, and the next year earnings dipped below the million dollar mark for the only time since 1926. Although store operations remained a serious drain upon company earnings until 1942 when its deficit was finally wiped out, earnings improved as general business conditions changed for the better following 1933. Earnings appeared to be stabilizing at around one and one-half millions of dollars in the late 1930's and the early 1940's. These fine earnings, in a period when many businesses were experiencing deficits, were achieved principally through close control over expenses.10

More significant than the net earnings figure, of course, is the ratio between net earnings and sales volume. The company under Karker's watchful leadership was able to raise this figure rather dramatically. In 1924 it stood at 6.29 per cent; six years later net earnings equalled eleven

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10 An interesting book is to be found in the vault of the Controller, Jewel Tea Company, Inc., Barrington, Illinois. It is M. H. Karker's "Black Book." In this little note-book are contained the most detailed, year-by-year, month-by-month, branch-by-branch, figures on various aspects of operating expenses. Apparently he watched each of these expense items with a close eye. Any deviation from established limits would bring immediate inquiry from the president's office.
per cent of sales, almost the same as in the halcyon days before World War I. The effects of the depression, and more importantly, the addition of the Food Stores Department were reflected in the gradual diminution of the net earnings to sales ratio. As more and more of the total sales volume came from food store sales, the figure became smaller and smaller. By 1941, Karker's last full year in the presidency, it was somewhat more than three and one-half per cent. This does not imply that operations became less efficient, but rather that the company was shifting into a different pattern wherein the high profit possibilities per dollar sales were not so great.

Many other important changes took place in these years. A modern plant and home-office building was constructed at Barrington, Illinois, a Chicago suburb, in 1930 at a cost of $1,464,106.31. By 1926 all routes had been motorized. Mr. Frank F. Ross left the board of directors in 1930. Unionization efforts and legislation aimed at house-to-house selling (Green River ordinances) were frequent problems for management. Two important sales promotional experiments were tried: the first was the Ohio Advertising Campaign of 1925-7; the second, the Brooklyn Jobbing Experiment of 1927-1930.11 Probably the most

11 See Chapters IX and VIII respectively for discussions of these bold efforts aimed at the development of new methods.
important contribution of the years of Karker leadership was the decision to enter the chain grocery store field. \(^{12}\)

Maurice Karker had given long, faithful service to the company; he had seen it through a major economic depression, yet kept the company strong and growing. In May 1942 he resigned from the presidency for various reasons: age, health, and a desire to serve again in the armed forces during wartime. Franklin J. Lunding was elected to succeed him and became president of the company at the age of thirty-six years.

V. LUNDING DAYS: 1942-1951

Franklin Jerome Lunding was born on a farm near Hope, North Dakota in 1906, the son of Swedish immigrants. Thus, the five men who contributed most to company success during its first fifty years had small-town or farm backgrounds: Skiff came from Newton, Iowa; Ross and Karker from upstate New York; and, Hancock and Lunding from North Dakota farms. Lunding was the second man to become president of the company who had come to its management under the sponsorship of John Hancock. He first served as company secretary, then as general counsel, and later as merchandising vice-president of the Food Stores Department. It was on this assignment

\(^{12}\) See Chapter X for a discussion of this venture.
that the lawyer found his \textit{forte}, as a merchandiser.

The years of World War II were filled with operational problems, such as shortages of merchandise to sell, price controls, lack of sufficient and capable manpower, restrictions on the use of gasoline and tires for route delivery trucks, etc. Management was busy just keeping the business operating. Women were hired to man some of the routes, and by the end of 1943 over six hundred had been so employed. Approximately one-hundred and seventy-five routes were idle in August 1944. In spite of these difficulties, sales volume was maintained at high levels: fifty-three, fifty-two, fifty-seven, and sixty-three millions of dollars worth of merchandise were sold by the company in 1942, 1943, 1944, and 1945 respectively. More important, however, net earnings remained good: $1,350,000 in 1942; $1,155,000 in 1943; $1,392,000 in 1944; and $1,505,000 in 1945. These earnings, however, were relatively poorer than in pre-war years. Earnings as a percentage of sales slipped to a figure appreciably below three per cent in 1942 and remained at that level through 1945.

In addition to this holding action Lunding was planning for the future. Many experimental ideas were tried in order to develop postwar techniques of management and merchandising. A pilot store was opened in Harvey, Illinois in September 1944, to test new methods of food
store retailing. A similar experimental branch was opened in Clinton, Iowa in 1946, in order to try possible innovations affecting route operations.

The five years following the end of the war were filled with activity. The Routes Department entered a period of expansion; the number of routes was to be increased from 1,637 in June 1946, to 2,076 by year-end 1949. This goal was not achieved, however, until the end of the following year due to inadequate advanced sales activity.

The product line received constant analysis. New pricing policies were adopted with increased sales volume as their guiding principle. Installment and mail-order selling were important innovations. Lunding brought an entirely new concept of merchandising strategy to the Routes Department.

Company sales volume increased at a rapid pace once World War II had been ended. An increase of approximately forty per cent was registered between the 1945 sales figure of sixty-three million dollars and the eighty-eight million dollars' worth of merchandise sold in 1946. In 1947 sales exceeded the one-hundred million dollar mark for the first time in company history when more than one-hundred and thirty million dollars entered company coffers through sales to consumers. This was an increase over the previous year of forty-seven per cent. The rate of increase slowed down to twenty-four per cent in 1948 and stabilized at
around ten per cent in the following three years. At the end of 1951 the company broke into the sales-over-two hundred-million-dollars classification.

This increase in sales volume also brought an increase in company earnings, as they went over two million dollars for the first time in 1946. The actual figure ($2,839,784) was closer to three million dollars and brought a net earnings to sales ratio of more than three per cent. In the years 1947, 1948, 1949 and 1950 net earnings increased absolutely each year, reaching approximately four and one-third million dollars in the last-mentioned year. Nevertheless, earnings were declining relatively and stood at 2.32 per cent of sales in 1950. During the last year under study earnings decreased both absolutely, falling to a little more than three and one-half million dollars, and relatively with a ratio of earnings to sales of 1.7 per cent being attained.

In fifty years the sales volume of the Jewel Tea Company increased more than 19,000 per cent. The company was doing more than two hundred million dollars' worth of business annually. The one-time one-wagon operation now consisted of over two thousand routes and one-hundred and fifty retail grocery stores plus a manufacturing plant. Frank Skiff's idea had been a good one.
CHAPTER IV

IMPORTANT EARLY-DAY POLICIES

The next seven chapters contain discussions of a number of different marketing policies which have been adopted by the company. A definite pattern is followed in the discussion of each policy. First, the policy is stated. Inasmuch as the company does not use the policy manual *per se* as a management technique, these policies are stated as they appear to the writer. Any error in statement is his responsibility. Following the statement of policy is a historical development of the forces leading to its adoption. Third, the importance of the policy to the company is discussed, followed with an analysis of the problems surrounding its enforcement. Finally, the policy formulation process is summarized and conclusions drawn.

The records of company activities prior to the New York incorporation in 1916 are practically non-existent. Information available concerning the first fifteen years' operations comes from company promotional literature of later years.¹ It was obtained by means of interviews with company "old-timers," particularly the two partner-founders, Skiff and Ross. Although subject to possible challenge as

¹See Chapter III for a list of some of these publications.
to historical accuracy, these sources must be used in lieu of anything better. Inaccuracy, if any, probably lies in the human trait of taking credit for successes and transferring blame for failures.

There was nothing original in the method of operation adopted by the company in 1901; it followed the stylized pattern of all home-service operators with their advance salesmen, premium offers, and deliveries of merchandise by route managers. Three important policies were generally in force within the industry: (1) the policy of premium merchandising; (2) the policy of scheduled delivery; and, (3) the policy of cash-only sales. The first two policies are examined in this chapter, while the third is arbitrarily postponed until the discussion of credit policies. The company started with a given set of policies found in the industry. In the remainder of this study the changes made in these given policies and additional policies developed through the years are examined.

Two stories are found bound together in a discussion of the use of the premium by the Jewel Tea Company. One is the story of premium merchandising itself, as adopted by the company in its method of operation, and adapted by the company to its own uses; the other is the story of the

\[\text{2See Chapter VII.}\]
advanced premium principle which was a company innovation. Each should be examined separately, even though they are closely entwined in practical application.

I. PREMIUM MERCHANDISING

Statement of policy. Customers of the company shall be given merchandise premiums as a form of patronage dividend.

History of policy adoption. A premium can be variously defined. "Merchandise other than that produced by the user or regularly stocked for his trade, supplied to the purchaser at the time of purchase or subsequently, for the redemption of tokens, salable independently, and offered with or without additional cash payment," is a rather complex, yet complete, definition submitted by an authority in the field of premium merchandising. A simpler definition is: "a premium is a product of considerable value relative to the product bought that is given as a bonus for buying the product." The premiums offered by the Jewel Tea Company fit either definition.

The history of premium merchandising in the United

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States is traditionally traced to B. T. Babbitt, who, in 1851, hit upon the plan of giving fine lithographic pictures to housewives in exchange for soap wrappers. He had been unsuccessful in introducing the idea of packaged soap until the premium idea was adopted. Adapters are always found in business, and it was not long until tea and coffee merchants were using the premium principle. As the use of wrappers was not satisfactory to these merchants, a system of checks was developed. With the purchase of a pound of coffee or tea, a check, usually packed in the container, was given the purchaser. These checks or coupons, were accumulated by the buyer until a specified quantity was held when they were exchanged for a premium. This plan of merchandising was basically designed to hold the customer to the company while she earned enough checks to pay for the premium. It was a customer-tying device.

The management of the Jewel Tea Company took this merchandising technique as part of its method of operation. However, it was able to promote the idea more aggressively than competing home-service operators. An important factor in this improved adaptation was the shrewd selection of premiums. The choice of Haviland chinaware as premium merchandise was a stroke of genius, or good fortune, for it was

5Ibid., p. 508.
an ideal item for promotion. A product known for its high quality, most housewives felt the possession of Haviland chinaware out of their financial reach, for the period ante-dated instalment selling. Premium merchandising by the company made its ownership a possibility. For example, a Number 1 Haviland plate was given with the purchase of two pounds of coffee or a pound of tea. Coffee sales spiralled even though it was being sold at twenty-five cents a pound when grocery stores charged seventeen cents. The chinaware promotion was particularly attractive to the company, for it furnished customer continuity. Once a housewife had been persuaded to start a set of Haviland via the premium merchandising plan, chances were excellent that she would remain a customer for many years while she earned enough credits to complete her set.  

The company has been able to keep abreast with changing patterns of consumer buying habits through the alertness of management charged with premium merchandise selection. Many other items in addition to Haviland china have been successfully promoted. During a three-year period over one million devices called "Cake-Safes" were merchandised as premiums. Through use of this premium item cakes could be transported without fear of damage. Later, a

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6Interview with Oliver J. Corbett, Secretary-Manager, National Tea and Coffee Merchants Association, March 29, 1952.
glassware set, named "Golden Glow," was eminently successful with 1,500,000 pieces given as premiums in a two-week sales period and 6,800,000 in two years.

The company was important in the introduction of aluminumware to the American home. Its promotion was comparable to the earlier success with Haviland chinaware. The Jewel Tea Company purchased nearly the entire output of a leading manufacturer and assisted in its management. Premiums were selected from the electrical appliance field in the 1930's, when smaller appliances including toasters, coffee urns, and irons, were offered to housewives in return for their patronage.

Whereas the line has been aimed usually at the housewife and her interests, the premium merchandising strategy shifted under Lunding's leadership. It came to include merchandise of interest to other members of the family, particularly the husband, in an effort to lessen frequent objection to buying from a premium merchandiser.

**Importance of the policy.** Premium merchandising is the most fundamental policy in the operation of the entire home-service industry. Without this means of sales promotion it is unlikely that appreciable sales volume could be achieved, although the delivery service and product differentiation in the form of quality products cannot be disregarded. Nevertheless, the premium has been the basic
attraction for the customer over the years.

The policy has been significant to the Jewel Tea Company because it has been able to employ it with consummate skill. The idea was promoted aggressively and used to advantage. The selection of quality premiums which came in sets tended to make both the processes of getting customers originally and retaining them for a period of time easier than they were for competitors.

Problems surrounding enforcement of the policy. The basic problem inherent to premium merchandising is, of course, correct premium selection. An item which lacks attractiveness will not draw new customers, nor retain old ones. A staff of premium buyers must be maintained whose duty it is to search for new merchandise to be promoted as premiums. These buyers must have an appreciation of changing trends in consumer buying habits and, furthermore, imagination to see merchandising possibilities.

This drive for new premiums has a dark side. The premium line is sometimes allowed to become extensive rather than selective, and items are added without due consideration and as the result of spur-of-the-moment enthusiasm. Minutes of board of directors' meetings contain frequent reports such as "premium line reduced from 181 to 83." This problem calls for vigilance in initial choice of premiums and ruthless removal of those which do not sell.
Many errors can be avoided by field-testing before additions are made to the line. The old merchandising principle which recommends the promotion of a few items which are good sellers rather than many which are mediocre should be applied to home-service premium lines. Otherwise, large inventory losses are experienced on the one hand because of the usual losses arising from slow-moving merchandise, while, on the other, sales are lost as a result of inadequate promotion of good items.

The premium constitutes an important selling cost for the company. The percentage of profit-sharing credits allowed to grocery sales from 1924 through 1951 is shown in Table IV. A profit-sharing credit is an allowance given the customer on each purchase; for example, the purchase of a pound of coffee may entitle the customer to a five cent profit-sharing credit. These credits are applicable toward the payment for premiums which are also quoted in monetary terms. Thus, taking the year 1924 for illustrative purposes, an average of nearly thirteen cents in profit-sharing credits was allowed for every dollar purchase of groceries. These figures do not give an entirely accurate cost figure because retail figures are used on the premiums while, of course, they are purchased at wholesale. Assuming a fifty per cent reduction in converting from retail to wholesale prices, it can be seen that premiums add to the cost of
TABLE IV
PERCENTAGE OF PROFIT-SHARING CREDITS ALLOWED TO GROCERY SALES, JEWEL TEA COMPANY, INC., ANNUAL AVERAGES, 1924-1951

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>12.99</td>
</tr>
<tr>
<td>1925</td>
<td>11.67</td>
</tr>
<tr>
<td>1926</td>
<td>11.70</td>
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<tr>
<td>1927</td>
<td>12.52</td>
</tr>
<tr>
<td>1928</td>
<td>13.41</td>
</tr>
<tr>
<td>1929</td>
<td>13.47</td>
</tr>
<tr>
<td>1930</td>
<td>15.04</td>
</tr>
<tr>
<td>1931</td>
<td>17.71</td>
</tr>
<tr>
<td>1932</td>
<td>18.16</td>
</tr>
<tr>
<td>1933</td>
<td>18.08</td>
</tr>
<tr>
<td>1934</td>
<td>18.91</td>
</tr>
<tr>
<td>1935</td>
<td>18.81</td>
</tr>
<tr>
<td>1936</td>
<td>19.29</td>
</tr>
<tr>
<td>1937</td>
<td>18.93</td>
</tr>
<tr>
<td>1938</td>
<td>19.89</td>
</tr>
<tr>
<td>1939</td>
<td>20.03</td>
</tr>
<tr>
<td>1940</td>
<td>20.97</td>
</tr>
<tr>
<td>1941</td>
<td>20.16</td>
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<tr>
<td>1942</td>
<td>16.69</td>
</tr>
<tr>
<td>1943</td>
<td>15.70</td>
</tr>
<tr>
<td>1944</td>
<td>14.90</td>
</tr>
<tr>
<td>1945</td>
<td>14.70</td>
</tr>
<tr>
<td>1946</td>
<td>10.00</td>
</tr>
<tr>
<td>1947</td>
<td>9.50</td>
</tr>
<tr>
<td>1948</td>
<td>8.30</td>
</tr>
<tr>
<td>1949</td>
<td>9.00</td>
</tr>
<tr>
<td>1950</td>
<td>7.80</td>
</tr>
<tr>
<td>1951</td>
<td>7.70</td>
</tr>
</tbody>
</table>

NOTE: A profit-sharing credit is an allowance granted to a customer with the purchase of a grocery item. This credit is expressed in monetary terms. Thus, the purchase of a pound of coffee might carry an allowance of five cents in profit sharing credits. These credits, in turn, are applied toward payment of premiums which also carry monetary values.

doing business up to as much as 10 per cent of sales (1939, 1940, and 1941).

The pattern followed in granting profit sharing credits is interesting. In the depressions of the thirties the movement was upward with a more liberal granting of credits in evidence. This was intensified during the company's expansion period just prior to World War II. During the war the pattern was reversed because of the shortage of premiums and operational problems. Since the war a shift of merchandising policy, to one of low prices and quantity selling has led to a reduction in profit sharing credit allowance. Whether this apparent deemphasization of the premium as a merchandising technique will continue, especially if business conditions become depressed, is problematical.

Justification of the premium to the discerning customer is another troublesome matter. The company, in its promotional activities, claims that the premium is given in lieu of advertising, as its way of sharing with the customer advertising costs not actually incurred.7

Summary and conclusions. Use of premiums and company operations are synonymous in the minds of customers, the general public, and students of marketing alike. Along with

7This claim is examined in Chapter IX.
the direct-to-the-consumer aspect of its method of operation, premium merchandising is the distinguishing feature of the home-service industry. Whether the industry could have been successful without the use of the technique is doubtful.

The Jewel Tea Company took the premium merchandising policy as a part of the home-service industry method of operation. No policy formulation was involved in the process. In adaptation of the policy, however, the management of the company has shown ingenuity through choice of merchandise to be promoted as premiums, particularly in the case of items which come in sets, which tend to tie the customer to the company for an extended period of time.

II. THE ADVANCED PREMIUM

Statement of policy. Premiums shall be advanced to the customer, i.e., given in anticipation of future patronage rather than after sufficient credits have been earned by her. This is done as evidence of trust in her inherent honesty.

History of policy adoption. The partners, Skiff and Ross, soon found one customer objection frequently raised to their proposition. This objection sprang from the prospective customer's unsatisfactory experiences with other home-service companies in the past. The most common source of
dissatisfaction was that the customer had saved checks for a long period of time, hoping to save enough to redeem them for a desired premium, only to learn that the company had gone out of business. The early days of the twentieth century were characterized by a high business mortality rate among home-service enterprises, for the field was overcrowded with small-volume operators. The advanced premium principle was to remove this customer objection.

Frank Ross' account of how the policy came into existence is an interesting study of policy formulation. Mr. Ross was soliciting in the stockyards area of Chicago and called on a Mrs. Scanlan; when he started his solicitation, she became angry and ordered him from the house. Ross was able, however, to get a statement of her grievance: she had had some bitter experiences with home-service companies. The old familiar story of saving checks for years only to have the company disappear from the scene before they could be exchanged for a desired premium was told. Ross, always an alert, aggressive salesman, wished to sell the disgruntled woman, for a challenge to his selling ability had been raised. He offered her a set of Haviland chinaware, telling her it could be earned by purchasing Jewel Tea Company products. However, she was to have the use of the chinaware

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8Wilder, op. cit., pp. 2-4.
while doing so; the company would trust her instead of the usual method which required customer faith in the company. The idea intrigued the woman, and an innovation in the field of home-service merchandising had been created. The rapid growth of the Jewel Tea Company during its early days can be dated from this sales interview, for many family doors were opened to the company by this new approach.

**Importance of the policy.** Once the company started this merchandising plan, new customers were added rapidly to company route books, and sales and routes both increased at a fast rate. The trust shown in the customer by the company had a positive appeal in addition to its negative value of removing a serious customer objection to the home-service method of operation. The advance salesman could now approach a prospective customer with confidence as a representative of a firm with such apparent financial strength and belief in the benefits offered it could entrust quantities of merchandise to the honesty of its customers. His selling task was made easier; the groundwork for company growth had been furnished.

The company by this time had developed the premium merchandising principle to the point where the premium line contained quality items, such as Haviland chinaware, which had a strong attraction for most housewives. Furthermore, many premiums were parts of sets which tended to retain the
customer once acquired. The advanced premium principle removed a hurdle of skepticism from the whole sales proposition. This innovation coupled with fine exploitation of the premium merchandising principle lifted the company from the ranks of ordinary operators to a position of industry leadership where it has remained. Other firms, of course, have adopted the policy and it has become an integral part of the home-service method of operation.

Problems of policy enforcement. Advancement of the premium adds materially to the costs resulting from its use as a sales promotional device. From the time it is given to the housewife until she has obtained title through the accumulation of profit-sharing credits, the premium is in effect the same as merchandise stored in a warehouse. That is, inventory costs in the form of capital needs arise from the policy. In the period from 1937 through 1951 outstanding premium balances at retail per route ranged from a low of $1,251 in 1944 to a high of $2,296 in 1937. In 1951, for example, the figure was $1,617. At this time some 2,089 routes were in operation, so inventory in customers' homes in the form of advanced premiums amounted to approximately $3,400,000. Inventories of premium merchandise must

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9 Outstanding premium balance per route is a figure arrived at by totaling the amounts owed by each individual customer on a route for premiums currently being earned.
be kept also in home-office and branch warehouses. Thus, capital needs for the premium merchandising activities of the company are appreciable.

At the same time, merchandising strategy poses a paradox respecting inventories, for each customer's account must have a minimum, as well as maximum, limit. When the premium balance of an individual customer falls to a certain point, the route manager should persuade her to choose another premium, otherwise she may discontinue buying from the company when the present premium is earned.

**Summary and conclusions.** The advanced premium policy is the most important innovation given to the home-service field of business operations by the Jewel Tea Company. It had a revolutionary effect upon the method of operation employed by the entire industry. For the company it furnished the vehicle leading to dominance within its area of activity.

Again no formalized policy formulation process was involved. It resulted from an inspirational attempt to solve a selling problem in the field. Quite possibly no thought had been given to the problem. Every time the objection of possible company failure and consequent value of checks accumulated by the housewife had been raised by her, it probably was met with a spur-of-the-moment answer.
III. BI-WEEKLY DELIVERY

Statement of policy. The route manager shall call upon each customer once in every two weeks. At this time merchandise previously ordered will be delivered and orders taken for delivery two weeks later.

History of policy adoption. Apparently when Skiff and Ross entered the home-service industry some operators were making weekly calls upon their customers, while others followed a bi-weekly delivery pattern. The former plan made it possible for a firm to obtain a larger share of the customer's food dollar through more frequent calls, whereas use of the latter method allowed twice as many customers. The question was one of intensive versus extensive cultivation of the market.

The Jewel Tea Company management chose the bi-weekly delivery plan. This seems a natural choice for men possessing the temperamental makeup of Skiff and Ross, who were primarily expansion-minded. The problem, as they viewed it, was to get as many customers as possible. Each customer gathered in was one less for competitors. Furthermore, their method of expansion involved the addition of another route as soon as sufficient capital to buy a horse and wagon was available. Bi-weekly delivery required less capital for an equal number of customers; moreover, in these early days
customers could not buy sufficient quantities to warrant weekly calls because of the limited product line.

The company has always followed the bi-weekly plan. However, the idea of weekly calls has held an attraction for management. At least on two occasions, in 1920 and again in 1938, serious thought was given to a change. In both years extensive tests were made to determine the feasibility of weekly calls. The goal was to obtain a larger part of each customer's food expenditures. The tests indicated that the increase in sales volume was insufficient to cover additional costs. Nevertheless, the proposal is presented anew every once in a while, usually by a new executive who believes it to be original.\textsuperscript{10} It appears unlikely that the bi-weekly delivery plan will be abandoned in the near future.

\textbf{Importance of the policy.} Regularity of calls, or the existence of a continuous relationship with the customer, is the characteristic distinguishing home-service selling from other forms of house-to-house peddling. The typical route manager calls upon a number of housewives every day, remaining in the home for only a few minutes

\textsuperscript{10}This is one of the most important reasons for a company-maintained business history. New executives can learn the pattern of success and failure experienced in the past and be guided in future activities.
while deliveries are made and orders taken. The method of operation is costly because of the high labor charges incident to the personal services given the customer in the form of selling and delivery. If established routes of regular customers who are called upon according to a fixed schedule were not present, operational costs would become prohibitive. The nature of the goods sold, of course, makes this regular pattern possible, for the items are readily consumed and frequently replenished.

If the policy of bi-weekly delivery is contrasted to its alternative of weekly calls, its major advantage lies in lower capital costs. The weekly plan would require twice as many delivery trucks and certain other costs would be increased as the number of operating units was doubled. However, the determining factor in this problem is whether sufficient sales volume would result from weekly calls to warrant these increases in capital and operating costs. The product line is specialized in its makeup with no perishables contained in it. The items are of a type which do not require daily, or even weekly, purchase by the housewife. Bi-weekly calls seem to be frequent enough to fill her needs for these products.

Problems of policy enforcement. As delivery time is limited to approximately eight hours a day, it is important that the customer be home at the time of call by the route
manager. If she is not, he will have to make a return call after the day's run has been completed. When the route manager has a schedule which he keeps and has educated his customers to observe, these "call-backs" are reduced considerably. Nevertheless, all hours of the day, or days of the week, do not have equal attractiveness to the housewife as times to be home waiting for the route manager's call. This problem requires careful route planning and effective customer education.

**Summary and conclusions.** The company operates ten separate sets of customers for each route. Each customer is called upon once every two weeks. Such a delivery plan permits a larger number of customers than a weekly schedule, although some loss of sales volume results. This loss can be minimized by selling a two weeks' supply on each call. Weekly calls have been found to yield insufficient volume of sales to warrant additional expenses.

As for policy formulation and development, management made an initial choice between two alternatives, weekly or bi-weekly delivery. The choice probably reflected the desire by the founders for rapid expansion in the number of routes and customers. No change has been made in the initial policy, although periodically its alternative has been tested for possible adoption. This furnishes a good example of the practice of policy-testing which, if
followed systematically, can insure a company against its methods of operation becoming outmoded.
CHAPTER V

SELLING AND PRICING POLICIES

Often the success or failure of a business firm hinges on the adoption of correct policies of selling and pricing. Two fundamental selling policies of the Jewel Tea Company are analyzed in this chapter, namely, advance selling (which is actually a means of new customer solicitation) and mail-order selling. Inasmuch as the pricing philosophy of a business firm plays an important part in the carrying out of selling policies, pricing policies of the company are also examined. This seems advisable as selling and pricing are closely interlaced, and it is often difficult to determine the cause-and-effect relationship between them.

I. ADVANCE SELLING

Statement of policy. Advance salesmen shall be used to secure new business for the Routes Department.

History of policy adoption. A standard part of the home-service industry method of operation is the practice of solicitation of new business by canvassers. These canvassers, or solicitors, are known to the industry as "advance salesmen," and their activities as "advance selling." Their function is to persuade housewives to
become customers of the company they represent, and the *modus operandi* employed is that of the door-to-door salesman. The housewife is confronted with an attractive premium which will be given her if she agrees to become a customer. At the same time, the industry's method of distribution is explained. If the sales talk is successful, an order is taken for the premium and items of merchandise in the product line; these are delivered by the route manager on his next regular trip. Thus, the term "advance selling" implies that the sale is made prior to the call of the regular route manager; this part of the job is done for him. Advance salesmen are used in building new routes and in maintaining the buyer count on old ones.

When the Jewel Tea Company started operations in 1901 both partners spent most of their daylight hours in solicitation work. To a considerable degree the early success of the company can be attributed to the energetic performance of this function under the direction of Frank Ross, who found selling a stimulating challenge. During the company's period of rapid expansion prior to World War I several hundred advance salesmen were employed, for routes were being added at a fast rate. Following the war the new management sought all possible methods of reducing operating expenses. A popular scheme was the elimination of advance salesmen, as it was felt that route managers could secure
sufficient new business to maintain their routes. Annual savings resulting from this plan were estimated to be $125,000, and the advance sales force was cut from eight hundred to three hundred men in 1919. This was the first time the idea that the advance selling function could be performed without the use of solicitors was introduced to management thinking; it was to return from time to time.

The buyer count (number of customers) on the routes soon started to diminish, and route managers were offered thirty-five cents for each new customer placed on their customer roster through their own selling efforts. This move did not stem the loss, and management soon abandoned its policy of advance sales force elimination. This can be readily seen from an examination of operating data for the years 1918 through 1921. Expenditures for this activity were 2.18 per cent of sales in 1918 and 2.21 per cent in 1919. The effects of the curtailment policy are reflected in the 1920 figure of 1.25 per cent. The next year this expense had risen to 2.80 per cent which was higher than any of the four years, and company management was seeking better methods of using the advance sales force. By 1922 a complete recantation had been made, and soliciting returned to full favor, and in August a full-scale canvassing program entailing an expenditure of from $150,000 to $200,000 was launched.
The prejudices against certain operational costs are strong, and an indirect attempt at the elimination of the advance salesman came in 1927. The compensation plan for route managers was changed to include penalties for failure to maintain buyer count. It was thought this negative motivation would stimulate route managers to perform the advance sales function, and annual savings of $100,000 would be made. Apparently nothing came of the plan, for advance salesmen continued as an integral part of the company’s method of operation.

Emphasis was placed during World War II upon the building of new business as an alternative to payment of excess profits taxes in a manner similar to the use of advertising by many companies at the time. Furthermore, emphasis was shifted from promotion of the premium to merchandise quality. This was accomplished by means of group offers which were collections of standard items in the product line priced considerably lower than usual. Once the items were tried, it was felt, continued buying would follow.

In the years of expansion following World War II expenditures for advance sales work were high, as many new routes were being established. Moreover, a high buyer count was being sought, and this policy increased the importance of the advance salesman. Nevertheless, the idea that the route
manager should perform part of the advance sales function was not dead, for in 1949 he was being urged to establish a friendly relationship with neighbors of present customers in order to develop them into customers. The desire to eliminate advance selling seems to have been as persistent as the need for it.

Importance of the policy. Advance salesmen are used in the solicitation of new customers in two different environmental situations. One of these is when a new route is being added and new territory is being opened to company operations. In this case the need for advance sales work is clear and is seldom challenged, for new routes are essential to company growth. The second need arises because the rate of customer loss on already existing routes is high, and this method has been found to be the most satisfactory way of keeping buyer count at a satisfactory level. It is this use of advance salesmen which is often criticized, and efforts are made to eliminate it.

The home-service industry has been likened to magazine publishing where circulation departments are kept busy in maintaining subscriber lists. Every time one customer decides to discontinue her relationship with the company a replacement must be found, or eventually a point will be reached where the route is no longer profitable. The pattern of buyer count fluctuation for the company from 1928 through
1951 is given in Table V. External conditions including the existing level of prices and general business conditions affect buyer count somewhat, but it is essentially a reflection of the effectiveness of advance salesmen for the year. The early depression years and the World War II period saw appreciable drops in buyer count; both were followed by rapid improvement when external factors changed.

Customers leave the company for a variety of reasons: a desired premium is earned, and the route manager has not been able to sell another to the customer, and her incentive for trading is gone; removal of customers from areas served by routes furnishes a certain number of unpreventable losses; misunderstandings arise between route managers and customers; and, quite frequently the husband insists on a termination of business with the company. Of course, efforts are made to reduce the rate of customer loss through better selling by the route manager, but it seems that a relatively high rate is inherent in the method of operation. It is quite likely that from one-third to one-half of the names on route rosters are replaced annually, although many of them return later.

Thus, the need for new customer production is clear. Failure to replace lost customers would lead to a gradual decline in sales volume and loss of competitive position. If no other, more economical, method can be found to
TABLE V
AVERAGE NUMBER OF BUYERS PER ROUTE, JEWEL TEA COMPANY, INC., 1928-1951

<table>
<thead>
<tr>
<th>Year</th>
<th>Average number of buyers per route</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>438</td>
</tr>
<tr>
<td>1929</td>
<td>438</td>
</tr>
<tr>
<td>1930</td>
<td>416</td>
</tr>
<tr>
<td>1931</td>
<td>409</td>
</tr>
<tr>
<td>1932</td>
<td>390</td>
</tr>
<tr>
<td>1933</td>
<td>382</td>
</tr>
<tr>
<td>1934</td>
<td>441</td>
</tr>
<tr>
<td>1935</td>
<td>431</td>
</tr>
<tr>
<td>1936</td>
<td>420</td>
</tr>
<tr>
<td>1937</td>
<td>423</td>
</tr>
<tr>
<td>1938</td>
<td>397</td>
</tr>
<tr>
<td>1939</td>
<td>397</td>
</tr>
<tr>
<td>1940</td>
<td>400</td>
</tr>
<tr>
<td>1941</td>
<td>387.7</td>
</tr>
<tr>
<td>1942</td>
<td>360.2</td>
</tr>
<tr>
<td>1943</td>
<td>341.2</td>
</tr>
<tr>
<td>1944</td>
<td>339.0</td>
</tr>
<tr>
<td>1945</td>
<td>364.0</td>
</tr>
<tr>
<td>1946</td>
<td>396.4</td>
</tr>
<tr>
<td>1947</td>
<td>414.0</td>
</tr>
<tr>
<td>1948</td>
<td>434.2</td>
</tr>
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<td>1949</td>
<td>434.6</td>
</tr>
<tr>
<td>1950</td>
<td>425.0</td>
</tr>
<tr>
<td>1951</td>
<td>425.0</td>
</tr>
</tbody>
</table>

1The term "buyer" is synonymous with active customer. It signifies those housewives currently making regular purchases from the route manager, whose route book may contain a number of inactive accounts.

accomplish this goal, the policy of maintaining a force of advance salesmen is sound and will remain in effect. Past attempts to place the responsibility for new business on route managers have been unsatisfactory which is a factor of strength for the policy.

Problems of policy enforcement. Pressure to eliminate the advance sales force springs from two conditions. The first, its costliness, has already been discussed in part. In 1946 a total of 280,140 new customer orders were written by advance salesmen at a cost of $2.36 per order. This made for a total cost of $661,130.40, or 1.9 per cent of dollar sales volume for the year. This percentage figure is typical for most years. When advance selling was in a period of de-emphasis, in 1927 and 1928, the figure dropped to 1.08 per cent and 1.03 per cent respectively. However, less than 82,000 orders were written by advance salesmen in each of these years, and the abandonment of the de-emphasis program is shown in the total orders data for the following years: 120,000 in 1929; 140,000 for 1930; and 170,000, 207,000, 250,000, and 270,000 for 1931, 1932, 1933, and 1934 respectively. The highest percentage was

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2All information given on the costs of advance selling activities was obtained from company records kept in the Sales Manager's office, Jewel Tea Company, Inc., Barrington, Illinois. The latest year this type of data was made available was 1946.

3Numbers rounded to nearest one thousand.
2.27 per cent in 1934 when the dollar cost per order was at a low of $1.10.

The other condition involves the problems inherent to the management of a force of solicitors. Individuals who are capable of success in house-to-house selling work are not easy to find, and they are more difficult to retain. This factor accounts for the high rate of turnover experienced by the company for its force of advance salesmen. Newcomers to this type of employment quit because of discouragement with their personal results and dissatisfaction with the nature of canvassing work, while experienced solicitors leave to seek employment elsewhere, a common personality trait for these individuals.

Little effort has been made by company executives to lower the turnover rate of new advance salesmen; better selection and training procedures should be helpful. Considerable attention has, however, been given to methods of retaining experienced salesmen. These efforts have been centered around compensation plans, probably the correct approach for solicitors are usually persons highly interested in monetary rewards. Although much experimentation with the pay plan for advance salesmen has taken place over the years, its essential element has been a flat payment for each order taken with a guaranteed wage often provided. The plan in use following 1947 included a weekly payment of
thirty dollars plus $1.75 for each order written in excess of fifteen.

Supervision of any form of direct selling activity is difficult. When they are being used to open up new territory, advance salesmen work in crews which reduces the supervisory problem. In the organizational setup of a typical company branch, the manager is assisted by supervisors who have charge of six routes. Each of these supervisors has one advance salesman assigned to him for the purpose of maintaining buyer count on these routes. It is his responsibility to supervise this salesman. Misrepresentation by the advance salesman in his urgency for a sale causes subsequent customer dissatisfaction, thus close control of the selling activity is needed.

Local laws placing restrictions upon house-to-house selling have made advance selling difficult at various times and in various places. Regular route operations are not usually held to be within the purview of such ordinances, as the route manager comes into the home on the expressed or implied invitation of the housewife. The company's legal department must keep abreast with developments in various regions in order to prevent violation of these laws. The direct selling industry has been pursuing a public relations program designed to prevent passage of these restrictions, and little interest has been shown in them since
World War II, possibly due to the high level of business being experienced by most retailers. Various alternative selling methods have been developed to circumvent the restrictions when necessary; these include use of direct mail and telephone selling, the house-party idea whereby the salesman talks to housewives at the invitation of another housewife who has invited them to her home, and the creation of an independent contractor relationship between the company and the salesman instead of one of master and servant. The advance salesman may be legislated out of existence at some future date, but the possibility seems remote.

**Summary and conclusions.** A high rate of customer turnover is characteristic of the home-service industry. In order to keep the number of customers at a high level and to open up new territory as company operations are expanded, a force of advance salesmen is maintained. These solicitors go from house-to-house explaining the company’s method of distribution and premium merchandising for the purpose of persuading the housewife to become a customer.

Attempts to eliminate the advance sales function have been fruitless. Route managers, to whom the responsibility

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4 Based on an interview with a member of the legal staff, Jewel Tea Company, Inc., Barrington, Illinois, August, 1951.
would be transferred, are not usually adept at this type of selling. The maintenance of an advance sales force appears to be essential to company success, and the legal, supervisory and compensation problems which it causes must be met with fortitude and ingenuity.

The policy furnishes an excellent example of the tenacity of established procedures. Advance selling was a basic part of the method of operation in use when Skiff and Ross first entered the home-service industry; cogent reasons for its abandonment have been presented many times, but the original way of doing things remains. The performance of a necessary function cannot be eliminated.

II. MERCHANDISING AND PRICING

Statement of policy. Merchandise shall be priced competitively with other retail outlets. The guiding principle shall be for the achievement of high sales volume resulting from relatively low prices and profit margins rather than a policy of relatively high gross margins and consequent low volume of sales.

History of policy adoption. That the traditional pricing philosophy of the company prior to 1942 was one of high gross margins is clearly indicated in the minutes of board of directors meetings. For example, during the re-entrenchment period following World War I concern was shown
because the gross margin being achieved had dropped to thirty-seven per cent. It was felt at this time (1920) imperative that an overall gross margin of forty per cent be realized. Coffee, which contributed from fifty-five to seventy-five per cent of total sales volume, was returning only thirty per cent, thus creating a neat pricing problem. Price-raising was selected as the solution; gross margins were increased; and, a pattern for future policy had been set.

Record-keeping prior to 1919 was limited, therefore profit data are not available for the Skiff-Ross era. It was estimated by the new management that a gross profit of approximately fifty per cent had been experienced, but at the same time it was deemed unlikely such results could again be attained, for the competition of chain grocery stores would prevent it. This was a period of executive pessimism when thought was given to abandonment of route operations as economically infeasible.

By the end of September 1920, a gross margin of forty-five per cent was being obtained, although sales volume on an unit basis was following off. It was estimated by the president of the company that a fifty per cent margin would soon be achieved, as unprofitable routes were eliminated and the quality of operating personnel improved. The company returned to a profit-earning status in February 1921.
When Maurice Karker became company president in 1924, he started a drive for profits attacking from all three possible approaches: increased sales volume, reduced expenses, and higher prices. His success was varied. Attempts at sales volume increases were least successful, although over the eighteen years of his leadership, sales increased as more routes were placed into operation. Expense control was his forte, but increased prices were also prevalent. Karker's merchandising policy was simple: high gross margins were the principal goal. When new items were being considered for possible addition to the product line, Karker would ask its cost and then inquire whether it could be sold for a certain amount which would be the cost plus the gross markon he thought the company should receive. If the answer was favorable, the item was added. Often merchandise which was not in great demand was taken on, later to be sold at a loss. His first consideration was profit per unit, rather than total sales potential.

Possibly the most important decisions concerning merchandising and pricing policy ever made by company executives came in 1943 when President Lunding sought board

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5 See Chapters VIII and IX for discussions of two attempts aimed at increased sales volume which failed.

6 Based upon an interview with Oliver J. Corbett, Secretary-Manager, National Tea and Coffee Merchants Association, at Columbus, Ohio, March 29, 1952.
Karker, then chairman of the board, argued that such a merchandising philosophy, based upon grocery chain store operational methods, was inapplicable to route operations. The methods of operation were, he felt, vastly different, for whereas advertising brings customers to food stores at a low individual cost, the Routes Department must rely upon personal salesmanship with its costly labor charges. At this time Lunding also challenged the strategy of establishing slow-moving merchandise by price inducements and liberal granting of profit-sharing credits. If an item was found to be incapable of producing a minimum of ten dollars per week per route in sales volume, he felt it should be eliminated from the product line. A merchandising policy aimed at finding items capable of sales volume based upon consumer demand was taking form; these products would be sold rather than merchandise which could return a specified gross margin.

Lunding's merchandising philosophy was tried when World War II ended. The Clinton, Iowa branch was chosen as a test area for a number of new merchandising and route operation ideas. The experiment started on January 9, 1946, with an ultimate goal of a company-wide average of $500 per week, per route. This was to be accomplished by a reduction of prices resulting in an increase in sales volume. The
planned pattern called for one-third of sales volume to be in coffee which would bear a thirty per cent gross markon, while the remaining two-thirds was to be obtained through the sale of other grocery products and general merchandise items carrying an average gross margin of forty-five per cent. This would give an average gross margin of forty per cent. To implement the drive for increased sales volume, instalment credit sales were introduced, a new compensation plan for route managers was adopted, and closer supervision of route operations provided by assigning more assistants to the branch manager's staff. The Clinton Plan, with modifications, was given company-wide adoption in September 1946. The plan had to bring about material increases in sales volume, if it was to be considered a success; this was accomplished, and the new merchandising philosophy had become firmly established by 1951.

**Importance of the policy.** Total retail sales for the company almost quadrupled in the ten-year period from 1942 through 1951. (Sales were $53,000,000 in 1942, and $209,000,000 in 1951.) There were many reasons for this

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7Chapter VII contains a discussion of instalment selling.

8Chapter VI contains a discussion of compensation plans.

9Annual Report 1951, Jewel Tea Company, Inc., p.22. (Numbers rounded to nearest million.)
increase, including changes in price levels, increased sales by the Food Stores Department, number of routes in operation, instalment and mail-order selling, etc. Certainly no small part of this increase was due, however, to the low margin-high volume strategy employed by the Routes Department. In the post-war period a rapid rise in living costs took place, and while consumer resistance to rising prices was not great for any merchandise line, particularly durable goods, most resentment was directed at the increased costs of housing and food. In this environment, it is quite possible sales would have been difficult to obtain under the former high-margin policy. The timing of the new policy seems to have been ideal.

This change in merchandising policy started a new era in management thinking which was to be customer-oriented. Consumer demand came to be the uppermost consideration in decisions respecting the product line. This factor had salutary effect on field personnel, for a feeling of service instead of high pressure selling could prevail when the route manager called upon the housewife.

Problems of policy enforcement. Achievement of the pricing pattern established under Lunding's low-margin policy did not take place completely. A serious obstacle has been coffee-pricing, always a troublesome problem for
management in the home-service industry. As coffee prices became higher they were more generally used by grocery chain stores and supermarkets as a means of attracting customers. As the margin on coffee was lowered in order to make its price more competitive, other items in the product line had to be raised, if the over-all planned margin was to be realized.

Even without the coffee pricing problem, competitive pricing is not an easy matter for the company. Some important truths are to be found in Karker's objection that the differences between route and food store operating methods make competitive pricing impracticable. While some deviation from the policy has resulted and merchandise is priced higher than the established goal, significant steps have been taken to retain the principle of competitive pricing. These moves center around fundamental changes in the product line with food items receiving less emphasis and general merchandise receiving increasing importance in the line. Such items normally bear higher markons than grocery merchandise and apparently can be sold by the company on a more equally competitive basis with drug, furniture, and variety stores, as well as mail-order firms, than food items can be sold against the competition of chain food

10Chapter VIII contains a discussion of the problem.
stores and supermarkets. Furthermore, instalment and mail-order selling have been developed to facilitate the sale of these general merchandise goods.\[11\]

**Summary and conclusions.** The company has a policy of pricing goods competitively with regular retail outlets. It was adopted in an attempt to create greater sales volume. President Lunding proposed its adoption in 1943, and real impetus was given to the idea in 1946. His experience in the Food Stores Department was genesis of this low margin-high volume pricing plan, and it has led to an extensive change in emphasis in the company product line, including the sale of more general merchandise items. In turn, this has been an important factor in the adoption of instalment and mail-order selling by the company.

When first presented, the new policy had as its goal the improvement of earnings possibilities for route managers in order that better personnel could be retained on the company roster, but it soon involved more fundamental implications. The policy formulation process was a simple one: a merchandising philosophy which had long been successful in the operation of food stores was transferred to route operations and applied as far as circumstances permitted.

\[11\] Instalment selling by the company is discussed in Chapter VII, while mail-order selling activities are explained in Section III below.
permitted. The dissimilarity between the methods of operation did not permit complete adaptation, so new policies were born out of the competitive pricing idea.

III. MAIL-ORDER SELLING

Statement of policy. The company shall engage in a mail-order selling operation in conjunction with its Routes Department.

History of policy adoption. The competitive pricing policy discussed above necessitated the addition of merchandise carrying a relatively high gross margin to the company product line. The company had been selling premiums to customers for a number of years but in an unorganized manner; however, mail-order selling evolved from this practice. The activity, known as the "Catalog Shopping Service" by company employees and customers, employs a method of operation which has been described as follows:

Customers order catalog merchandise in the usual manner from Route Salesmen who, in most cases, prepare and forward individual orders directly to Barrington for processing. Delivery is made by parcel post (other means of shipment are also used when service and economy dictate) direct to the customer's home. Merchandise handled by this method is subject to the same guarantee of satisfaction, and the same credit privileges as items displayed and delivered by Route Salesmen.12

At the October 14, 1942, meeting of the board of directors, Lunding suggested that the company get some experience in mail-order selling and proposed that "Vitamin Jewels," a health product developed by the firm, be sold by the method in areas not covered by route operations. Although the plan apparently was never tried, the idea had been implanted and was to be considered at a later date. In 1943, the company sold special Christmas merchandise for the first time; of course, these promotional activities were restricted by the space limitations of the route manager's delivery truck, but once again an idea had been introduced which would have an important place in future developments.

After the war ended the purchase of a small, yet well-known, established mail-order firm was considered, but the idea was abandoned as it was felt that two methods of distribution were incompatible for integration. The investigation did result finally in company publication of quarterly premium catalogs similar to mail-order catalogs. Merchandise listed was to be shipped upon order directly from the company's warehouse in Barrington, Illinois. This was in 1951, when the full-scale mail-order operation was launched.

A number of experimental promotions had been conducted prior to the final adoption of the policy. These promotions included the sale of a house-dress, or three
pairs of nylon hose, for $2.90 in the fall of 1947. Later in the year a chair designed to facilitate telephone use was added to the mail-order line, and over 8,500 orders for the three offers were filled during the last three months of the year, bringing in more than $30,000 in sales volume. Cigarette lighters and lipsticks were added the following year, but the plan was abandoned because of lack of interest on the part of route managers.

Revived again in 1949, mail-order selling was more aggressively pursued. The turning point came in March 1950, when the Bulova Watch promotion was started, for by June 30, nearly 3,500 watches retailing at $136,000, had been sold to Jewel Tea Company customers by route managers for mail-order delivery. Schick Electric Razors were also sold, and total sales volume equalled one million dollars for the year. With the publication of catalogs the merchandise line has grown rapidly; forty-one items were featured in the Christmas 1951 catalog, and more than eight hundred non-food items with over 4,500 color and size combinations were contained in the catalog to be distributed early in 1952. Among the items offered for sale were room-sized rugs, sporting goods, silverware, rainwear, power tools, furniture, and nursery equipment and supplies.

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13 Ibid., p. 7.
Importance of the policy. Contributions to total sales volume alone justify the mail-order merchandising strategy. The first full year that a formalized mail-order department was operated was in 1952, a year beyond the scope of this study; however, inclusion of results for the year seems warranted, if a true picture of its importance is to be presented. During the year nearly fifteen million dollars' worth of general merchandise was sold through the Catalog Shopping Service. With a company sales volume of $226,000,000, mail-order sales equalled approximately 6.5 per cent of all sales; if Routes Department sales are assumed to have been forty per cent of total sales, this percentage is raised to more than sixteen per cent of Routes Department sales. It is quite likely the performance of the mail-order facet of Routes Department operations will improve in succeeding years, for procedures and promotional techniques should be perfected with the passage of time.

The importance of the policy in the maintenance of sales volume of coffee and other grocery products has already been discussed; competitive pricing of these items has been made possible by the higher gross margins obtained from the sale of general merchandise by the mail-order method. The operation fostered the extension of the product

\[14\text{Ibid.}, \ p. \ 7.\]
line and permitted the addition of bulky items which could not have been sold previously.

Furthermore, the subtle sales strategy which opened greater opportunities for volume should be noted. Regular mail-order houses rely on various advertising media to create interest in their propositions. Often this function is performed by a catalog wherein merchandise is illustrated and described. In either instance personal persuasion is lacking, but in the case of the Jewel Tea Company a catalog is placed in the hands of an already existing customer by a route manager known to her. Faith in the route manager and the company has been established. To this favorable set of circumstances is added a bi-weekly request for an order by a man whose compensation is based upon sales volume. Moreover, an important customer objection to buying from the company has come from the husband's opposition to trading with a home-service company. This form of customer resistance is lessened by the inclusion of merchandise with a masculine appeal in the product line.

Problems of policy enforcement. When first introduced, mail-order selling failed because of route manager apathy. Once the line was extended to include a number of items with prices ranging to nearly one-hundred dollars, the interest of route managers was forthcoming, and the plan met with success. The importance of acceptance of any policy by
the field force is illustrated by the history of the mail-order selling policy of the Jewel Tea Company. No other serious problem was encountered in the carrying out of the policy. Capital needs increased, sources of supply had to be cultivated; and warehousing, packaging, and order-filling procedures suited to mail-order selling had to be developed. By gradual entry into the field these techniques were handled in a satisfactory manner.

**Summary and conclusions.** The policy was formulated in this instance as a possible solution to a pressing problem, i.e., the need for the sale of more general merchandise items in order to obtain a higher gross margin thereby permitting competitive pricing of coffee and other food products. It came as the result of a conscious search for a new method of operation. A technique used by other merchandising firms as their primary operational plan was ingeniously grafted onto the company's own method in a manner which seems destined to success.
CHAPTER VI

SALES MANAGEMENT POLICIES

Sales management is "the planning, direction, and control of personal selling, including recruiting, selecting, training, equipping, assigning, routing, supervising, paying, and motivating as these tasks apply to the personal sales force." Most of these activities, as performed within the Jewel Tea Company, are examined in this chapter.

The discussion has been divided into three parts. First, those policies which affect the route managers directly, as human beings, such as how they are hired, trained, paid, supervised, and stimulated, are analyzed. Such policies are particularly vital to direct selling organizations especially when each route manager works as an individual rather than in a group.

The second part deals with the policies affecting the things that the route managers use in the performance of their jobs: their trucks, warehouses, and store-rooms, and where they work (their routes) and what is expected from them (their sales quotas).

Third, the attitudinal climate that exists between

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the management of the company and its employees is considered. Added together these three areas of activity largely determine whether a particular firm is a satisfactory place of employment or not. Thus, policies affecting them are serious matters in the success or failure of a company that relies so heavily upon its employees for the carrying out of its economic function.

Recruitment and selection.2 The recruitment and selection of operative employees for branch activities are functions of the branch manager. The performance of these duties is completely decentralized and is among the most important tasks resting in his hands. The heart of the home-service method of operation is the route manager, and only policies affecting this vital operative employee are discussed in this section, although the branch manager has the responsibility of maintaining a force of employees who perform office, warehouse, and advance selling duties. If the routes are manned by capable managers, most branch problems are routine in nature; thus, all policies affecting

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2A departure in the manner of exposition is made in this chapter. Instead of discussing the history, importance, and problems of each subdivision of sales management, these sub-functions are described as performed in 1951 with historical references included when considered to be essential. The company has done little policy formulation of a formal nature in the sales management area; thus a detailed discussion is not possible.
them are important, but if recruitment and initial selection have been well done, other facets of sales management become less troublesome. These jobs must, therefore, be done carefully.

Most branch managers have found informal recruitment to be the most satisfactory method. When a vacancy occurs, other route managers, and sometimes customers, are asked to help find a replacement. Husbands of customers and friends of employees appear to be the best source of new route managers, for they are familiar with the method of operation and the nature of the job. Advertising placed in the classified sections of local newspapers is the usual method of recruitment when it is necessary to do so in a formal manner.

The amount of selection that is done among applicants is largely a reflection of the local labor market, for the branch manager must be realistic. It is in this process, however, that the seeds are planted for future problems of supervision and high rates of labor turnover, and time spent in doing the job well is amply rewarded. Only three restrictions are placed on the branch manager when hiring new employees. They must pass a physical examination, furnish a bond, and submit satisfactory references. The route manager's job requires sufficient physical fitness to drive an automobile, to lift medium-weight loads of
merchandise all day, to be outdoors in any kind of weather, and to work hard for many hours. Otherwise complete freedom is given the branch manager in employee selection.

Thus, the selection process varies from branch to branch and is not standardized. The branch manager must rely on his judgment as to the personality and character of applicants and their chances of success on the job. Intuition plays an important part, but certain qualities should be sought. The man must have attained a certain level of education in order to perform the clerical duties of the job and to make a favorable impression on customers. Furthermore, an aptitude for selling is desirable, for the route manager must sell premiums and merchandise in the product line if the full potential of his route is to be obtained. The intangible nature of the hiring process makes for mal-performance. Assistance should be developed by personnel technicians so that the job can be done more uniformly and satisfactorily without taking away from the branch manager his prerogative of choosing the men under his supervision.3

3Some attempts have been made to provide the branch manager with selection tools. See H. H. Maynard and Herman C. Nolen, Sales Management (revised edition; New York: The Ronald Press Company, 1950), pp. 256 and 261, for illustrations of forms furnished by the home office to assist the branch manager in selection process. One of these is a weighted application blank, and the other is a record and guide to be used for a telephone check-up of references furnished by an applicant.

On occasion the district manager, or home-office
Training. The mechanics of the route manager's job are relatively simple and can be easily learned, therefore the training period can be short. The new route manager is prepared for his job by means of an on-the-job training program lasting two weeks. The process is a decentralized operation within a broad outline furnished by the home-office staff of the Sales Manager.

The first step in the program is general orientation which includes a talk with the branch manager about the job and its opportunities and employee benefits and obligations, followed by observation of various aspects of the branch operation such as advance selling, warehousing, and record-keeping. Instruction is given in route truck driving and elementary warehousing. Each route manager maintains a stock-room which contains merchandise for delivery during the week, and he must know how to arrange stock, order-pick, and load his truck. Furthermore, he must be taught the intricacies of route record-keeping which often proves to be the most difficult part of the job to learn. Usually two days are used for these phases of the training program.

The remainder of the first week is spent "riding the route," as it is called by company personnel. This activity personnel, may assist a particular branch manager perform the selection function when the turnover rate among route managers seems to be excessive. This aid is actually a form of coaching.
consists simply of accompanying a regular route manager while he makes his deliveries. After this period of observation, the new employee operates his own route under the supervision of the trainer. This completes the program, and on the third week he is on his own. Of course, frequent follow-up visits are made by his trainer during the early weeks of route operation. Training of route managers is individual which augments its costliness and intensifies the need for good selection. If both selection and training are well-done, the rate of personnel turnover should remain within desirable limits. Otherwise, the wastes springing from repeated training of new employees can become a most serious drain on profits.

Compensation. Effective January 30, 1950, the following compensation plan for route managers of the Jewel Tea Company was inaugurated: if the collections average⁴ for the week is $14.49 or less, the commission rate shall be ten per cent on those collections; for collection averages between $4.50 and $4.99 for a week, the commission rate shall be eleven per cent, and for collection averages of $5.00 and

⁴This is a realized sales figure. Instead of taking the sales figure, the company prefers to recognize, in compensating route managers, money actually collected. Sales resulting from credit extension, either through the exercise of the one-trip credit rule or by use of the budget plan, are not counted until payment is made.
more, twelve per cent with no limitation placed upon possible earnings. A guaranteed wage of forty dollars per week shall be paid regardless of sales volume achieved.

This plan is similar to those used by the company in the past; compensation of route managers has always been tied directly to the volume of sales. The mechanics of the plans in force, however, have been changed and adjusted frequently, for management has felt that the chief motivating force behind the route manager lies in his pay. Thus, the most stimulating combination has been sought.

The home-service method of operation makes the route manager an independent operator, for as he moves from home to home, personal supervision of his activities is difficult and costly. Although control records are helpful, the company must rely heavily upon self-supervision by the route manager himself. A compensation plan which contains sufficient motivation does much to insure the presence of this desirable condition; if the rewards are deemed satisfactory, the need for supervision of the route manager is minimized. This furnishes an important argument for a plan which places no limitations on potential earnings and compensates in direct ratio to results obtained.

The many changes that have been made in the compensation plan for route managers have been occasioned by fluctuations in management thinking between this principle and
and the arguments for guaranteed wages of relatively high amounts. At times the guaranteed wage has hardly, if that, assured the employee of a subsistence standard of living, while at other times it has approximated the prevailing wage scale for comparable work.

The guaranteed wage receives emphasis when the labor market is tight and workers scarce. It is adopted to lessen the rate of route manager turnover by providing a certain amount of security of income. Many men do not have the personality make-up which allows them to work effectively when no assurance of reward is provided. Such plans are usually unduly favorable to low producers of sales volume, and turnover continues, albeit among good producers rather than the other group. While most turnover occurs on low-volume routes, the adoption of a compensation plan which penalizes high productivity is unwise. An ideal plan should make provisions for carrying the new route manager operating a low-volume route until satisfactory results can be obtained, yet allow the majority of the men to earn high rates of commission based on sales volume.

The company offers its employees a variety of rewards in addition to their basic pay. Although profit-sharing is not widely accepted by American business firms, the Jewel Tea Company has been a leader among merchandising organizations in letting employees participate in company earnings.
Its plan is known as Jewel Retirement Estates (JRE) and was established in 1938, as an outgrowth of a profit-sharing plan for executives started in 1924. The plan is a combination profit-sharing and savings program for employees. Money is placed in a trust fund from two sources: contributions from the company based on a profit-sharing formula, and weekly payments by voluntarily participating employees. Company contributions are allocated to individual employees on the basis of their own contributions and their wages. At time of retirement employees are paid their share in the fund in a lump sum.

Company contributions to the JRE fund are shown in Table VI; they equalled 6.16 per cent of regular salaries paid in 1950. The extent of other employee benefits including vacations, holidays, coffee-time, health and sickness insurance, Social Security, workmen's compensation, etc., is also shown in Table VI. All in all, Jewel Tea Company employees received benefits in addition to salary in excess of nineteen per cent.

**Stimulation.** As in the case of most direct selling organizations, the Jewel Tea Company uses contests as an important motivating factor. They have often been employed in the achievement of specific performance goals. An outstanding illustration is to be found in the "Ephraim" contest held in 1934. Ephraim was a hypothetical mule upon


TABLE VI

EMPLOYEE BENEFITS AS A PERCENTAGE OF REGULAR SALARIES
PAID BY THE JEWEL TEA COMPANY, INC., 1950

<table>
<thead>
<tr>
<th>Employee benefits</th>
<th>Percentage of regular salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular salaries, but excluding benefits below</td>
<td>100.00</td>
</tr>
<tr>
<td>Employee benefits:</td>
<td></td>
</tr>
<tr>
<td>Vacation pay</td>
<td>2.92</td>
</tr>
<tr>
<td>Holiday pay</td>
<td>2.39</td>
</tr>
<tr>
<td>Paid coffee time</td>
<td>2.63</td>
</tr>
<tr>
<td>Christmas bonus</td>
<td>--==#</td>
</tr>
<tr>
<td>Other cash bonus</td>
<td>.21</td>
</tr>
<tr>
<td>Merchandise awards</td>
<td>.76</td>
</tr>
<tr>
<td>Net package plan cost**</td>
<td>.92</td>
</tr>
<tr>
<td>Workmen's compensation</td>
<td>.35</td>
</tr>
<tr>
<td>JRE (Jewel Retirement Estates)</td>
<td>6.16</td>
</tr>
<tr>
<td>Social Security tax</td>
<td>2.10</td>
</tr>
<tr>
<td>Employees' welfare (including cafeteria loss)</td>
<td>.64</td>
</tr>
<tr>
<td>Supplemental Retirement for old-timers***</td>
<td>.01</td>
</tr>
<tr>
<td>Total Employee Benefits</td>
<td>19.09</td>
</tr>
</tbody>
</table>

* None paid, 1950
** Company health and sickness insurance plan
*** Fund for employees whose terms of service were mostly before the creation of Jewel Retirement Estates

* * *

whose back was loaded 1,750,000 pounds of coffee; route managers were to get the mule back to the barn by selling that quantity of coffee in four weeks. This was at a time when coffee sales were being stressed as part of the merchandising strategy. Although no other contest has probably been as successful, all of them follow a similar pattern. Rewards run the gamut from cash payments, merchandise prizes, and vacation trips to Chicago, to self-starters for automobiles. The last-mentioned article furnished the basis for the most ingenious contest in company history. The self-starter was the current sensation in automotive equipment in 1925; its installation in company delivery trucks cost fifty-five dollars but made route operation easier, especially in cold weather. Route managers who achieved a certain level of performance during the contest period had the mechanism installed in their trucks as a reward. Unfortunately, most contests are uninspired and lack originality; this condition coupled with constant use of the device has dulled their effectiveness as a stimulant to added effort.

**Supervision.** Route operations are supervised by the branch manager; he is aided by an assistant branch manager and a force of supervisors, usually one for each six routes in the branch. The route method of operation makes close supervision difficult, as route managers are spread
geographically and are constantly moving in the performance of their duties. A certain degree of supervision is provided by various records submitted to the branch office; furthermore, periodic checks by field auditors are helpful, as are customer complaints, in detecting unsatisfactory performance. However, these devices merely reveal the existence of a condition, while management should be informed of its imminency.

To observe the activities of the route manager unnoticed is impossible, and the only form of personal supervision available is to accompany him while operating the route. This has the obvious shortcoming that the man knows he is being watched and his actions may not be typical; nevertheless, a keen supervisor undoubtedly is capable of perceiving instances of the violation of rules and regulations.

Fortunately, most supervision has a more affirmative aspect in the form of constructive criticism of selling and route operation techniques being used. These are often well-received, for they result in increased sales which means more money for the route manager. The supervisor who goes with the route manager on his deliveries is primarily acting as a teacher, and negative supervision is confined largely to customer complaints, analysis of records, and the activities of field auditors. Men who have
been well-selected and trained and are compensated under a plan which motivates performance do not need much supervision once they have become firmly established in their jobs.

**Summary and conclusions.** Sales management activities of the Jewel Tea Company which affect the route manager directly are, to a great extent, decentralized. Recruitment, selection and training of new personnel, as well as the supervision of all employees, are the sole responsibility of the branch manager. He is given considerable freedom in the performance of these duties; any method of recruitment can be used, a minimum of qualifications are set down to guide him in making personnel selections, and the training program is outlined only in the most general terms. Moreover, supervisory methods to be used are likewise left largely to his discretion. The branch is operated in an independent manner with end-results determining whether the job is being done effectively. District managers check branch activities to determine whether this is being accomplished.

On the other hand, compensation plans are devised centrally and applied to all branches. Stimulation of route managers is often sought by means of contests which are also company-wide. All in all, the greatest need in the sales management area is for better selection and
training of route managers. The development of better qualified branch-level management plus better home-office guidance should bring improvement.

II. POLICIES AFFECTING ROUTE OPERATIONS

Route expansion. Whereas the branch manager is given relatively complete freedom in the performance of policies affecting the route manager, the converse is true for those affecting route operations. In the later case, rather definite limitations are placed upon him. This is well-illustrated in the case of route expansion policies. When a branch manager wishes to add another route to his operations, the proposal must be submitted to home-office executives for approval. The proposed route is studied in relation to its sales potential based upon population, income, and area growth factors, as well as its operating costs including mileage involved. A successful route must be concentrated geographically. All customers comprising one day's deliveries should live as close to one another as possible; otherwise, much of the route manager's time is spent in driving, rather than in selling. Careful route planning is, therefore, essential.

5The term, "route expansion," as used here connotes the addition of more routes to current operations rather than the addition of more customers doing business with individual route managers.
In addition to the merits of any individual route under consideration, over-all policies respecting route expansion must be taken in account. During the early days of the company the only limitation to route expansion was the availability of capital; if there was enough money for the purchase of a horse and wagon, a new route was started. In the rapid expansion of company activities prior to World War I, routes were apparently added at the discretion of the branch manager without any effort being made to evaluate their merits. Following the war a drastic program of route concentration was inaugurated. Many unprofitable routes were completely liquidated, and a policy of intensive selling in concentrated areas instead of in more and more different areas was adopted. In a broad sort of way, this policy of concentrated effort has remained as the guiding principle behind route expansion activities.

Adherence to such a policy is difficult, for it is hard to realize that more business can be obtained from territory already being exploited; this is intensified when contiguous areas could be added by the mere creation of another route. Thus, many deviations from the concentration policy have taken place, although the advantages of concentrated activities, such as economies in transportation, warehousing, and supervisory costs, are obvious. These savings, of course, must be weighed against possible
An interesting departure occurred in 1938, when a "Farm Routes Program" was tried by the Jewel Tea Company. A common misconception about the home-service industry is that it serves rural customers primarily, while the opposite is true, for most routes have always been operated in cities and towns. At the time, however, company executives felt that they were missing an important market in the farm trade, so an experiment was tried in the northern one-third of rural Illinois where routes were established to call at farm homes. It was assumed that increased volume of sales per call would counterbalance the anticipated higher operating costs sufficiently to permit profitable returns from the venture. The assumption was unwarranted, for farm customers purchased in quantities similar to their city counterparts, and the program was discontinued before the end of the year. Experimentation has taken place from time to time with a weekly delivery plan which would have the effect, if adopted, of doubling the number of routes in operation; however, the idea has never proved successful.

Following World War II, a whole new merchandising program was adopted by the company which was aimed at raising average weekly collections per route. Route

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Chapter IV contains a discussion of this policy.
concentration was a part of the program, and in 1946, it was decided that branch managers would not be allowed to start a new route until all routes in their branches had achieved a collections average of three hundred dollars or more per week for a twelve-weeks period. Steady addition to the number of routes has been made in the postwar years, mostly in territory where the company was already operating. Expansion came to be thought of as not merely the number of routes in totol, but the number of routes functioning profitably. The lessons learned from the ill-starred expansion of 1916, were not forgotten, and routes were added one at a time and were built into strong units before further expansion was permitted.

**Route equipment and facilities.** Branch operating equipment consists primarily of route delivery trucks which are similar in construction to those used by home-delivery dairy and bakery firms. Home-office executives have the responsibility of authorizing the purchase of equipment needed for route operations, as well as the regulations for its maintenance. This responsibility reposes in the Sales Operations Department of the Sales Manager's office. When new delivery trucks are desired by the branch manager, he submits a request which is studied with the age and condition of the equipment to be replaced and the amount of funds allocated for such expenditures acting as the determining
factors in the decision. If the request is approved, the branch manager seeks competitive bids from local automobile dealers and the vehicles are purchased from the lowest bidder. The trucks, of course, must meet the specifications set down by home-office personnel.

Routine maintenance expenses incurred through the operation of route trucks, such as gas, oil, and minor repairs, are taken care of at the discretion of the route manager and paid for by him from company funds in his possession. Later, the paid invoices are turned into the branch office in lieu of cash collections. Major repairs, that is those costing more than fifty dollars, must be approved in advance by the branch manager who pays for them by checks issued from the branch office. Inasmuch as the company operates a large number of vehicles in geographically spread areas, the self-insurance principle is used to cover the hazards of motor vehicle operation except for those of excessively large personal liability claims. This type of risk is covered by insurance policies purchased on a company-wide basis by home-office personnel.

The provision of route equipment is an interesting facet of company history. Prior to adoption of automotive equipment, only the wagon was centrally purchased, while the branch manager, or sometimes the route manager, had the responsibility for the acquisition of the horse. This was
either purchased outright or rented from a livery stable. Once the automobile was perfected to the point where its costs of operation became lower than the old method of horse-drawn wagons, the latter disappeared. The changeover, once started, was rapid; nearly three hundred routes were converted from horse-and-wagon to automotive operations in 1922, and by 1925, the entire company had been motorized. All routes were equipped with postwar delivery trucks scientifically designed for the home-service industry in 1951.

The most important branch facility is its warehouse which is leased through the efforts of the Sales Operating Department. This building contains storage space for merchandise prior to its dispersal to route managers and is similar to a chain store warehouse in nature and function. The branch office is usually contained in the building. Each route manager also maintains a storeroom where he can keep merchandise until its delivery to his customers. This miniature warehouse is often located in the garage of the route manager or one of his neighbors. The company pays a rental fee to the owner based upon its size and the local market for such facilities. The arrangement of shelving is prescribed by home-office regulation, and the branch manager must supervise its maintenance by the route manager.

*Sales quotas. Sales quotas per se are not used by
the company, but the average collections per route per week figure has become the standard for the evaluation of route operations. If a route manager exceeds the company or branch average, he is deemed to be doing a good job, although some attention is paid to other criteria of operating efficiency including rate of customer turnover, number of customers served, and the breakdown of sales among different merchandise items in the product line.

Over the years target goals expressed in collection averages for the entire company have been set and efforts made to achieve them. For many years the goal was an average sales volume of three hundred dollars per week for all routes. It was attained for one period just before John Hancock's resignation from the company presidency in 1924, and remained the by-word and elusive goal for the rest of the 1920's. Occasionally achieved for an operating period, it was never reached for an entire year's activity during the decade. The depression of the 1930's caused the sights to be lowered to two hundred dollars per week, but the figure was not reached for an entire year until 1942, when a rise in the price level and consumer income made its achievement easier.

Company thinking immediately reverted to the old $300 goal, soon to be made obsolete by Lunding's postwar merchandising program which set the 1946 goal at $350. The program's success coupled with the postwar inflation permitted
the goal for 1948 to be raised to $600. As this goal became a reality allusions to the day when each route would do an average weekly sales volume of one thousand dollars were heard in sales meetings. This figure has been collected by individual route managers during selected weeks through their successful employment of the instalment and mail-order selling merchandising techniques, yet in 1951, a more realistic view looked at seven hundred dollars as a goal.

**Summary and conclusions.** The long-term trend has been toward a policy of centralized control of those activities closely tied to route operations. Thus, the decision as to whether a new route should be added to company operations is made in the home-office. Branch managers can make suggestions and propose new routes, but the staff of the sales manager closely controls route expansion. This staff operates within the framework of a general policy which provided, in 1951, that expansion should be concentrated in areas where company operations already existed. Expansion was to be intensive rather than extensive in nature.

Since the conversion to automotive vehicles the policy-making function respecting route transportation has been centralized. Delivery trucks are purchased by the branch manager only upon authorization from the home-office force which also sets down minute rules and regulations
concerning their care and operation. As for the storage function, the choice of branch warehouse is made by a home-office representative who negotiates for its leasing, while the selection of the route manager's storeroom is made through the combined efforts of the route and branch managers who must follow definite specifications established centrally for the entire firm.

It is quite natural that the task of setting sales quotas rests in home-office personnel, for these persons can be trained in market analysis techniques and are in a position to see the over-all picture of company policies and potentialities. Therefore, quotas which are determined on a company-wide basis can be more accurately and realistically ascertained than if established in the field. In the case of the Jewel Tea Company, the most important sales quota figure is the collections average per route, per week. A quota is set for the year, as a form of planned sales figure, and other plans such as merchandising strategy, product line, compensation, and so forth, are then made with the idea of aiding in the achievement of the goal. A possible shortcoming to this plan is that the quota does not allow for differences in sales potential between various branches and routes. Furthermore, field personnel have no part in the establishment of the quota which can make for some friction. By and large, field personnel, including
branch and division managers, do little policy-making in the area of route operations, but rather only carry out established policies.

III. MANAGEMENT-EMPLOYEE RELATIONS

The Jewel Tea Company can be accurately labeled as a man-power business. Nearly every operation involves a relatively high ratio of labor costs to sales, thus the company must search for the best possible personnel relations policies and procedures if the labor force is to function efficiently. Tracing the changing attitudes of company management toward employees during the fifty years from 1901 through 1951 is an interesting process which reveals the relative bargaining strengths of the two groups and the influence of public opinion and governmental regulation from time to time.

The position of workers in the United States at the beginning of the twentieth century was tenuous. Trade unionism was just starting to take on virile form; immigration was at a high level, thus, the labor force was being replenished; and wages were low and hours of work long. Skiff and Ross founded their company in this

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7At the year-end 1951, 6758 persons were employed by the company. Approximately one-half of them were engaged in Routes Department activities. Route managers alone numbered more than two thousand. (Annual Report 1951, Jewel Tea Company, Inc., p. 2.)
labor-management climate, and being hard workers themselves they expected similar performance from their employees. Ross, who had charge of selling operations, was a big, outspoken individual whose philosophy of leadership was dominated by fear motivation. Dismissal was the penalty for disobedience or poor performance.\footnote{This information was obtained from Mr. W. D. Smith in an interview at Dundee, Illinois, in June, 1951. Mr. Smith was employed by the company in 1909, where he remained until his retirement in 1949. His knowledge of company activities during this forty-year period is extensive, as he held positions ranging from field auditor to vice-president and secretary.}

World War I, with its shortages of labor, had a great influence on all labor-management relationships in the United States. In 1920, while the Jewel Tea Company was still wrestling with the many problems which the war had fostered, the teamsters' union attempted to unionize its route managers in several midwestern cities. Management adopted a policy which opposed unionization of its employees, and its enforcement necessitated the discontinuance of operations in the Chicago area.\footnote{Routes have never been operated in the city since this time, although the company returned to operations in Chicago when a grocery store chain located there was purchased in 1932. The employees of this operation are unionized.} This policy has remained as the foundation of subsequent labor-management policies.

As often happens after a period of employee unrest
within a company, the management of the Jewel Tea Company assumed, albeit unintentionally, a paternalistic attitude toward its workers. The philosophy adopted by Maurice Karker when he became president of the company in 1924 might well be described as one of "benevolent despotism." His early training in the Navy was revealed in the minute scrutiny made into all company operations and even the personal lives of employees. Their personal habits, such as the drinking of alcoholic beverages, were subjected to examination. This paternalistic attitude had many manifestations; for example, home-office personnel had morning and afternoon calisthenics periods which were supervised by President Karker. His report to the board of directors on the 1925 Branch Managers' Convention held at Lake Delaven, Wisconsin, furnishes a good description of his leadership:

Reveille was blown at 6:30 each morning, and everyone promptly arose, put on their bathing suits and reported for setting-up exercises on the lawn. Immediately thereafter some of the men took a dip in the lake. Mess call was blown at 7:40 A.M., and breakfast was served at 7:45 A.M. The instruction session began at 8:45 A.M., and terminated at 12:45 P.M. At 12:55 P.M. mess call was blown and dinner served at 1:00 P.M. After dinner, the men engaged in various athletic tournaments, such as baseball, tennis, boating, etc., until about 6:00 P.M. Mess call at 6:25 P.M. and supper was served at 6:30 P.M. At 10:45 P.M. each night the men were called to quarters and taps was blown at 11:00 P.M.

Furthermore, all new employees were required to recite a catechism entitled "The Jewel Way" before receiving their first paychecks, and all employees, including executives,
had to be prepared to speak this piece when requested.\textsuperscript{10} The American scene was visited by renewed union activity in the mid-1930's, and once again the company faced the unionization question. It was decided that the policy opposing the practice should be continued; this was successfully done although the bitterness of the struggle in certain cities forced the discontinuance of business in these localities, and the routes located there were sold to be operated under a distributorship arrangement.\textsuperscript{11} The paternalism invoked by Karker no longer fitted, in a realistic way, the needs of the company in its dealings with employees. As the philosophy of driving employees through the use of fear used by Skiff and Ross had given way to the parent-child type of leadership of Karker, the latter, in turn, yielded to a new concept of management-employee relations under Franklin Lunding. Essentially, this philosophy is one of trying to get the employee to produce because he

\textsuperscript{10}The context of "The Jewel Way," which contained more than seven hundred words, is found in Appendix A. Management of the period felt that its memorization had a salutary effect upon company morale. While this is doubtful, management philosophy is clearly reflected in the practice which is similar to that requiring military personnel to learn their General Orders.

It is only fair to state that "The Jewel Way" is a good statement of the home-service method of distribution and does contain answers to many objections often raised by consumers. To this extent, it should have been useful to route managers as a form of standardized sales talk.

\textsuperscript{11}These arrangements are discussed in Chapter VIII.
wants to do so.\textsuperscript{12} Psychological research has found that \textit{autocratic} leadership must be replaced by \textit{democratic} leadership if full performance by employees is to be realized.\textsuperscript{13}

The management of the Jewel Tea Company has adopted what it calls the "First Assistant Philosophy" to implement democratic leadership. The employee's superior is to be considered as an assistant or subordinate to whom he can turn for advice and aid in the solution of business problems. The executives of the company are striving to utilize enlightened personnel management techniques, rather than adhering to rigid policies. This attitude bodes well for future company success.

\begin{footnotesize}
\footnotesubscript{12}Mr. Lunding, in a speech before the nineteenth Annual Meeting of the National Association of Food Chains at Miami Beach, Florida, on October 29, 1952, gave verbal expression to this philosophy. His talk was entitled, "Getting People to Do Things." The following paragraph sums up this philosophy:

How to get people to do things is perhaps the most important question facing business management today. It is a problem for which there is no set of easy answers, because in most businesses as organized today, the executive is no longer the prime mover or doer but has the job of forming policies, setting standards, and making decisions that others can, and are willing to, carry out. He must determine not only what he thinks is right, but what is important to others. This means that today's executive is the chief maintainer, balancer and facilitator of a set of conditions which help people to belong and grow—to contribute and cooperate. If he is to accomplish his purpose, today's executive must believe that people have the capacity and desire for independent growth and under the right conditions will strive to be both productive and mature.

\footnotesubscript{13}Loc. cit.
\end{footnotesize}
CHAPTER VII

CREDIT POLICIES

An interesting comparison between methods of operation can be made by examining the credit policies of the home-service industry and the more common forms of grocery retailing. In a period when most retailers of groceries granted credit in a relatively liberal manner, the Jewel Tea Company had a sale for cash only policy which was enforced stringently in order to reduce operating expenses. Later, when the pendulum was swinging in the opposite direction and many grocery retailers were changing to the cash-and-carry principle with its absence of credit extension, home-service companies were discovering the instalment credit vehicle as a means of increasing sales volume, albeit in lines of merchandise other than grocery items. This change is traced in this chapter, first, with an exploration of the cash-only policy, followed by the story of the adoption of the instalment selling technique.

Statement of policy. Merchandise shall be sold for cash at the time of its delivery.

At the discretion of the route manager credit may be extended for the two weeks' period between deliveries.

Credit is granted on premium merchandise until earned through the accumulation of profit sharing credits given
with regular purchases.

History of policy adoption. Under the Skiff-Ross management a very liberal credit policy apparently prevailed. The nature of the operation was one of service, including the usual functions of delivery and credit plus the added service, if it may be so labeled, of the premium. To a large extent, the company had to meet the competition of regular grocery stores which granted credit in those days. Furthermore, the partners were expansion-minded men. To them increased sales volume was the primary goal of business operations, and credit extension helped in its achievement. Credit losses, however, reached a point where some action was advisable. At what time the company adopted its sale for cash policy is not known, but it was around 1910.

A problem inherent to the home-service method of operation made the one-delivery exception necessary. On some occasions when the route manager arrives on his bi-weekly delivery call, the customer is not at home for one reason or another. In order to avoid making a return trip, termed a "call-back," the order is left with a neighbor and collection postponed until the next trip. On other occasions the housewife may be temporarily out of funds, and again credit may be extended until the next delivery. The alternative in these two situations is to refuse delivery and hazard the loss of customer good-will.
Many loose control methods were noted by the new management during the company's critical period following World War I. One of these was the high bad-debt loss incurred. In the latter part of 1920, an experiment aimed at the solution of this problem was made. One route in each branch was placed on a "strictly cash basis." The entire business was to be placed upon this plan effective January 1, 1921. Whether this was actually accomplished is uncertain, for when Frank Ross made his severe attack upon the new management in August, 1921, his criticism of the write-off of overdue accounts was answered by a claim that better accounting methods, which were being adopted, should reduce the bad-debt loss in the future. Furthermore, it was pointed out that a definite procedure had been established to supervise accounts with the responsibility for credit placed on the branch manager. It can be inferred from this discussion that the policy was never put into effect.

When Maurice Karker became president of the company in 1924, control measures became increasingly important. It was announced that as of January 1, 1925, the one delivery credit policy would be enforced rigorously with the route manager assuming all losses for credit extended in violation of credit policies. The last mention of the policy to be found in the minutes of the board of directors is a report by the president in 1933, that it had not been suspended
during the bank holiday; customers were allowed credit for the regular two weeks period.

**Importance of the policy.** Bad debt losses can be serious drains on the financial operations of any company. Any such loss is in effect a deduction from profits. Even with stringent credit policies in effect the Jewel Tea Company does not escape these losses entirely, as is shown in Table VII, which reveals that they range from one-half of one per cent to more than one and one-half per cent of sales annually. The route manager operates independently without the assistance of a credit manager or a local credit bureau and under the pressure of a compensation plan based upon sales volume. Without the limitations on credit extension placed upon him, losses undoubtedly would be larger.

**Problems of policy enforcement.** Customer resistance to the cash sales policy has diminished to a point of insignificance since grocery retailers in general have adopted the cash-and-carry principle. Previously the policy had been somewhat difficult to enforce because the housewife was accustomed to receiving credit when making grocery purchases. Only when the route manager deviates from the policy, either because of personal weakness or because he is inordinately anxious for sales, does policy enforcement become important.

The one-delivery exception gives rise to a need for
TABLE VII

PREMIUM AND GROCERY BAD DEBTS (AT COST)
AS A PERCENTAGE OF SALES, JEWEL TEA COMPANY, INC.
1925-1951

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent bad debts to sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>.89</td>
</tr>
<tr>
<td>1926</td>
<td>.65</td>
</tr>
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<td>1927</td>
<td>.54</td>
</tr>
<tr>
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<td>.78</td>
</tr>
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<td>1929</td>
<td>.98</td>
</tr>
<tr>
<td>1930</td>
<td>1.16</td>
</tr>
<tr>
<td>1931</td>
<td>1.35</td>
</tr>
<tr>
<td>1932</td>
<td>2.50</td>
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<td>1933</td>
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<td>.60</td>
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<tr>
<td>1950</td>
<td>.55</td>
</tr>
<tr>
<td>1951</td>
<td>.64</td>
</tr>
</tbody>
</table>

capital funds. The average credit balances per route carried on company books for the three forms of credit extended, grocery, premium, and budget plan, are shown in Table VIII. The total capital needed for extension of credit on grocery balances exceeded one million dollars ($571 \times 2,069 = $1,180,499) in 1951. Almost all of this amount resulted from granting credit to customers for two weeks as provided by this rule.

The premium merchandising activities of the company bring about a more serious problem of credit extension. During the period of time the customer is earning her premium, she is granted a form of credit, for the cash sales policy is inapplicable. The merchandising strategy employed necessitates the offering of a premium which is attractive and of some relative value if its function is to be performed; moreover, the customer must be persuaded to select another premium when the previous one is about to be earned through profit sharing credits given for purchases, otherwise she may discontinue her patronage. Thus, capital needed for the financing of premium balances is much greater than for grocery balances, (see Table VIII). For 1951, the amount totaled more than three and one-third million dollars ($1,617 \times 2,069 = $3,344,483). Limitations have always been placed upon premium balances, or the amount would undoubtedly be greater. For example, the
<table>
<thead>
<tr>
<th>Year</th>
<th>Average Grocery Balance</th>
<th>Average Premium Balance</th>
<th>Average Budget Plan Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937</td>
<td>$205</td>
<td>$2,296</td>
<td>$</td>
</tr>
<tr>
<td>1938</td>
<td>180</td>
<td>1,811</td>
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</tr>
<tr>
<td>1939</td>
<td>184</td>
<td>1,771</td>
<td></td>
</tr>
<tr>
<td>1940</td>
<td>172</td>
<td>1,823</td>
<td></td>
</tr>
<tr>
<td>1941</td>
<td>142*</td>
<td>1,518**</td>
<td></td>
</tr>
<tr>
<td>1942</td>
<td>169</td>
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<td>1943</td>
<td>175</td>
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<td>1944</td>
<td>246</td>
<td>1,251</td>
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<td>1945</td>
<td>311</td>
<td>1,293</td>
<td></td>
</tr>
<tr>
<td>1946</td>
<td>488</td>
<td>1,497</td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>1,161***</td>
<td>1,707</td>
<td></td>
</tr>
<tr>
<td>1948</td>
<td>1,530****</td>
<td>1,790</td>
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</tr>
<tr>
<td>1949</td>
<td>515</td>
<td>1,638</td>
<td>1,143</td>
</tr>
<tr>
<td>1950</td>
<td>550</td>
<td>1,663</td>
<td>1,494</td>
</tr>
<tr>
<td>1951</td>
<td>571</td>
<td>1,617</td>
<td>1,881</td>
</tr>
</tbody>
</table>

*This figure and those following are for 13th period of yearly operations. Previous figures are yearly averages. Period figures are relatively high due to seasonal buying at year-end.

**Same as * except figures are relatively lower than yearly averages due to tendency to pay off premium balances at year-end.

***Includes budget plan balances, not separately recorded.

maximum premium balance for any one customer was raised to $10.00 in August 1951, because of the change in price levels due to the postwar inflation. When a premium has a value in excess of this limitation, the difference must be furnished through a cash payment. Nevertheless, total credit outstanding for both grocery and premium merchandise equalled more than four and one-half million dollars for 1951.

Summary and conclusions. The company has for many years maintained a cash sales policy for grocery items. An exception to this policy allows postponement of payment for merchandise in one delivery until the next visit of the route manager two weeks later. This deviation is granted for the convenience of the customer who is either temporarily out of funds or not at home at the time of delivery. Furthermore, it is helpful to the route manager in reducing the number of "calls-back" he must make.

Credit, however, is extended for premiums selected by the customer as an integral part of the advanced premium plan of merchandising. Restrictions on premiums balances are made in order to limit the amount of capital required for accounts receivable and to reduce potential bad debt losses. Considerable amounts of capital are still needed for this purpose even with these restrictions.

The policy of cash only sale of grocery merchandise was formulated in response to a desire to reduce credit
losses and to limit the amount of capital needed for consumer credit. The one delivery exception policy was formulated to circumvent an awkward situation which arose in the field when a literal enforcement of the cash sales policy was used. The extension of credit on premium balances required no policy formulation; it was merely inherent in the method of operation.

II. THE BUDGET PLAN

Statement of policy. General merchandise shall be made available for purchase on an instalment plan basis.

History of policy adoption. An important element in the success of a home-service company lies in the selection of premiums. If they are appealing to the housewife, the task of developing her into a profitable customer is relatively easy. One limiting factor in this process, however, had been the ceiling placed upon premium balances. Definite restrictions were placed on the total value of premium merchandise which one customer could be earning at any particular time. In order to accommodate the customer who desired immediate ownership of a premium, a policy permitting cash purchase of premiums was adopted in 1924. Thus, if the price of a premium added to the customer's present unearned balance exceeded the limitations established for such balances, the difference could be made up
by a cash payment and the premium was placed in her possession.

This policy made possible the outright sale of premium merchandise, and cash collections became an important entry on the route managers' reports. Nevertheless, opportunities were limited by the amount of money housewives had immediately available. The suggestion that an installment plan of selling be superimposed upon the method of operation was inevitable, and in 1939 a budget plan was tried by the company on an experimental basis.

The plan was cautiously executed. Customers who were permitted to use it were carefully selected and had to have an established purchasing record with the company. Only fifty customers of any one route manager were eligible. Under the provisions of the plan these selected customers were allowed to acquire a maximum of ten dollars' worth of premium merchandise in addition to the regular premium balance maximum, then ten dollars. Payments were established at a minimum of ten per cent of original value, due every two weeks. The experiment was discontinued in April, 1940, after fifteen months of operation. Results were deemed to be unsatisfactory, for only premium cash collections improved while total collections, coffee poundage, and the number of deliveries decreased during the period. It was concluded that the plan merely diverted the interest of
the route manager from regular products and methods of operation to the sale of premium merchandise.

After World War II, President Lunding injected a new merchandising philosophy into the operations of the Routes Department, and instalment selling was revived. Reporting to the board of directors in August, 1945, he stated that extensive additions were being made to the general merchandise line in order to increase company sales volume. Furthermore, these items would have a higher unit selling price than had been customary for the standard line of premiums; an instalment buying arrangement was to be provided customers unable to pay cash. That year an experiment with instalment selling was made in the Oakland branch, but the plan was discontinued due to the lack of suitable merchandise and customer apathy. In February 1947, a campaign to raise the company collections average to five hundred dollars per week, per route, was launched. This program involved numerous innovations in merchandising strategy including a new budget plan, more nearly perfected than the Time Payment Plan previously tried experimentally. Now management was bold and enthusiastic, rather than cautious, in its approach to instalment selling. Orders for merchandise such as General Electric appliances, silverware, housewares, pressure cookers, and blankets, totalling six million dollars, were sold by means of budget plan merchandising.
The terms and conditions of the budget plan went through a period of change and revision. In April, 1949, the down-payment provision was removed, and the following minimum terms established: if the balance was ten dollars or less, payment must be one dollar or more every two weeks; if more than ten dollars, it was to be two dollars every trip. Furthermore, a twenty-five dollar limit was placed on all accounts. No conditional sales contract was signed by the customer, and no service charge was made. The route manager was given complete authority to extend instalment credit based upon his evaluation of the customer as a credit risk.

**Importance of the policy.** Instalment selling was originally conceived as a means of modestly increasing the sale of premium merchandise. Its major importance, however, lies in implementation of the efforts made to broaden the company's merchandise line following World War II. Until this time the only practical way for the company to grow was to add more routes, as the quantity of merchandise the average family can purchase from its grocery line is

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1This limitation on general merchandise accounts was gradually relaxed as higher-priced merchandise came to be sold by the company, particularly after the introduction of mail-order selling. In 1952, the upper limit was seventy-five dollars, payable within twenty weeks. (Annual Report, Jewel Tea Company, Inc., 1952, p. 13.)
limited. The problem was one of getting customer dollars which would normally be spent in other types of retail outlets. An expanded selection of goods which could be purchased from the company, particularly following the adoption of mail-order selling was the answer and gave rise to a need for instalment selling, if this merchandising policy was to be fully exploited. Moreover, these new policies were important from a personnel viewpoint, as earnings opportunities for route managers were improved thereby, permitting hiring and retention of a better selling force.

Problems of policy enforcement. The extension of credit entails the problems of possible bad-debt loss and the need for more working capital. Up to the end of 1951, the former had caused little trouble, as collections for budget plan accounts were being maintained. Prosperous economic conditions had prevailed, and instalment selling had not been tested under normal market conditions. The deviation from generally approved principles of instalment selling, such as down payment requirements, and the complete reliance placed upon the route manager in the selection of credit risks may cause considerable trouble in the future operation of the plan.

Capital needs for financing instalment sales are large. It is shown in Table VIII, that in 1951 nearly four million dollars ($1,881 \times 2,067 = \$3,691,789) credit was
extended for this purpose. A total of over eight million dollars was needed in that year for credit financing, and mail-order and instalment selling were just becoming firmly established as a part of the company's method of operation. More capital will undoubtedly be needed in the future.

Summary and conclusions. The Jewel Tea Company has adopted instalment selling in order to facilitate other merchandising policies aimed at increases in sales volume. It was attempted in 1939-40, and failed because the plan was narrow in scope and not part of a broad merchandising policy but rather merely an attempt to increase the sale of premiums. It is quite likely, however, that this was the first use of instalment selling by a home-service company. Credit for use of the technique successfully must be given to a number of smaller operators in the industry. The Cook Coffee Company, of Detroit, Michigan, is often thought of as the originator of the idea, for it sold large quantities of blankets to its customers during the war years, employing a budget plan. Some of these earlier adapters were reputed to have achieved collections averages which were as much as one hundred dollars greater than the Jewel Tea Company before its return to the selling method. The company has since

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2This information based on an interview with Mr. Henry Muth, Premium Merchandise Manager, Jewel Tea Company, Inc., Barrington, Illinois, August, 1951.
regained industry leadership for collections averages. Thus an interesting study in policy formulation is provided in which the originator abandoned a policy which was later again adopted because it was being used with great success by competing concerns.
CHAPTER VIII

MANUFACTURING AND JOB BING POLICIES

The desire among the management group of the Jewel Tea Company for vertical integration of the company's operations has always been quite strong. Its first manifestation came early when Skiff and Ross engaged in simple manufacturing activities. This form of integration has grown steadily and has played an important part in company growth. These activities are traced in Section II of this chapter.

Inasmuch as the nature of the product line is often a significant determinant in the decision whether a company should or should not attempt to manufacture the products it sells, it is discussed in Section I, prior to manufacturing activities. The chapter is concluded with an evaluation of various attempts at another type of integration, namely, through wholesaling or jobbing enterprises. These have not met with particular success.

I. THE PRODUCT LINE

The merchandising truism that "goods well bought are half sold" is applicable to the operations of the Jewel Tea Company. Through the fifty years under study a constant search has been made for items which could be added to the
product line thereby enhancing the profit-making poten-
tialities of route operations. In order that a proper
perspective can be achieved this discussion is divided into
two parts: the first is concerned with coffee which has
always maintained a place of dominance in the make-up of the
product line; the second treats of the other products which
have gone into its composition and the shift of emphasis
away from coffee and the implications of this move.

A. COFFEE

Statement of policy. The basic item in the product
line shall be coffee.

History of policy adoption. Nearly every home-
service company includes either the word "tea" or "coffee"
in its firm name; in some instances, both words appear.
This is an appropriate acknowledgement of the importance of
these products to the industry. The word "tea" was adopted
by some of the earlier entrants into the field when the
industry was an adaptation of the tea stores of the mid-
1800's. Coffee has long been the largest producer of sales
volume for all operators, and logically should replace the
word "tea" in company names. In 1951, over thirty per cent
of the retail value of shipments made by the Jewel Tea
Company to its branch warehouses consisted of coffee and tea
as shown in Table IX. This merchandise group is more important than any other group by more than thirty-three per cent.

In the early days of the company Skiff and Ross purchased coffee in bulk and packaged it before delivery. By 1906, the partners had developed their own blend, and Frank Skiff was buying green coffee in the New York market and contracting for its roasting. When the company built its first plant in 1908, complete coffee roasting equipment was included. Two grades of coffee were sold, known by the brand names Jewel Blend, or more commonly, "J.B.," and Special Blend ("S.B.") which sold for five cents less per pound. At various times a third blend was added to the line which sold for five cents less than Special Blend, but when economic conditions improved, this brand was discontinued. Since World War II, the company has sold only one brand, Jewel Blend.

Sales figures which give the relative importance of coffee in the overall sales picture of early-day operations are not available; however, in 1920, the president of the company estimated that from fifty-five to seventy-five per cent of all volume in the past came from coffee sales. Information of this type is available for the years 1924

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1Tea is an insignificant part of this figure, although an exact breakdown is not available.
### TABLE IX

MAJOR MERCHANDISE GROUPS AND THEIR RELATIVE SHARES
OF TOTAL SHIPMENTS AT RETAIL,
JEWEL TEA COMPANY, INC., 1951

<table>
<thead>
<tr>
<th>Merchandise group</th>
<th>Percentage of total retail shipments</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1--Coffee and tea</td>
<td>30.7</td>
</tr>
<tr>
<td>#2--Foods, other than coffee and tea</td>
<td>19.1</td>
</tr>
<tr>
<td>#3--Cosmetics, drugs, soaps, miscellaneous household supplies</td>
<td>18.5</td>
</tr>
<tr>
<td>#4--Housewares</td>
<td>9.5</td>
</tr>
<tr>
<td>#5--China, table glassware, silverware, and gifts</td>
<td>3.1</td>
</tr>
<tr>
<td>#6--Home furnishings</td>
<td>19.1</td>
</tr>
</tbody>
</table>

through 1951, and is shown in Table X. With minor fluctuations the importance of coffee has been declining. In 1924, over sixty-five per cent of all sales dollars came from coffee sales; this performance had been almost halved by 1951.  

A partial explanation for the downward trend can be found in grocery chain store competition for coffee sales which was first felt by the company in the mid-1920's. Nationallyadvertised brands of coffee were selected by these retailers as loss-leader type merchandise, and sale of coffee by the company at its relatively high prices became more difficult.

Total coffee sales for the same period, expressed in pounds sold rather than dollar volume, are shown in Table XI, which reveals a somewhat different pattern. A steady decline is noted from 1924 through 1932, when chain store competition paired with a company policy maintaining coffee

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\(^2\)A seeming discrepancy between Tables IX and X should be noted. Coffee and tea constituted 30.7 per cent of total retail shipments in 1951, while coffee contributed 33.8 per cent of total retail sales for the same year. These two figures are not comparable as they measure different things. "Retail shipments include value of premiums which are advanced to customers and traded out through their subsequent purchases of groceries. These premium advancements are accounted for at cost only, and hence never become a part of Route Department sales. . . . Total sales exclude the above mentioned premium advancements to customers." (Source: Letter to the author from Mr. H. O. Wagner, Controller, Jewel Tea Company, Inc., dated February 3, 1954.)
TABLE X
CONTRIBUTION OF COFFEE TO TOTAL DOLLAR SALES VOLUME,
JEWEL TEA COMPANY, INC., 1924-1951

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of sales volume derived from coffee sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>65.30</td>
</tr>
<tr>
<td>1925</td>
<td>66.37</td>
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<tr>
<td>1926</td>
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<td>1927</td>
<td>58.85</td>
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<td>54.21</td>
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<td>1929</td>
<td>52.32</td>
</tr>
<tr>
<td>1930</td>
<td>46.75</td>
</tr>
<tr>
<td>1931</td>
<td>46.11</td>
</tr>
<tr>
<td>1932</td>
<td>47.03</td>
</tr>
<tr>
<td>1933</td>
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<td>1942</td>
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<tr>
<td>1950</td>
<td>34.30</td>
</tr>
<tr>
<td>1951</td>
<td>33.80</td>
</tr>
</tbody>
</table>

### TABLE XI

**AVERAGE COFFEE SALES PER WEEK PER ROUTE IN POUNDS, JEWEL TEA COMPANY, INC., 1924-1951**

<table>
<thead>
<tr>
<th>Year</th>
<th>Average number pounds coffee sold per week per route</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>357.6</td>
</tr>
<tr>
<td>1925</td>
<td>310.9</td>
</tr>
<tr>
<td>1926</td>
<td>306.8</td>
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<tr>
<td>1927</td>
<td>290.8</td>
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<tr>
<td>1928</td>
<td>283.5</td>
</tr>
<tr>
<td>1929</td>
<td>264.8</td>
</tr>
<tr>
<td>1930</td>
<td>237.5</td>
</tr>
<tr>
<td>1931</td>
<td>233.6</td>
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<tr>
<td>1932</td>
<td>215.4</td>
</tr>
<tr>
<td>1933</td>
<td>233.3</td>
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<tr>
<td>1934</td>
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<tr>
<td>1935</td>
<td>233.7</td>
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<td>1936</td>
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<td>1937</td>
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<td>1942</td>
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<td>1943</td>
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<td>1950</td>
<td>264.0</td>
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<tr>
<td>1951</td>
<td>252.2</td>
</tr>
</tbody>
</table>

prices at non-competitive prices made coffee sales difficult for the route manager. The pricing policy continued in the 1930s, but sales increased due to vigorous sales promotion of coffee including extensive contests. After the slump of the war years, with their coffee-rationing and lessened route operations due to restrictions on mileage, coffee poundage increased in 1946-9 to a level comparable to the early 1920s. Competitive coffee pricing under Lunding's merchandising philosophy of short margins and high sales volume was responsible for the improvement. The fast drop in 1950-1 was probably due to a combination of several factors including the rapid rise in coffee prices following the outbreak of the Korean War and the company's increased emphasis on a wider line of items. When priced competitively and promoted actively, coffee sales can attain high sales levels.

Importance of the policy. Aggressive promotion of coffee is not only important as a means of increasing overall sales volume, but it is an integral part of the company's merchandising strategy. The regular coffee buyer is the source of most sales volume. When a customer agrees to take, for example, a regular delivery of three pounds of coffee every two weeks, the route manager is given an entry into the home twenty-six times a year. During each delivery he has an opportunity to sell other items in the
product line as well as creating interest in the premium line. Other merchandise can be sold on a repeat purchase basis, but none of them has the generally high consumption rate of coffee. It is wise to build the regular call strategy around coffee.

Problems of policy enforcement. When coffee is not competitively priced, company customers are often lost to grocery stores offering low prices. This is particularly true during periods of relatively high coffee prices. As the costs of doing business for home-service operators are higher than for most retail outlets selling coffee, a point is reached where the company can no longer reduce its prices to meet loss-leader pricing, even though it processes its own coffee and makes some savings from these manufacturing operations.

Aggressive promotion of the premium and selling of coffee means that quality must be emphasized if sales volume is to be maintained. Stimulation of route managers through sales contests and other means becomes important. A serious problem still remains, for the route manager does not like to spend his limited selling time on a product which is not competitively priced. Thus, the merchandising strategy of the regular coffee buyer can break down at this point and customer turnover increased.

Summary and conclusions. Coffee is the most
important item in the product line, as a producer of sales volume and as a pivot in the merchandising strategy of the company. The regular coffee buyer furnishes the route manager his best opportunity for creative selling by giving entry to the home every two weeks; therefore, the maintenance of a high volume of coffee sales is necessary if overall sales are to be maintained.

The policy setting forth the primacy of coffee in the product line was originally merely a statement of an existing condition. No policy formulation was involved at the time. Later, however, it was promulgated to implement a merchandising stratagem, and in this case must be recognized as the result of conscious searching for the development of ways of increasing sales volume.

B. OTHER MERCHANDISE IN THE PRODUCT LINE

Statement of policy. Food and general merchandise items shall be added to the product line in response to potential consumer demand and removed when no longer profitable.

History of policy adoption. Undoubtedly Skiff and Ross first carried only coffee and tea in their product line, but additional items were soon included. In 1906, the company started its manufacturing activities with the processing of baking powder, and in that year laundry soap
and washing powder were first sold. The product line then included eight items. As the years passed more items were added in order to increase sales possibilities.

During the re-entrenchment period following World War I, the product line was reduced from two-hundred and fifty items to ninety-eight. It would appear that the Skiff-Ross management was not vigilant in pruning unsatisfactory merchandise from the line, but rather just continued to add more items. It is difficult to ascertain the number of items carried in the years from 1922 through 1951. In 1924, the standard line was reduced to sixty-two products. From 1929 through 1943, the line averaged sixty items plus an average of thirty "in-and-out" items, merchandise which was sold for short periods of time as part of a planned merchandising program. Periodically, a program of product line reduction would be pursued by company executives in response to pressure for businesslike methods including inventory control. The policy would be relaxed and the line expanded once again.

Since the end of World War II, there has been a movement toward simplification of the line. In 1948, two-hundred and thirty-four products were eliminated, reducing the line to five-hundred and fifty items. In the summer of 1947, the total had been near 1,100 different
products.\textsuperscript{3}

A breakdown of the product line into six merchandise groups has been since 1947. These groups are listed in Table IX, along with percentage figures showing their relative importance to total retail shipments of the company. The pattern shown approximates the goal established by President Lunding in 1947, when it was decided that a desirable balance of sales would be one-third in coffee and tea, one-third in other foods and drug items, and the remaining one-third in housewares and home furnishings.

**Importance of the policy.** This policy is aimed at the achievement of a balanced product line which is an important factor in the success of any merchandising organization. Two forces are constantly at work in firms such as the Jewel Tea Company. On the one hand, sales executives press for the addition of items to the line in order to

\textsuperscript{3}These postwar figures are misleading as no breakdown has been made between items contained in the product line sold to customers and the premium line. An analysis of the requisition form used by the company in September 1951 gives a count of 170 items in the product line and 425 items in the premium line. Thus, the entire line at this time was 595 items.

The line was soon to be expanded again when the company entered into mail-order selling on a large scale. In 1952, approximately 1,400 different items were being offered for sale. (Annual Report, Jewel Tea Company, Inc., 1952, p. 13). Route operations were not affected physically by this increase, as most of the items added were listed in the company's mail-order catalog and delivered directly to the customer.
increase sales possibilities. At the same time, other executives point out the dangers in an extensive product line, including the costs of inventory maintenance, such as warehousing, financing and insurance charges, plus possible losses resulting from obsolescence and price declines. If the policy is to be properly executed, a middle course must be run with the line containing only products which will assist the route manager in his attempt to obtain as much of the housewife's dollar as possible, and yet will sell at a relatively fast rate.

Problems of policy enforcement. The selection of items for the product line is somewhat restricted by the company's method of operation. For one thing, perishable items cannot be sold, for bi-weekly delivery schedules do not permit the sale of bread, milk, and fresh fruits and vegetables. The consumer desires these goods more frequently.

Another limitation is product size. Bulky goods, that is merchandise which is heavy relative to its monetary value, cannot be sold economically, for the route manager's delivery truck is small and must be loaded with care if the deliveries of the day are to fit into it. For this reason, canned goods are not feasible for home-service selling. The company tested the possibility of their sale in the early 1920's, but the plan was abandoned as impracticable.
Similarly, fragile merchandise cannot be sold because of the breakage hazard. Thus, the choice of products is confined to merchandise which is non-perishable, high in value relative to weight, and not easily broken. Coffee, tea, spices, condiments, soaps, cleansing powders, baking powder, cake mixes, candy, macaroni products, cookies and crackers, jams, jellies, sandwich spreads, drugs and beauty aids, and similar items are contained in the basic stock list.

After a consideration of these limitations has been made, the problems of policy enforcement are operational in nature. Adequate sales records reveal products which are losing customer popularity and should be discontinued, while market research assists in the determination of consumer demand for products which should be added to the line. In the latter case, tests are conducted before a full commitment of the sales effort of the entire company is made. A staff of specialized buyers is employed to search the market for possible additions to the merchandise and premium lines.

**Summary and conclusions.** A tendency toward constant extension of the product line exists in company operations. This is motivated by a desire to secure more sales volume. From time to time stringent measures have been taken to simplify the line in order to achieve more profitable results.
from sales operations by the reduction of inventory costs. The present policy is an attempt to arrive at a happy medium between the contrasting points of view. It was formulated in response to a desire to employ scientific business procedures and has been evolutionary in character.

II. MANUFACTURING

Statement of policy. The company shall manufacture, process, and package items in the product line if it can be done economically.

History of policy adoption. From the beginning of route operations the partners, Skiff and Ross, with the help of their wives, spent evenings packaging merchandise assembling orders. In 1905, a three-story building was leased, and the firm moved out of the store building which had served as company headquarters, warehouse, and packaging-shop. The following year manufacturing activities were first added to company activities with the processing of baking powder. The company's coffee blends were developed in the same year. In 1908-9, the company built a plant of 60,000 square feet, which contained complete coffee roasting facilities.

The next few years were a period of great expansion for all company activities. The Chicago plant was doubled in size, and coffee roasting plants were established in New
Orleans, San Francisco, and Hoboken. Following World War I, the New Orleans and San Francisco plants were closed as most of the routes which they had supplied were discontinued. A claim against the federal government for damage done to the Hoboken plant while commandeered during the war was successfully prosecuted.

One of President Karker's greatest contributions during his leadership of the company was his stubborn insistence upon the feasibility and desirability of establishing a plant in a suburban (to Chicago) town. His campaign for this idea started in 1925, and culminated in the opening of a fine combination home-office and manufacturing plant in Barrington, Illinois, thirty-two miles northwest of Chicago, five years later. The cost of the new plant was $1,464,103.61. By 1936, the Hoboken plant had been closed, and in 1951, the only manufacturing facility owned and operated by the company other than at Barrington, was a small coffee roasting plant in Los Angeles, which supplies the West Coast routes with fresh coffee.

Coffee roasting is the largest single manufacturing operation, although most grocery items and a number of drug and cosmetic, as well as household supplies, items are also

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4The Barrington plant has been expanded from time to time. In 1952, its size was 400,000 square feet, mostly devoted to manufacturing operations. (Annual Report, Jewel Tea Company, Inc., 1952, p. 16.)
company-made. Some of the dry groceries and coffee sold by the Food Stores Department are supplied by the plant.

**Importance of the policy.** Two major advantages accrue to the company from its manufacturing policy, which is a form of vertical integration. One lies in dollar savings in the cost of goods sold. The home-service industry is one of high operating costs because of the services performed for the customer, thus competition with regular food outlets on a price basis is difficult, yet necessary. By producing the merchandise to be sold, some of the savings which result can be used to permit more competitive pricing, which, in turn, makes possible a larger sales volume and increased profits.

Probably more important is that the policy makes quality control of merchandise sold, easier. One of the sales arguments for buying company products, particularly Jewel brand coffee, is its quality. The company maintains a home-economics department which tests each batch of products made in the Barrington plant before shipment. A product-development laboratory seeks new formulae and new products and has developed a number of items which have become sales successes including vitamin capsules and cake mixes. These departments have allowed the company to keep its products of consistent quality and abreast of new developments in the food industry, thereby remaining actively competitive.
Problems of policy enforcement. If a competent force of executives and operative employees is employed to carry on the manufacturing activities of the company, no serious problems arise from the policy. Only private-brand grocery items are sold on the routes, so the route manager is faced with no choice of products to promote; thus, the items made by the company are assured of aggressive selling. The problem of estimating demand is slight, for the products are disposed of through company outlets only.

Summary and conclusions. The company manufactures and processes approximately two-thirds of the products sold by the Routes Department. This is done to increase profits by permitting more competitive pricing and larger volume of sales and to insure quality control over the products sold. The policy had its origin in the founders' search for greater profits; it has been adapted and expanded into a policy designed to increase sales volume in toto rather than unit profits per se, in more recent years.

III. WHOLESALING

Statement of policy. If a satisfactory method of

5The company maintains an extensive wholesaling organization which supplies route managers with merchandise. Each branch operates a warehouse similar to a chain store warehouse in function. These wholesaling activities are not considered in this section which deals with company sales to other retailers of coffee.
operation is developed, the company shall engage in wholesaling activities by selling goods manufactured, processed, and packaged in company plants to other retailers.

**History of policy adoption.** At the November 20, 1925, meeting of the board of directors, President Karker proposed that the company test the feasibility of merchandising Jewel brand products through established retail stores in areas not then covered by route operations. He pointed out that company plants were operating at only fifty per cent of capacity and that sale of excess production through wholesale activities would permit the spreading of fixed costs and thereby increase company profits. Moreover, it was feared that the home-service industry method of operation would ultimately be discontinued because of chain store competition and adverse legislation. Wholesaling and manufacturing activities would step in to permit company survival in case of such an eventuality.

The experimental plan called for the sale of Jewel Best brand coffee to retail stores in New York City for resale to the general public. The Brooklyn section of the city was chosen for initial development. The method of operation adopted was an adaptation of the one used for route selling to ultimate consumers with bi-weekly deliveries and cash sales. It was estimated that a gross profit of nine and one-half cents per pound and a net loss
of $35,000, would result from the first year's operation.

The plan was started on July 12, 1926, and met with good retailer acceptance, for by the end of the year seventy-two per cent of potential retail outlets were buying from the company. Chain stores had not been included because they desired price concessions which were thought to be unwarranted by company executives. Thus, the problem was one of building consumer demand. Many advertising and sales promotional ideas were tried: telephone selling, coupon advertising, and newspaper advertising. Nevertheless, results for the first year were unsatisfactory; more than 300,000 pounds of coffee had been sold for a net loss of $135,000.

In face of limited consumer demand it was probably inevitable that premium merchandising should be fused into the plan, and a number of premiums were promoted in place of newspaper advertising. Coffee sales increased appreciably during the period of a premium offer, only to decline rapidly when it had run its span of interest. In October, 1927, premium merchandising was discontinued, and an extensive advertising campaign was started once again.

In August, 1928, the experiment was extended to Hartford, Connecticut, in order to ascertain whether the plan would be successful in an area where city-wide advertising was economical. Distribution started in September,
and retailer acceptance was again satisfactory. By March, 1929, the entire project was moved from Brooklyn to Hartford. It was felt that the New York phase had been unsuccessful because of the difficulties surrounding the selection of a proper advertising medium. The costs of reaching a part of the market (Brooklyn) were too great when city-wide advertising media were employed; there was much wasted advertising.

The company pre-tested the Hartford market by using a panel of two thousand families to determine coffee blend preferences, and an extensive sampling campaign followed. Nevertheless, consumer acceptance was poor, and the experiment was discontinued at the end of 1930. Management felt that the economic impracticability of this form of business operation by the company had been demonstrated. The experiment had cost the company nearly $400,000. The minutes of the board of director's meeting at which this decision was made contained a bitter comment, "a research laboratory is a place for making mistakes on a modest scale."

Although this large-scale attempt at wholesaling was a failure, the idea continued to hold an attraction for company executives and periodically the method is revived in one form or another. In 1938, the possibility of wholesaling products to other home-service operators was
considered, and two years later a private brand, "Crest-line," was developed for this market; however, purchasers failed to materialize. The company's traffic department made arrangements in 1939 to sell to railroad commissaries. Sales from this venture equalled $3,700 in 1941. Following the war, company executives became enthusiastic over the possibilities for development of an export business, but their attempts were fruitless. In 1950, an attempt was made to tap the religious and fraternal organization market through an offer of a coffee urn for the sale of a specified number of bottles of shampoo.

Fear that changing social-economic conditions would force the company out of business arose again in 1938, as it had in 1925. In the latter instance wholesaling was again thought of as an avenue of survival, but instead of the method of operation tried in Brooklyn and Hartford, a system of distributorships, similar to the voluntary chain, was inaugurated. Owners of home-service firms in Cleveland, Milwaukee, and Minneapolis-St. Paul, were designated as distributors who purchased their merchandise stock from the Jewel Tea Company and sold the goods under the Jewel brand name but were independent businesses. Interestingly enough, the company had operated routes in these cities in the past, but had sold them because of union activity. The distributorship relationship has never been satisfactory and has not
Importance of the policy. The idea of wholesaling company-made products to other retailers remains dormant awaiting the development of a satisfactory modus operandi. Intermittently, experiments are made with possible approaches aimed at its achievement. If one is found, wholesaling and manufacturing activities might furnish greater all-around strength to the company, as has the addition of the Food Stores Department. In the meantime, the importance of the policy lies in the fact that it is a manifestation of an attitude of open-mindedness on the part of the management group which is looking for other ways to insure the business success of the firm.

Problems of policy enforcement. An inoperative policy can furnish no problems of enforcement. The failure of the major wholesaling venture in Brooklyn and Hartford, illustrates the hazards involved in trying to establish branded merchandise against the competition of nationally-advertised brands. Coffee is one of the most advertised food products, and the need for great sums of money to be spent in the development of a brand name poses a serious obstacle in the path of such a plan of selling company-made products. It would appear that the route method of selling and this method of wholesaling are not compatible and
probably cannot co-exist. This does not preclude, however, the possibility of the sale of goods for private labeling.

Summary and conclusions. This policy came as a result of a deliberate, considered attempt to increase company earnings by better utilization of plant facilities. At the time of its formulation fear for the continued success of the home-service method of operation was undoubtedly uppermost in management thinking; this fear has been dispelled, and the policy still remains, albeit in latent form, for possible use in the future.
CHAPTER IX

ADVERTISING POLICIES

Advertising has been important to the success of many firms and industries. Basically, the function of advertising is demand creation either directly, or more often, as an auxiliary to the efforts of salesmen. Personal solicitation has been relied upon almost entirely by the home-service industry, while advertising has been of little importance to industry growth. The reasons for this condition are examined in this chapter.

I. THE PREMIUM AS AN ADVERTISING MEDIUM

Statement of policy. The company shall engage in no advertising except by the use of premiums.

History of policy adoption. Most forms of retailing use traditional advertising media to some extent, but the home-service industry avoids them as means of getting business. As far as the Jewel Tea Company is concerned, the policy was adopted as an accepted way of doing business in the industry; nothing more, nothing less. It is shown below\(^1\) that in later years this acceptance of the policy without question was challenged, only to have it ultimately

\(^1\)See Section II.
The reasons for industry adoption of the policy should be examined at this point. Again little is known, but a hypothesis can be formulated and defended. Most likely, the policy is a rationalization for the premium method of merchandising and was devised as a justification for the industry's method of operation. Route managers sold merchandise to consumers at prices higher than charged at other retail outlets for comparable goods. In order to overcome hesitancy in buying under such conditions an inducement in the form of a premium was given as a reward for purchasing. A discerning customer might challenge this arrangement; therefore, an explanation why the company could give a premium without it costing the customer had to be devised. The Jewel Tea Company explained its position in the following manner:

Why a premium? Every business needs advertising in some form. The function of the premium as an advertising medium is generally accepted [sic] . . . . This buying advantage [of the Jewel Company in buying premiums] makes it possible for the company to secure for its customers a much greater value per dollar than could be secured by them if they themselves were to spend the advertising appropriation. The premium in this business merely represents the money spent for advertising purposes, but to the customer it is the maximum obtainable return from the expenditure.2

The customer is not only assured that the premium is

merely the company's way of transferring an unspent advertising appropriation to her but also that the company gives maximum value by mass purchase of premiums. The premium is set forth as a substitute for other forms of advertising. Thus, the policy was the culmination of a rationalization process attempting to justify the premium method of merchandising.

**Importance of the policy.** The mere statement of this policy provides the route manager with a feasible answer to a serious customer objection to the home-service method of selling. However, this answer is not completely valid. The argument that premium-giving is an alternative to spending money for advertising has strength only if it can be shown that the amounts spent for advertising by other retail outlets are equal to those spent for premiums by the home-service operator. The percentage of profit-sharing credits allowed by the Jewel Tea Company on its grocery sales has ranged from 7.7 per cent to 20.97 per cent. If

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3"The use of premiums is commonly called premium advertising. This trade term developed during the first two decades of this century, when the premium interests sought to dignify premiums as a form of advertising." (Harry L. Hansen, "Premium Merchandising," *Harvard Business Review*, Winter, 1941, p. 185.)

4See Table IV, Chapter IV. The figures furnish comparison of premiums given (through the exchange of profit-sharing credits) to grocery sales. Both sets of figures are at retail prices, thus a completely accurate analysis is not possible.
it is assumed the premiums have a mark-up over cost of fifty per cent, the increase in the cost of the goods sold resulting from premium-giving ranges from 3.85 per cent to 10.485 per cent. Other sources of the goods available to home-service customers do not spend comparable amounts for advertising. Thus, the policy is only a partial answer to the charge that premium merchandising raises the cost of goods sold by the company.

Problems of policy enforcement. Periodically, the successes experienced by other merchandising organizations springing from the use of advertising are looked upon with envy by company executives, and pressure to deviate from the policy is exerted. When this pressure is heeded and the company embarks upon an advertising program, it finds itself in a paradoxical position: on one hand, the claim is made that premiums are the only form of advertising used; while on the other, advertising efforts being made are to be seen by the customer. An examination of some of the more

5Data obtained in August, 1951, show the following percentages of sales spent for advertising by food stores:

<table>
<thead>
<tr>
<th>Annual Sales</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $50,000</td>
<td>0.36%</td>
</tr>
<tr>
<td>$50,000--$100,000</td>
<td>0.47%</td>
</tr>
<tr>
<td>$100,000--$200,000</td>
<td>0.52%</td>
</tr>
<tr>
<td>Super-markets, east of Mississippi River</td>
<td>0.89%</td>
</tr>
</tbody>
</table>

important deviations from policy points up this paradox.

A. ADVERTISING ATTEMPTS IN THE MID-1920's

The Fort Wayne Test. The first interest in the possibilities of advertising by the Jewel Tea Company came during the presidency of John Hancock. Previously, complete reliance had been placed upon personal solicitation as a means of getting new customers which is the principal selling task. The board of directors was asked in July 1921, to authorize the expenditure of $10,000 for an advertising test. Its purpose was to determine the feasibility of an advertising program designed to reduce the costs of new customer production. Hancock would have liked to have done away with personal solicitation costs entirely; thus, a plan aimed at their reduction was appealing. Fort Wayne, Indiana, a successful branch city, was selected as the test city.

The plan was an adaptation of the coupon method of advertising then being used by the manufacturers of many nationally advertised products, such as Palmolive soap, Pepsodent tooth paste, and Quaker Oats breakfast cereal. The company offered to send one-half pound packages of coffee to persons requesting them. The offer was made in advertisements placed in Fort Wayne newspapers. Upon receipt of a request for coffee, it was mailed along with
promotional literature, later to be followed by a personal call from the route manager who would ask the housewife to become a customer. The plan was in the nature of advertising for leads for specialty salesmen. Its goal was the elimination of the advance salesman in areas where routes were already established. The function was to be delegated to the route manager with the assistance of leads resulting from advertising.

The close interest in the operations of the Fort Wayne branch which the plan occasioned revealed many imperfections in overall branch operations, and the program was suspended while field reorganization took place. Next year the experiment was continued for another year in both Fort Wayne and Terre Haute, Indiana. However, the campaign was deemed a failure, and the use of advertising was set aside temporarily, only to be revived when Maurice Karker became president in 1924.

Survey of advertising potentialities. The feeling that advertising could be used by the company was still held by management, and a leading advertising agency was engaged to investigate the matter. The survey covered three areas

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6 More stress is placed upon this survey than may seem warranted. This is done for three reasons:
(1) The survey and resulting policies apparently have proved the impracticability of the use of advertising by the
of information: (1) the Jewel Tea Company and its competitors; (2) the company field organization, branches and customers; and, (3) consumer attitudes toward the company and its method of operation. Their report included the following findings and recommendations:

1. Possibilities exist for increased sales to present customers.
2. Sales volume must be stabilized by the removal of seasonal fluctuations.
3. The dependence upon coffee for sales volume must be minimized by the strengthening of the sale of other items.
4. Consumer acceptance of the Jewel brand extracts, spices, and baking powder is greater than sales volume indicates.
5. Sales potential in existing territory is from two to three times greater than sales volume being achieved.
6. Consumer attitude toward house-to-house selling is uniform throughout the nation.
7. Forty-two per cent of the housewives not buying from the company fail to do so because of a desire to patronize local merchants; this is an area for advertising efforts.
8. Women often buy from house-to-house salesmen because of the inavailability of the item; this condition provides another advertising opportunity.
9. An advertising program showing the advantages of the business should be conducted through local newspapers.
10. The premium must be featured as the main means of advertising instead of as the only form.

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company, albeit contrary to the recommendations contained therein.
(2) The survey is an analytical study of the company's operations and shows considerable insight into its problems, thus giving value to the entire study.
(3) The survey was probably the first time outside assistance was sought by company management in solving a business problem, and as such, is an indication of the introduction of scientific management thinking by company officers.
The report continued with an analysis of the Fort Wayne-Terre Haute advertising campaign of 1922, which was deemed to have been faulty in copy-writing techniques used and in the lack of adequate follow-up by the field force. A better choice of copy appeals and the assurance of effective follow-up were given as the prerequisites to a successful advertising program by the company, which should have four objectives: acceptance by the public of the home-service method of retailing, the route manager as a businessman of the local community, the advanced premium plan of merchandising, and the high quality of company products. A suggestion was made that the states of Illinois, Indiana, Michigan, and Ohio provided the best areas for advertising activity by the company. The agency had made an extensive analysis of merchandising strategy and advertising opportunities; management now had to decide upon action to be taken.

**The Ohio campaign.** They were ready for bold action, convinced that in advertising lay a golden opportunity. The Fort Wayne experiment, admittedly a failure, had merely intensified their desire to use advertising successfully, and the advertising survey encouraged them with a report which explained away past failures and showed the way to future successes. The state of Ohio was selected as a test
area for an intensive advertising campaign, and fifty thousand dollars was appropriated at the November 1924 meeting of the board of directors for the program which was inaugurated on January 15, 1925, with two full-page spreads in major Ohio daily newspapers.

The first advertising message told the complete story of the "Jewel Way of Buying," and was followed by a series of one-half page advertisements featuring separately the route manager, the premium, and the quality of Jewel Tea Company merchandise. A favorable report on the campaign was submitted by the president at the April 1925 meeting of the board of directors, but by July dissatisfaction with the plan began to appear. It was changed from its institutional character to one of more direct sales appeal for the last half of the year. A series of ten advertisements, one-half of which remained institutional in content and the rest featuring specific merchandise, such as a breakfast set and a waterless cooker, was placed in thirty-two Ohio newspapers.

Extensive statistics were kept which permitted comparison of sales in Ohio, not only with past performance in the state, but throughout the company. No marked improvement in sales figures for Ohio was shown; nevertheless, the president recommended that the program be continued for at least another year, and a sum of fifty thousand dollars was authorized for Ohio advertising in
1926. Results continued to be unsatisfactory, and management vacillated between a decision to drop the idea of advertising completely or to try it for another year. Again an advertising agency was retained to analyze the program, and once again the copy approach in use was criticized and a new one advocated. At the end of 1927, the president reported that the fifty thousand dollars which had been appropriated for the year brought no better results, which he characterized as both "disappointing and disillusioning." He pointed out that the state of Ohio changed from an area of better than average company performance to one of below average during the years of the Ohio advertising experiment, and recommended that no further expenditure be made for advertising.

In summing up the failure, poor media choice was cited as the principal factor, as newspapers provided circulation which was to a large extent "wasted" inasmuch as territory not reached by company routes was covered as well as areas in its field of operations. Newspaper advertising was found to be capable of getting new customers for the company, but the expense was not economically justifiable as extensive follow-up by solicitors was still necessary. Three years of experimentation and an expenditure of over $150,000, convinced management that the policy calling for no advertising by the company except through premium
merchandising was sound.  

B. OTHER ADVERTISING EFFORTS

Direct mail. Following the discontinuance of the Ohio newspaper advertising campaign, a direct mail approach was tested in Canton, Ohio. A letter was mailed to householders whose names appeared in the city directory; it contained a card which when returned by the housewife, was followed by a personal solicitation urging her to become a customer of the company. The cost of obtaining one new customer from the first mailing was over ten dollars; therefore, the plan was abandoned. It was followed by a direct mail test in South Bend, Indiana, which featured a combination deal with teaspoons at an attractive price. This test met with no greater success, for only two replies resulted from 2,750 mailings. Some other attempts have been made to use direct mail in the solicitation of new customers, but the advance salesman remains their principal source.

Direct advertising. The basket which the route manager carries into the home on his bi-weekly delivery

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7Advertising is still attractive to management. One of the company's vice-presidents stated in an interview in July 1951, that the next move for the company, in his opinion, was a "big advertising campaign, expending one-fourth of company profits for two or three years, in order to sell the Jewel idea of selling to the entire nation."
calls is a form of point-of-sale advertising, for it contains not only goods to be delivered but sale merchandise, bargain deals, and close-out items. Creative selling is done from the basket by alert route managers in their search for higher sales volume.

Another useful selling aid has been the various printed materials distributed by route managers to their customers. One type is the advertising flyer, known once as an "order-graph" and more recently as a "sales ad." On a single sheet of paper similar to a newspaper advertisement are featured special merchandise and sales items. The housewife reads these flyers between the calls of the route manager in order to help her arrive at the next order. Thus, valuable selling time is saved for the route manager.

Direct advertising in the form of a monthly customer periodical, *The Jewel News*, was introduced in 1923. This little magazine contained articles of interest to the housewife, such as recipes, household hints, and human interest and humorous items. The company line of merchandise was also featured and promoted. This publication was similar to the magazines distributed in supermarkets in the 1940's and 1950's. An attempt was made to create a close feeling between the customer and the impersonal business firm. This publication was replaced by the mail-order catalog late in 1950. From this catalog customers may order merchandise
which is sent directly to their homes rather than having it delivered by the route manager.  

**National advertising.** The company has made two attempts at national advertising. In January 1929, a weekly program was broadcast for a one-half hour period over fifteen Columbia Broadcasting System stations. Its avowed purpose was to increase the self-respect of company route managers and to enhance customer respect for the firm. It was discontinued in May of the same year. The January 13, 1941, issue of *Life* magazine contained a full-page advertisement, in color, featuring the company's method of operation.

Two interesting forms of public relations activity were used by the company in the period around 1930. Booths were set up at various state fairs where the activities of the Jewel Tea Company were explained. The other, called the "Coffee Theatre Service," was a sampling program which involved the service of free coffee in the lobby of metropolitan movie theatres.

**Summary and conclusions.** Advertising has been of minor importance to the growth of the Jewel Tea Company. Almost all expansion has resulted from personal solicitation

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8See Chapter V for a discussion of mail-order selling by the company.
of business. Great reliance has been placed upon the premium as a trading motive, and it is often used by the advance salesman as his principal selling point. A customer objection raised to the premium merchandising principle was that it increased the cost of goods purchased from the company. The objection was answered by stating that the premium was given in lieu of other advertising. Thus, a no-advertising policy developed as a rationalization of another policy, premium merchandising. A simple process was involved in the formulation of the policy, for it came as an evolutionary step established by the customs of the industry.

When the company tried to use advertising as an aid to personal solicitation of new business, as it did in the mid-1920's, the experiment met with failure. Personal solicitation was still necessary, and the costs of advertising were merely added to already high selling costs. Unless direct mail or other forms of direct advertising can be adapted to home-service industry use, it would seem unlikely that advertising will be employed on a large scale.
CHAPTER X

THE DECISION TO ENTER THE CHAIN STORE FIELD

This study is of the Routes Department of the Jewel Tea Company, Inc., for the years 1901-1951. The various major policies inherent to its marketing operations have been discussed in preceding chapters. The decision to enter the chain store field may not appear to be germane, but its great impact upon all company operations would seem to justify the inclusion of a brief examination of the move.

Statement of policy. The company shall operate, as a separate department, a chain of grocery stores in Chicago and its environs.

History of policy adoption. The management of the company decided in March 1932, to purchase eighty-one grocery stores located in Chicago. Seventy-seven of these stores were owned by Loblaw Groceterias, Inc., a Canadian firm, operating successfully in that country and upstate New York. It entered the Chicago area during the boom year 1928, and built a chain of medium-sized grocery stores designed to serve a radius of approximately four city blocks. The basic customer appeals were convenience and high quality merchandise. When consumer income fell because of the depression, sales volume declined rapidly, as prices
were not adjusted in view of the changed economic picture. Furthermore, operating costs were high, partially because of the high rents established by leases signed in 1928. The Loblaw firm wished to cut off its expansion efforts and return to areas of successful activity.

The Jewel Tea Company management had been weighing the advisability of entering the chain store field for over ten years. The first indication of such an interest appeared in the report of President Durham to the board of directors on July 8, 1920. In a discussion of competitive conditions facing the route operations of the company, the increasing pressure from cash-and-carry stores and grocery chain stores was stressed. Part of his comments follow:

We have naturally given considerable thought to the advisability of opening some chain stores ourselves... I feel we are compelled to first place our wagon business on a profit basis before we undertake to establish a chain store business. A Chain Store Department, I am inclined to think, can be established to advantage at a later date as a method of expansion but it should be done only as surplus profits are available for that purpose. All the assets of the company are now required for its present method of operation.

The next year, Mr. Henry Bowers, a director, proposed to the board that the company make an experimental entry into the grocery chain store field. He suggested that a small number of stores be operated in order to test the plan's feasibility and to permit company officials to learn something of the method of distribution, further stressing
the need for diversification of company operations. Another board member, Mr. Arnold Sachs, added his feeling that the management of the company was capable and, furthermore, if their abilities were applied to the chain store method of operation, more profits and company progress would result than under the route method.

Management, however, was long engrossed in the problem of getting the route business in a profitable condition, and no action was taken on this proposal. Nevertheless, the time did arrive when the company had built a surplus which was becoming embarrassing. By 1925, the company was operated on a level of good profits; the growth of its surplus account from that year through 1940 is shown in Table XII. A block of government bonds valued at $1,550,000, was held by the company in 1930; the time for action specified by President Durham in 1920, and the board of directors in 1921, was at hand. President Karker reported that the company's research department was exploring the possibility of entry into the chain store field. A favorable mental and financial climate was present when the Loblaw interests started to look for a purchaser of their Chicago holdings. It was not long before the interest of the Jewel Tea Company management was evidenced. Local legislation against house-to-house peddling in the form of the so-called Green River ordinance also contributed to the
<table>
<thead>
<tr>
<th>Year</th>
<th>Surplus Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>$980,200</td>
</tr>
<tr>
<td>1926</td>
<td>1,214,500</td>
</tr>
<tr>
<td>1927</td>
<td>1,791,500</td>
</tr>
<tr>
<td>1928</td>
<td>1,646,000</td>
</tr>
<tr>
<td>1929</td>
<td>1,701,100</td>
</tr>
<tr>
<td>1930</td>
<td>1,967,400</td>
</tr>
<tr>
<td>1931</td>
<td>1,932,500</td>
</tr>
<tr>
<td>1932</td>
<td>994,400</td>
</tr>
<tr>
<td>1933</td>
<td>1,191,100</td>
</tr>
<tr>
<td>1934</td>
<td>1,563,600</td>
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<td>1935</td>
<td>2,099,700</td>
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<td>1936</td>
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<td>1937</td>
<td>2,468,800</td>
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<tr>
<td>1938</td>
<td>2,580,800</td>
</tr>
<tr>
<td>1939</td>
<td>2,587,000</td>
</tr>
<tr>
<td>1940</td>
<td>2,889,200</td>
</tr>
</tbody>
</table>

**SOURCE:** Compiled from company records kept in the Controller's Office, Jewel Tea Company, Inc., Barrington, Illinois.
decision, for at this time the pressure for its passage was strong in many communities.\footnote{Interview with Mr. W. D. Smith, retired vice-president, Jewel Tea Company, Inc., June 16, 1951. Mr. Smith placed a great deal of significance upon this factor as the motivating force behind the purchase of the stores.}

In addition to the Loblaw stores, the Middle West Stores Company, a chain of four units, was purchased from Mr. J. M. Sarther, whose services as manager of the Food Stores Department were obtained as part of the purchase agreement. Thus, one of the arguments for entry into the grocery chain store field, i.e., to bring about more efficient utilization of top-management talents, was not carried into actual practice.

The acquisition of all eighty-one stores cost the company approximately one million dollars, or fifty-five per cent of the company's surplus funds. A subsidiary corporation was formed which was dissolved in 1934. Since then the chain of stores has been operated as one of three major departments in the company's organizational setup, namely, the Routes Department, the Food Stores Department, and the Finance Department.

**Importance of the policy.** The decision to enter the grocery chain store field has had many salutary effects upon company operations. Diversification has been a good thing
even though the anticipated legislation outlawing the routes operation never materialized. The contribution of the Food Stores Department to total sales volume of the Jewel Tea Company is shown in Table XIII.

After a slow start the stores were gradually made to produce a larger and larger percentage of company business. By the time World War II reached the United States, approximately sixty per cent of all company sales were produced by the Chicago retail stores operation. Route operation seem to be equally successful in periods of depression and prosperity, but when war conditions prevail, trouble is present. The company nearly failed following World War I, and during the following world conflict labor shortages and governmental restrictions made it difficult to maintain sales volume and operating profits. In 1942 and 1943, sixty-five per cent of company sales were made by the Food Stores Department. After the war the relationship returned to its pre-war level of approximately sixty per cent, but it was soon to move upward until by 1951 the wartime level of sixty-five per cent was approached. It would appear that the division of sales volume has stabilized at sixty-five per cent for the Food Stores Department and thirty-five per cent for the Routes Department. Thus, it can be seen that the entry in the chain store field has been important to company sales which have increased more than fourteen
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales (000)</th>
<th>Routes Department Sales (000)</th>
<th>Food Store Department Sales (000)</th>
<th>Percentage of Food Department Sales to Total Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>14,662</td>
<td>11,090</td>
<td>3,572</td>
<td>24.3</td>
</tr>
<tr>
<td>1933</td>
<td>14,378</td>
<td>10,426</td>
<td>3,952</td>
<td>27.4</td>
</tr>
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<td>1934</td>
<td>17,217</td>
<td>13,172</td>
<td>4,045</td>
<td>23.4</td>
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<td>1935</td>
<td>18,604</td>
<td>13,772</td>
<td>5,032</td>
<td>26.7</td>
</tr>
<tr>
<td>1936</td>
<td>20,600</td>
<td>14,826</td>
<td>5,774</td>
<td>28.0</td>
</tr>
<tr>
<td>1937</td>
<td>23,066</td>
<td>15,714</td>
<td>7,352</td>
<td>31.8</td>
</tr>
<tr>
<td>1938</td>
<td>23,428</td>
<td>14,579</td>
<td>8,849</td>
<td>37.7</td>
</tr>
<tr>
<td>1939</td>
<td>24,347</td>
<td>14,401</td>
<td>9,946</td>
<td>40.8</td>
</tr>
<tr>
<td>1940</td>
<td>28,760</td>
<td>14,766</td>
<td>14,000</td>
<td>49.0</td>
</tr>
<tr>
<td>1941</td>
<td>40,952</td>
<td>16,939</td>
<td>24,013</td>
<td>58.6</td>
</tr>
<tr>
<td>1942</td>
<td>52,360</td>
<td>18,215</td>
<td>34,145</td>
<td>65.2</td>
</tr>
<tr>
<td>1943</td>
<td>51,382</td>
<td>17,946</td>
<td>33,436</td>
<td>65.0</td>
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<tr>
<td>1944</td>
<td>56,022</td>
<td>20,970</td>
<td>35,052</td>
<td>62.5</td>
</tr>
<tr>
<td>1945</td>
<td>62,399</td>
<td>25,200</td>
<td>37,199</td>
<td>59.6</td>
</tr>
<tr>
<td>1946</td>
<td>86,912</td>
<td>34,900</td>
<td>52,012</td>
<td>59.8</td>
</tr>
<tr>
<td>1947</td>
<td>128,452</td>
<td>48,365</td>
<td>80,087</td>
<td>62.3</td>
</tr>
<tr>
<td>1948</td>
<td>150,587</td>
<td>56,266</td>
<td>94,321</td>
<td>62.6</td>
</tr>
<tr>
<td>1949</td>
<td>166,108</td>
<td>59,756</td>
<td>106,352</td>
<td>64.0</td>
</tr>
<tr>
<td>1950</td>
<td>185,673</td>
<td>66,835</td>
<td>118,838</td>
<td>64.0</td>
</tr>
<tr>
<td>1951</td>
<td>205,846</td>
<td>73,048</td>
<td>132,798</td>
<td>64.5</td>
</tr>
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</table>

**SOURCE:** Compiled from records kept in the Controller's Office, Jewel Tea Company, Inc., Barrington, Illinois.
times in the twenty-year period from 1932 through 1951.

Sales volume, however, is not particularly significant when considering business efficiency. More important is the contribution made to earnings by the Food Stores Department, which is shown in Table XIV for the period 1932-1946. The first year of appreciable profits by the Food Stores Department came in 1938, when nine per cent of all profits were contributed by the operation. This had been preceded by four years, 1932-1935, of operating losses and two more years of small profits.

This contribution to operating profits was accelerated during the war years, reaching a peak in 1943, when more than one-half of company earnings resulted from food store sales. This year was the nadir for the Routes Department, for coffee rationing, labor shortages, and tire and gasoline restrictions combined to make for a poor year. Diversification had provided a balance which made the war period easier for the company. Without the Food Stores Department these years would have been much more troublesome. A high level of consumer income coupled with a shortage of other spending outlets and low operating costs due to the wage freeze and general reduction of customer

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2 Company executives do not wish data on operating profits to be released for years following 1946, because of competitive conditions in the grocery chain store field in the Chicago area.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Operating Profit (000)</th>
<th>Routes Operating Profit (000)</th>
<th>Food Stores Operating Profit (000)</th>
<th>Percentage of Stores Department Operating Profit to Total Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>925</td>
<td>1,135</td>
<td>(210)*</td>
<td>----</td>
</tr>
<tr>
<td>1933</td>
<td>1,433</td>
<td>1,719</td>
<td>(286)</td>
<td>----</td>
</tr>
<tr>
<td>1934</td>
<td>1,892</td>
<td>2,288</td>
<td>(396)</td>
<td>----</td>
</tr>
<tr>
<td>1935</td>
<td>1,990</td>
<td>2,144</td>
<td>(154)</td>
<td>----</td>
</tr>
<tr>
<td>1936</td>
<td>2,320</td>
<td>2,233</td>
<td>87</td>
<td>3.7</td>
</tr>
<tr>
<td>1937</td>
<td>1,945</td>
<td>1,889</td>
<td>56</td>
<td>2.9</td>
</tr>
<tr>
<td>1938</td>
<td>2,137</td>
<td>1,943</td>
<td>194</td>
<td>9.0</td>
</tr>
<tr>
<td>1939</td>
<td>2,374</td>
<td>2,144</td>
<td>230</td>
<td>9.7</td>
</tr>
<tr>
<td>1940</td>
<td>2,255</td>
<td>1,950</td>
<td>305</td>
<td>13.5</td>
</tr>
<tr>
<td>1941</td>
<td>3,229</td>
<td>2,458</td>
<td>771</td>
<td>23.9</td>
</tr>
<tr>
<td>1942</td>
<td>3,650</td>
<td>1,672</td>
<td>978</td>
<td>36.9</td>
</tr>
<tr>
<td>1943</td>
<td>1,303</td>
<td>639</td>
<td>664</td>
<td>50.9</td>
</tr>
<tr>
<td>1944</td>
<td>2,247</td>
<td>1,198</td>
<td>1,049</td>
<td>46.9</td>
</tr>
<tr>
<td>1945</td>
<td>3,404</td>
<td>2,002</td>
<td>1,402</td>
<td>41.2</td>
</tr>
<tr>
<td>1946</td>
<td>5,945</td>
<td>4,178</td>
<td>1,767</td>
<td>28.0</td>
</tr>
</tbody>
</table>

*Operating losses indicated in parentheses.


Operating profit includes earnings before provision for reserves, profit sharing and taxes on income plus discounts.

NOTE: Company executives do not wish figures since 1946 to be released because of competitive conditions in the grocery chain store field in the Chicago area.
services were important factors in the success, as was the high level of operating efficiency which had become firmly entrenched in the Food Stores Department just preceding the war.

The Food Stores Department's contribution to overall operating profits fell to less than thirty per cent in 1946. Thus, in that year the Routes Department accounted for approximately forty per cent of total sales volume and contributed seventy per cent of operating profits. The year is not typical, however, as chain grocery stores were faced with rising operating costs and price ceilings which made profits hard to obtain. A more normal relationship probably would be for the Routes Department to contribute sixty per cent of profits and the Food Stores Department forty per cent. The higher gross margins obtained in route operations and the intense competitive conditions in the chain grocery store field account for this seeming paradox. The Routes Department remains the most important part of the business, but the Food Stores Department has been an extremely worthwhile diversification of activities.

This diversification has brought intangible results in addition to such tangibles as sales and profits. The establishment of two selling departments has provided a mechanism for competition among managerial personnel. Top-level management positions can be achieved by outstanding
performance in either department. Furthermore, the food stores operation has materially affected the merchandising policies of the Routes Department.³

Problems of policy enforcement. Most of the problems which have faced management in carrying out this policy are inherent in any grocery chain store operation. No attempt is made to relate these problems, for that is a study unto itself. Certain problems have pertinency to this study as their solutions affected the Routes Department as well as the Food Stores Department.

One of the reasons for the entry into the chain store field was to permit better utilization of company management personnel; nevertheless, outside management was employed at the outset. In March, 1934, the original idea was adopted and personnel was transferred from the Routes Department to the Food Stores Department. This new management group was able to place the company into a condition of profitable operation. Moreover, company executives began to think about company rather than departmental problems. Franklin Lundin, and his successor as company president, George Clements, both received their merchandising training in the chain store operation. Management became more versatile

³See Chapter V, for a discussion of merchandising policies.
because of the decision.

In addition to providing a testing ground for executive development, the Food Stores Department furnished a new merchandising philosophy and a more scientific approach to business problems. The last-mentioned contribution was first evidenced in the fall of 1933, when Robert R. Updegraff, a business consultant, was engaged to determine why the food stores operation was not successful. He conducted a consumer survey and made extensive recommendations concerning methods of operation. Since this time more outside assistance has been sought by management when seeking a solution to a business problem. Later problems have included those of transition to the supermarket type of operation, and more recently, the introduction of self-service meat departments.

Summary and conclusions. The Jewel Tea Company entered the grocery chain store field in 1932, when a number of stores in the Chicago area were purchased. This policy of diversification had been fermenting for a number of years; only the condition of a likely purchase was needed to implement the decision. Thus, the policy can be said to have been the result of considerable thinking, little immediate planning, and present opportunity. It would be unfair to say the policy was formulated opportunistically, for management had the idea under consideration for some time.
It should be noted that this decision was not revolutionary. The company was merely following a pattern set by some of its competitors. The Grand Union organization, the second largest operator in the home-service industry, previously entered the chain store field as a means of diversification.\(^4\)

\(^4\) Interview with Mr. H. W. Dotts, Vice-president and Sales Manager, Jewel Tea Company, Inc., August, 1951.
CHAPTER XI

GENERAL SUMMARY

Certain contributions to our knowledge of marketing can be made by a historical study. Some of these contributions are revealed in this dissertation. The truism that "marketing is dynamic" is clearly illustrated by the analysis of changing policies. The need of marketing institutions for strong executive leadership of a type which is oriented toward the existing business climate is pointed up. It is shown that in the life of every distributive company there is a time for originators, innovators, controllers, consolidators, and merchandisers. The urgency of proper timing is stressed.

A study of this type should be useful to the members of the executive staff of the company examined. New members of the management force will perform their jobs better if they have a clear picture of their company's history, particularly the reasons why things are done as they are. With such background information they can start on a more equal footing with senior members of the group in planning future operations. Time often spent in speculation over policies which appear attractive to the uninitiated, but which have been tried and found to be unsatisfactory, should be saved.
Even men of long service with the company can use the history to refresh their memories and to fill gaps in their knowledge of overall operations. It is submitted that every business firm should maintain a business history of its operations as an integral part of its executive training and development program.

Furthermore, such studies have usefulness for the personnel of other firms in the industry and for those in related fields of endeavor. To some extent marketing efficiency is fostered by them because knowledge of past plans and their success or failure can guide the thinking of the marketing executive in his own activities. This does not lessen the need for creative thinking on his part but merely provides help in so doing. Business history does not furnish answers in an automatic manner; instead it reveals alternative approaches from which to choose in decision-making and warnings as to possible pitfalls.

The student of marketing is aided in a fashion similar to the executive, as he is given a concrete case study which can be added to his fund of information, thus making possible a better understanding of the entire marketing system. Misconceptions are dispelled by facts; for example, in this study it has been shown that, contrary to usual belief, the chain store fostered the home-service industry rather than springing from it; furthermore, that
the industry operates principally in urban areas rather than in the country. All in all, the use of the historical approach to the study of marketing is much to be desired. More business histories of marketing firms should be made.

**Nature of the study.** In essence this study is a partial history of the Jewel Tea Company, Inc., for the years 1901-1951. Its scope is confined to the development of marketing policies during the period, although other phases of business management are discussed when pertinent. Three major objectives can be claimed for the study: (1) to provide a business history of one marketing firm; (2) to trace and analyze the process of marketing policy formulation as performed by the management of one company; and, (3) to examine the company and the home-service industry of which it is a part, particularly in respect to the method of operation used in marketing activities.

Little research and writing has been done in any of these areas. The whole field of business history is almost unbroken by the scholar's plow; this is especially true for distributive institutions. Furthermore, marketing students have neglected the study of marketing-policy formulation. The same statement can be made concerning the home-service industry.

The method of research adopted consisted of examining company records for the fifty-year period in order to ferret
out information falling into these three categories. The minutes of the meetings of the board of directors and presidential reports to that body provided the core of basic data which was supplemented by other company records and publications, interviews and correspondence with past and present executives, and by bibliographical research into magazines and newspapers.

The Company, its method of operation, and the industry. The Jewel Tea Company is a New York corporation with home-offices located in Barrington, Illinois. The retailing of food, household, and general merchandise products is its major function. These goods are sold by means of more than two thousand home-service routes operating in forty-two states and the District of Columbia plus some one hundred and fifty retail stores located in the Chicago area. Emphasis in this study has been placed upon the "routes operation" with the "stores enterprise" receiving secondary attention. Annual sales volume achieved for the entire company exceeded two hundred million dollars in 1951. Approximately one-third of this figure was achieved by the Routes Department.

The company is the leader of the home-service industry which has a highly stylized method of operation. This method includes initial solicitation of housewives by an advance salesman who persuades them to become customers by
means of a sales-talk which features a premium offer and the quality of the products sold. The orders which he takes are delivered by a route manager who serves a group of ten different sets of customers who are called upon bi-weekly in order to fill their needs for coffee, tea, spices, soap, flavorings, and other merchandise. The industry is actually a refinement and adaptation of the peddling method of selling. Its start is traced to the Great Atlantic and Pacific Tea Company which adopted the method in the 1880's in order to reach rural markets. Approximately 8,700 routes were being operated by all members of the industry in 1951 with total sales approximating $200,000,000. Nearly one-fourth of these routes were owned and operated by the Jewel Tea Company which in turn did three-eighths of industry sales volume.

Periods of company history. Five well-defined periods are to be found in the company's history. The first was one of inception followed by fast growth. Frank Skiff and Frank Ross began in 1901 with a one horse, one wagon operation, using the partnership form of business organization. By 1916, when the present company was incorporated in New York and stock was first sold to the general public, the number of units had risen to 850.

The next period ran from 1916 to 1919 and started with an accelerated rate of expansion until more than 1,700
routes were in operation by year-end 1917. This rapid expansion and the new corporation's plan of capitalization were tested when the United States entered World War I. They were found to lack soundness. Labor shortages, high costs of raw materials, and problems of plant operation soon fused to bring about a chaotic financial picture, and in 1919 the company suffered its first deficit. The gravity of the situation forced the withdrawal of Skiff and Ross from active management and their replacement by executives whose mission was to save company assets for its stockholders.

A period of reentrenchment was begun in mid-year 1919 and continued for five years under the leadership of John M. Hancock who transplanted Navy control methods into company operations. Although liquidation was seriously sought and failed only because of the lack of purchasers, an affirmative approach was soon taken and a stringent program calling for contraction of activities was inaugurated, as well as the introduction of scientific methods of business operation. The company was saved from failure through Hancock's efforts.

When Hancock resigned in 1924, his subordinate, Maurice Karker, was installed in the company presidency. An eighteen year era of stability and maturity began, for Karker was a man who believed in close control and slow but steady growth.

The last phase of the fifty years came in 1942 with
the replacement of Karker by Franklin J. Lunding. After successfully surviving the hazards of World War II through the use of the lessons learned from company experience in the previous war, a new philosophy of merchandising was introduced to the routes operation, and the company entered a new period of expansion, characterized to some extent by an increase in the number of units but more particularly in the type of merchandise sold and in selling methods.

**Early-day policies.** Policy formulation decisions had to be made by the partner-founders immediately. A method of operation had already been developed by their predecessors in the industry, but whether its adoption in toto was advisable had to be determined. Some firms used weekly deliveries, while others followed a bi-weekly pattern. The latter alternative was selected in order to obtain a more extensive cultivation of the market with a limited amount of capital, as growth was mostly thought of by the founders in terms of operating units rather than sales volume. Weekly calls were later tried experimentally, but never were considered to be satisfactory by company executives. Thus, this decision, made at the commencement of operations, was arrived at through an intuitive selection between two alternatives.

Another facet of the existing way of running a hom-service company involved the premium-merchandising concept.
Customers are given various items of general merchandise as a form of patronage dividend. The plan is designed to interest the prospective customer in the company and its method of selling and to continue patronage after the first premium has been earned. Premium merchandising is at the very heart of the home-service method of operation and furnishes an important characteristic distinguishing it from most other forms of retailing. Continued existence of home-service retailing without its use is doubtful; therefore, the founders of the Jewel Tea Company did not hesitate long in their decision to adopt the technique.

Their employment of the policy, however, was more sophisticated than its use by competitors, and it soon came to be increasingly important as a builder of sales volume. This was implemented by the adoption of the advanced premium principle during the first decade of company operations. Under this principle the housewife was permitted to obtain immediate possession of the desired premium by merely promising to buy a certain quantity of goods from the company over an indefinite period of time, whereas previously she had to earn it beforehand through the accumulation of checks. One day Frank Ross was faced with the buying objection that the customer had accumulated checks toward a premium offered by another company which went out of business before their redemption. On the spur of the
moment, he offered the premium he was promoting under the terms stated above. In that manner the most important contribution, possibly, of the Jewel Tea Company to its industry and its own future growth was devised. No planning or thought preceded the decision which was purely opportunistic.

**Selling and pricing policies.** The new customer is typically entered upon the company route books as a result of the efforts of a solicitor who engages in a technique known to the industry as "advance selling." He sells the housewife on the method of retailing in order that she will become a customer of the company and the route manager can start his bi-weekly calls. An order is obtained from her in advance of its delivery; in other words, a part of the route manager's sales function is performed by a specialist in house-to-house selling. This process is important in the building of new routes when the company is expanding into new territory and to the maintenance of buyer count on existing routes. Once again is noted a policy which was in use at the time of the formation of the Jewel Tea Company which took it routinely as part of its method of operation. Although persistent attempts have been made to eliminate these functionaries, the need for their specialized talents, even though expensive, has brought about their continuance.

Traditionally the company has followed a pricing
policy that would yield relatively high gross margins. Its method of selling is expensive because of the high labor charges incident to the services of delivery and personal selling performed for the customer. Often merchandise was selected for sale more for profit possibilities than because of demand factors. This policy was changed, more in principle than practice it should in all fairness be stated, following World War II. It was decided that margins should be decreased in order to make company prices more competitive with those of other retail outlets, thereby increasing profits via the route of increased sales volume albeit at lower per unit rates. This was merely a transplantation of the long-accepted merchandising philosophy in the retail food chain store field; it was brought to the routes operation by Franklin Lunding when he became company president. Full application of the policy has not yet been achieved. The policy resulted from a deliberate search for a way by which the company could expand other than through the addition of more and more routes.

Because of the disparity between the operating costs of the retail food chain store and home-service methods of operation, competitive pricing of food items sold by the latter would be less than easy unless new ways were found to increase overall gross margins. One of these was the adoption in 1951 of a policy of mail-order selling. Many items
of general merchandise which normally carry higher markons were added to the product line to assist in the accomplishment of this goal. As many of these items are bulky and not easily delivered by the route manager on his regular calls, a catalog was printed and orders solicited by him to be delivered to customers by parcel post in a manner similar to that used by the general merchandise mail-order houses such as Sears, Roebuck & Co. and Montgomery Ward & Co. The problems which had been raised by the competitive pricing policy gave birth to mail-order selling by the Jewel Tea Company. Again positive thinking and planning were involved, as well as the technique of adaptation. A method of operation used by the large mail-order houses for some seventy years was given a new twist which was particularly significant in its sales potentialities, as the selling qualities of a printed catalog came to be augmented by the personal sales efforts of route managers calling every two weeks.

Sales management policies. The responsibility for the recruitment, selection, and training of route managers reposes in the company's seventy-six branch managers. To a large extent recruitment is done by means of employee and customer recommendations; prospective additions to branch personnel are suggested by these two groups. Occasionally other methods are used, principally classified advertising
in local newspapers. When actual selection is to be made, the branch manager has little to guide him except his own judgment and knowledge of men. He is limited in only three ways: a physical examination must be passed by the applicant; he must post a bond; and, he must furnish satisfactory references. Otherwise, the decision is completely decentralized. The training program is on-the-job and largely individual in nature. The new route manager learns the job first by observing operations for one week, then by performing its duties for another week under supervision; thereafter, he works independently. Supervision of route operations is done by the branch manager and his staff. Because of the nature of the home-service job with the route manager constantly on the move, supervision is difficult, for it necessitates the complete tying-up of the supervisor’s time while he accompanies the route manager on his delivery schedule. Therefore, control records and field audits are relied upon heavily for routine supervision.

Whereas recruitment, selection, training and supervision of route managers are essentially decentralized, the converse is true for compensation and stimulation phases of the sales management task. In order to provide sufficient motivation to bring about a high volume of sales, route managers have always been paid under some form of commission plan which is company-wide in application. This ties
earnings of selling personnel with their individual production of sales, thus changing selling costs from fixed to variable charges, and furthermore, providing a form of indirect supervision, or self-supervision, of the activities of route managers.

Sales contests of various sorts have been used as the principal means of additional stimulation of the sales force. Although often successful in specific instances, the technique seems to have been over-exploited to the point where contests are not received with proper enthusiasm to be meaningful. In sum, it can be said that better selection and training of route personnel is the most pressing need in the field of sales management with proper methods of compensating, supervising, and stimulating them holding places of secondary importance, probably in that order.

In addition to sales management policies affecting the route manager, those affecting route operations must be considered. These activities are becoming increasingly centralized in the home-office personnel of the Jewel Tea Company. When a branch manager wishes to add a new route to his operations, the plan must be submitted for evaluation, not only as to its merits but in relation to overall expansion plans of the company. This tends to prevent the ill-considered growth which created such serious problems for the company after World War I. Furthermore, branch and
route equipment such as delivery trucks, and facilities such as warehouses and storerooms, are carefully regulated by home-office personnel, who also set company-wide sales quotas. The latter are expressed in dollars of sales per route per week. Evaluation of the performance of individual route and branch managers centers around the approximation of their results to these quotas.

Labor unrest has been present in the company's management-employee relations history on two occasions, the first was following World War I and the second in the mid-1930's. In both instances unsuccessful attempts were made to unionize the company's route managers. In the early days of the company when Skiff and Ross were its leaders, employees were treated impersonally and roughly; they were driven to performance. This philosophy was abandoned and replaced by one of paternalism under President Karker, who served from 1921 to 1928. Employees were closely regulated in both their work and their personal lives. President Lunding introduced more enlightened policies when he became the head of the Jewel Tea Company in 1942; a new philosophy of democratic leadership aimed at getting employee productivity because of a desire to produce, not because of fear, was installed.

Credit policies. The basic credit policy of the company is that sales are made for cash only. The method of
operation made one exception advisable, namely, that the route manager could extend credit for the goods in one delivery for a two-weeks period, the time lapse between calls. Often housewives are either temporarily out of funds or not at home when the route manager calls. In such cases a return trip is necessary, or the sale is forfeited unless such an exception is permitted. In the first instance, the policy was formulated to minimize credit losses, and the exception came in answer to a pressing operational problem which it caused. It should be noted that under the advanced premium merchandising plan, credit is extended on premiums which customers are earning by their purchases from the company.

Following World War II, a rather sharp deviation was made from the no-credit policy. At this time instalment credit selling was introduced for general merchandise items of relatively high value. The reason was the same as for the introduction of mail-order selling, that is, in order to permit the extension of the company's product line through the addition of general merchandise items carrying higher gross margins. These items were not easily sold when cash payment was required. The company had tried instalment selling in a timid manner some years previously but it had been abandoned. Later, competing home-service firms successfully adopted the idea, so the Jewel Tea Company
re-adopted it. In this instance the company was first an innovator and later a follower.

**Manufacturing and jobbing policies.** Most of the food items and many of the household supplies sold by the company through its routes operation are manufactured, processed and packaged in its own plant, located at Barrington, Illinois. In the early years of the company, the partners purchased processed products and packaged them in company-labeled containers. It was a natural step to integrate vertically and start processing these products, which was done in 1906 when the first item, baking powder, was company-produced. By 1909, coffee was being roasted in company roasters. Items were added one by one until now approximately two-thirds of all products sold by the Routes Department are so processed. The policy originated in the founders' search for greater profits and has been adapted to include quality control and more competitive pricing among its objectives.

The principal item in the product line has always been coffee, although over the years other items have been added sometimes at such a rapid rate that a policy of product line simplification had to be adopted temporarily. At one time more than three-fourths of all sales dollars were derived from coffee sales; however, this ratio has gradually declined to around one-third. New concepts of merchandising
which occasioned many additions to the line and the use of coffee as a price-leader by competitive retail outlets have combined to bring about this decline in the importance of coffee. Nevertheless, it is highly important that coffee be promoted by route managers, as it furnishes the best possible means of insuring regular patronage, for a customer who has a standing order for coffee to be delivered every two weeks remains on the route customer list longer and buys more merchandise than other customers. At first merely a policy which recognized an existing condition, the primacy of coffee in the product line came to be part of a considered plan of merchandising aimed at retaining customers.

Exploratory attempts have been made to job merchandise manufactured by the company to other retailers. The most extensive experiment was made in Brooklyn and Hartford from 1926 through 1930. The plan was to sell coffee to retailers in the two cities in a manner similar to that used in its sale to consumers in other parts of the country. This plan was a failure, although the wholesaling policy still remains in company thinking albeit in latent form. It was formulated as a way of increasing profits through fuller utilization of plant capacity and, more importantly, because it was felt that the home-service method of selling was obsolete and alternative methods of operation should be developed. The fear was unwarranted, and wholesaling never
Advertising policies. Advertising, as it is usually defined, is little used by the company in its routes operations. In the 1920's, advertising was tested in the state of Ohio with unsatisfactory results. At that time it was used in an attempt to reduce the costs of personal solicitation of new business by acquainting prospective customers with the home-service method of selling; however, these costs were not lowered and the plan was discontinued. It has long been claimed that the premium is the company's method of advertising, and this idea has been extensively promoted. In effect, however, the claim is merely a subterfuge and came about mostly as a rationalization for another policy, i.e., the policy of premium merchandising. It furnishes an answer of sorts for the customer objection that the premium is paid for in the price of merchandise bought from the company.

The decision to enter the chain store field. The company entered upon a diversification project of importance in 1932, when a chain of grocery stores located in Chicago was purchased. These stores have been operated since as an independent part of the business. While not part of the Routes Department, the subject-matter of this study, the decision had far-reaching effects upon it. For a number of
years the Food Stores Department was a serious drain upon company earnings; however, during World War II, it provided a bulwark against declining sales volume and lower earnings when the Routes Department was struggling with shortages of merchandise and manpower and governmental restriction of its operations. The chain store policy had long been contemplated, mainly because of the ever present fear that the home-service method of selling was becoming outmoded. The accumulation of an unwieldly surplus of company funds coupled with the presence of an opportunity to purchase an existing organization provided the environment for final action. Not only has the move been important so far as sales volume and profits are concerned, (the Food Stores accounted for approximately two-thirds of all sales and an estimated one-third of profits earned in 1951) but it has had a favorable effect on the executive force by giving its members a healthy inter-company competition and a new outlook on merchandising philosophy.

Conclusion. Thus, the changing character of marketing operations over the years has been traced through an examination of the policies of one marketing firm during a period of fifty years. In some instances conditions necessitated the adoption of different forms of operation, while, on the other hand, certain ways of doing things remained immutable. The home-service method of operation
taken in its totality was much the same at the end of the period as at the beginning, yet fundamental variations had been tried and occasionally grafted upon it permanently. On the whole, the employment of the method by the Jewel Tea Company was aggressive, alert to the situation, and forward-looking.

Policy formulation techniques used by company management underwent an important maturing process. The founding partners met their problems by means of such unsophisticated devices as intuition, opportunism, and expediency. Their immediate successors found these insufficient in the business environment in which they worked. They added caution and reflection to the picture, and policies were no longer adopted hurriedly. During the last ten years an attempt was made to fuse the imaginative approach of the founders of the company with the cautiousness of the men who followed them. As late as 1951, however, an established procedure of policy formulation had not yet been developed. This points up an apparent lack in the carrying out of their function by many business firms and furnishes an area for further study and experimentation by students and practitioners of business alike.

The tenacity of established methods of operation in the struggle among competing manners of reaching for consumer dollars is illustrated by the home-service industry.
Although a direct descendant of the most ancient form of retailing, i.e., peddling, and often under fire as an uneconomical means of distribution, it not only survives but thrives. The leadership of men such as Skiff and Ross, Hancock and Karker, and Lunding is partially responsible for this healthy longevity. A further factor in the continued success of the industry is to be found in the axiom that institutions continue to flourish only as long as they perform a service to their customers. The home-service industry and its leading member will remain as long as this holds true.
A. BOOKS AND PAMPHLETS

I. GENERAL PUBLISHERS


II. COMPANY PUBLISHED


B. PERIODICAL ARTICLES


"Depression Launches a Business; Beating Depression Builds It," Sales Management, September 15, 1932, p. 238.


Fleming, Herbert E., "Coaching Coaches to Coach," Printer's Ink Monthly, November, 1940, p. 34.


"Red Circle and Gold Leaf," Time, November 13, 1950, pp. 89-98.


C. COMPANY PERIODICALS


The Jewel, September 1, 1922--March 1938.

The New Jewel, March 1938--November, 1942.


The Jewel, March 18, 1949--April, 1950.

Life with Jewel, April 7, 1950--December, 1951.

D. UNPUBLISHED MATERIALS

"Claim for Relief." Submitted by Jewel Tea Company, Inc., to the Bureau of Internal Revenue, United States Government, under the provisions of Section 722 Internal Revenue Code, on March 14, 1946, for the year of 1942. 42 pp. 30 exhibits.


"Registration Statement, 4⅔% Cumulative Preferred Stock ($100 par value)." Unpublished report, submitted by the Jewel Tea Company, Inc., to the Securities and Exchange Commission, United States Government, under the provisions of Securities October of 1933, on August 21, 1941. 6 pp.

E. LETTERS

Corbett, Oliver J., Secretary-Manager, National Retail Tea and Coffee Merchants Association, dated April 14, 1952.

Hancock, John M., Chairman of the Board of Directors, Jewel Tea Company, Inc., dated November 26, 1952.


Updegroff, Robert R., Member, Board of Directors, Jewel Tea Company, Inc., dated December 2, 1952.

F. PERSONAL INTERVIEWS


Corbett, Oliver J., Secretary-Manager, National Retail Tea and Coffee Merchants Association, Columbus, Ohio, March 29, 1952.


Hancock, John M., Chairman of Board of Directors, Jewel Tea Company, Inc., Barrington, Illinois, June, 1951.


Smith, W. D., Dundee, Illinois, June, 1951.

Sturtevant, R. D., Secretary and General Counsel, Jewel Tea Company, Inc., Barrington, Illinois, August, 1951.

Unger, John W., Legal Department, Jewel Tea Company, Inc., Barrington, Illinois, August, 1951.

G. SPEECHES

Lunding, Franklin J., "Getting People to Do Things," before the Nineteenth Annual Meeting of the National Associations of Food Chains, Miami Beach, Florida, October 29, 1952.

H. NEWSPAPERS


APPENDIX
APPENDIX A

"THE JEWEL WAY"

"A. Four Jewel Services

Jewel is more than a big business; it is a service, giving its patrons four worthwhile things for the price of one.

1. Quality products.

Coffees, other food products, laundry products and toilet articles—all of quality—are Jewel's first service to its customers.

Jewel products satisfy because they are always uniform and good; they are prepared with care, and quality is put into them.

The Jewel customer pays no more for Jewel products than she must pay for the same quality elsewhere, but for that price she also gets three other things, making four in all.

2. Quality premiums.

Jewel supplies useful household articles for the customer's home; things she needs, all of high grade, made to please and satisfy her.

With every package of Jewel products the customer receives a credit which she may apply toward payment for the household article she selects, paying for it without additional cash outlay.

This credit allowance does not increase the price she pays for her products.

She does not have to save enough credits to pay for the household articles before getting it (sic!); Jewel advances it to her with her first order of coffee or other products and she uses it while she is paying for it.

Other articles selected by the customer are advanced from time to time; the volume of her purchase each delivery determines the amount of premium advanced.


Jewel brings the markets of the world direct to the customer's door; the Jewel service salesman brings them, giving her the advantages of buying in her home and of delivery at her door.

The Jewel salesman serves her intelligently, respectfully, and regularly, calling once every two weeks, on the same day of the week at the same hour; if he has the customer's standing order he keeps her supplied without further care on her part.

The Jewel salesman makes his customer's
interest his own, because his watchword is Service, and he must satisfy the regular patronage of satisfied customers.

4. Unlimited Guarantee.
   Jewel stands back of its products, household articles and personal service with an absolute satisfaction or money refunded guarantee.
   Jewel guarantees all its products to be pure and of high quality, meeting the requirements of all Pure Food Laws, and going far beyond the law.
   Jewel guarantees all its household articles to be high grade, standard merchandise.
   Jewel guarantees the courtesy, honesty and regularity of all Jewel salesmen.
   If at any time the customer is not fully satisfied her money will be refunded promptly and Jewel guarantees to make satisfactory to her any part of its services with which she is not pleased.

B. Three Jewel Ways of Saving.
   Jewel can do all this for its customers because it prefers to use what it saves, by its perfected business methods, in giving service, rather than in temporarily increasing its profits; it knows that to serve is good business and insures its continued prosperity.

1. Immense Purchasing Power.
   Jewel saves in first cost, because its nationwide business, serving over two million people, enables it to buy in immense quantities from original sources and to manufacture on a large scale.

2. Direct Distribution.
   Jewel saves the wasteful expense and profits of all middlemen; it brings its products direct from its factories to the customer's door, a short cut in distribution.

   Jewel does a cash business, and is able to use all its resources in providing service benefits for its customers.

C. Conclusion
   Thus Jewel saves so much that it can give its customers the four services, products, household articles, delivery to the home, and an unlimited guarantee for the price of the products alone.
   Jewel does not claim to give something for nothing; the customer pays for what she gets, but in buying from Jewel she gets more than when she trades with others.

AUTOBIOGRAPHY
I, John Sherman Wright, was born in Casselton, North Dakota, May 2, 1920. I received my secondary school education in the public schools of that town. My undergraduate training was obtained at the University of North Dakota, from which I received the degree Bachelor of Philosophy in 1942. From the University of Southern California, where I served as research fellow in retailing during the year 1947-48, I received the Master of Business Administration degree in 1949. My enrollments in the Department of Business Organization, The Ohio State University, were for the years 1948-49 and 1951-52, interspersed with employment as an Instructor, School of Business Administration, Montana State University. I have been serving as an Assistant Professor, Division of Business, San Diego State College, since September 1952.