A STUDY TO DETERMINE THE SIGNIFICANCE OF
MARKET PENETRATION IN THE CONSUMER
ELECTRONIC PRODUCTS INDUSTRY

APPROVED:

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Thornton, Nelson L., Jr., _A Study to Determine the Significance of Market Penetration in the Consumer Electronic Products Industry._

Doctor of Philosophy (Marketing), May, 1973, 291 pp., 45 tables, bibliography, 252 titles.

The purposes of this study, in addition to testing the hypotheses, were to prepare an analysis of the size, growth, structure, and problems of the industry; determine the influence of imports on the general structure of the industry; determine the significance of market penetration to domestic manufacturers, wholesalers, retailers, and foreign manufacturers and importers; and examine the market penetration reporting mechanism, its accuracy, usefulness, promptness in feedback of data, and the advantages and disadvantages of maintaining secrecy of data. The hypotheses were these: the mechanism for recording and reporting industry sales is inaccurate; and the desire of United States manufacturers to maintain or increase market penetration results in greater emphasis on sales of units than on dollar sales or profit per product group, complete control or dominance by the manufacturer of the marketing channels, the power of the manufacturer to establish and control prices at the wholesale and retail level, the power of the manufacturer to force full line selling,
the power of the manufacturer to control marketing activities of its wholesaling and retailing organization structure, and reduced profits for the wholesaler and retailer from what they otherwise would be.

Primary data were obtained from personal interviews with retailers and wholesalers, and from questionnaires completed by manufacturers and importers, wholesalers, retailers, large scale retailers, and special users of the product. Unpublished data were furnished by government agencies, trade associations, and others associated with the industry. Secondary data were drawn from current books and periodicals.

Preliminary interviews with members of the industry revealed market penetration to be of significant importance to the industry. A need to analyze the problems of the industry in all areas which relate to market penetration was determined. These problems were: an analysis of the industry and its reporting mechanism for recording data, the importance of imports, market penetration, market and sales potential, distribution, product, pricing, promotion, attitudes of the market, consumerism, channel conflict, and the legal environment.

The study includes six chapters. Chapter I is the introduction. Chapter II presents an analysis of the growth of the industry, including imports. Chapters III and IV discuss the problems of the
industry in the areas which relate to market penetration. Chapter V is an analysis of the data compiled from completed questionnaires. Chapter VI includes the summary, conclusions, and recommendations.

The findings of the study reveal the industry to be of considerable size, highly concentrated at the manufacturing level, extremely competitive, and under increased pressures from foreign goods. It is concluded that market penetration is used both as a measurement tool and as a company goal. Furthermore, it is concluded that the desire for maintaining or increasing market penetration results in the power of the manufacturer and other suppliers to establish and control prices, to force full line selling even of unprofitable products, and to control the marketing activities of others. The desire for market penetration causes emphasis to be placed on unit sales rather than dollar sales or profit, and the result is lower profits for wholesalers and retailers than would otherwise have been realized.

Since the desire for maintaining or increasing market penetration results in many possibly illegal practices and deemphasizes profit, it is recommended that market penetration not be used as a company goal. It should be used as a measurement tool only when the data is known to be accurate.
A STUDY TO DETERMINE THE SIGNIFICANCE OF
MARKET PENETRATION IN THE CONSUMER
ELECTRONIC PRODUCTS INDUSTRY

DISSERTATION

Presented to the Graduate Council of the
North Texas State University in Partial
Fulfillment of the Requirements

For the Degree of

DOCTOR OF PHILOSOPHY

By

Nelson L. Thornton, Jr., B. B. A., M. B. A.
Denton, Texas
May, 1973
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1973
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CHAPTER I

INTRODUCTION

Background of the Consumer Electronic Products Industry

The dynamic nature of the industry, the large potential volume of business available, and the intense competition which exists has tended to cause the consumer electronic products industry to evaluate itself on the basis of its share of market in each product category. Share of market is generally discussed in terms of "market penetration." Since a single percentage point change in market share in any product class amounts to several million dollars or tens of thousands of units in sales, the significance of market penetration to the manufacturer becomes more apparent.

Until recent years, United States manufacturers have been able to dominate the domestic market for consumer electronic products. Recently, however, import products have penetrated the market with some degree of success in each product area. In some instances United States manufacturers have countered the foreign brand competition by manufacturing products in other nations. Other manufacturers have increased their promotional activities,
applied pressure to their distributing organizations, sold directly to large buyers, or accepted a declining market share. Some manufacturers have discontinued marketing certain products.

The problem of maintaining or increasing share of market is vital to the manufacturer, yet each manufacturer guards its market penetration data in a most secretive manner. Data are collected by and known only to the Electronic Industries Association.

Purpose of this Investigation

This study was exploratory in nature. Its purposes were to

1. Prepare an analysis of the size, growth, structure, and problems of the consumer electronic products industry.

2. Determine the significance of market penetration to manufacturers, wholesalers, and retailers.

3. Examine the market penetration reporting mechanism, its accuracy, usefulness, promptness in feedback of data, and the advantages and disadvantages of maintaining secrecy of data.

4. Determine if the desire for maintaining or increasing market penetration by United States manufacturers results in
   a. Greater emphasis on sales of units than on dollar sales or profit per product group.
b. Complete control or dominance by the manufacturer of the marketing channels.

c. The power of the manufacturer to establish and control prices at the wholesale and retail level.

d. The power of the manufacturer to force full line selling.

e. The power of the manufacturer to control marketing activities of its wholesaling and retailing organization structure.

f. Reduced profits for the wholesaler and retailer from what profits otherwise would be.

5. Determine the significance of market penetration to foreign manufacturers and importers.

6. Determine the influence of imports upon the general structure of the industry.

Hypotheses of Study

The hypotheses of this study are

1. The desire for maintaining or increasing market penetration by United States manufacturers results in

   a. Greater emphasis on sales of units than on dollar sales or profit per product group.
b. Complete control or dominance by the manufacturer of the marketing channels.

c. The power of the manufacturer to establish and control prices at the wholesale and retail level.

d. The power of the manufacturer to force full line selling.

e. The power of the manufacturer to control marketing activities of its wholesaling and retailing organization structure.

f. Reduced profits for the wholesaler and retailer from what they otherwise would be.

2. The mechanism for recording and reporting industry sales is inaccurate.

Sources of Data

Primary data were obtained from

1. A preliminary series of personal interviews with two manufacturers, fourteen wholesalers, and ten retailers to determine if market penetration was a significant area of study within the consumer electronic products industry.

2. Response from a letter requesting industry data forwarded to the following
a. One hundred seventy manufacturers and importers, representing total coverage of the Merchandising Week listing of manufacturers and importers.
b. Sixty-five market and audience research organizations related to the consumer electronic products industry as compiled by Television Factbook.
c. Two hundred nineteen advertising, promotion, and public relations companies associated with the consumer electronic products industry.
d. Forty-nine business and trade journals related to the industry.
e. Twenty-one industry trade associations.
f. Twelve government departments, agencies, commissions, and committees related to the industry as compiled by Television Factbook.
g. Twelve broadcasters, banks, financial and related industry sources.

3. A second series of personal interviews with thirteen wholesales and six retailers who were available in Dallas, Texas, for completing questionnaires.

4. Specially prepared questionnaires forwarded to the following:
a. All manufacturers and importers listed in Merchandising Week's "First Annual Distributor Directory" and in Television Factbook. The initial mailing of 195 questionnaires was followed by a mailing of 15 questionnaires to domestic manufacturers who failed to reply to the first questionnaire. In addition, one questionnaire was mailed to a former president of a major firm.

b. Two hundred seventy-four of the 1,631 wholesalers listed in Merchandising Week's "First Annual Distributor Directory." The sample consisted of every distributor in Texas. In addition, 182 wholesalers located in 13 markets where 5 or more domestic brands were being distributed were selected by stratified random sampling. Six wholesaler cooperatives and 11 wholesaler salesmen were surveyed. They were selected from names appearing in trade publications.

c. Forty-nine retailers of consumer electronic products selected at random from the 127 listed in the October 1971 Southwestern Bell Telephone Company Greater Dallas Yellow Page Directory.
d. Fifty-five large scale retailers. Of these, 19 were selected from Texas wholesaler responses as having significant influence on the Texas market. The balance of 36 large scale retailers were selected from department store, discount, mail order, jewelry, and mass merchandising chains in the United States listed in Dun and Bradstreet Million Dollar Directory as having sales of over $100,000,000 in 1970.

e. Sixty-one special type users of consumer electronic products who were considered to be potential direct purchasers from the manufacturer. The sample was selected at random from trade journal and trade association listings of mobile home manufacturers, electronic service companies, rental firms, premium and incentive merchandising firms, large premium buyers, credit card companies, and trading stamp companies.

5. Government agencies, publications, and reports.

Secondary data were drawn from

1. Current periodicals in, and related to, the consumer electronic products industry.

2. Current books, publications, and other library sources.
Methods of Study

By means of a series of preliminary personal interviews with manufacturers, wholesalers, and retailers, and through a thorough study of industry trade publications, it was determined that market penetration was a subject of significant importance to each member of the industry, but of special importance to the manufacturer and wholesaler. The retailer appeared to be less interested in market penetration, but is affected by those actions of his suppliers directed toward attainment of their market penetration goals.

Preliminary interviews and a search of secondary sources of data also permitted the identification of industry problems having a relationship to market penetration. These problems pertained to the importance of imports to the industry, and to determination of the accuracy of the reporting system for recording industry data, market and sales potentials, competition, physical distribution, products, pricing, promotion, attitudes of the market, consumerism, channel conflict, and the legal environment.

Letters requesting data relating to the foregoing industry problems were mailed to 548 potential industry sources as described under "sources of data." The response from these letters combined with secondary sources of data made it possible to analyze each problem.
A series of five questionnaires (see Appendices) were developed to determine the opinions of industry participants regarding industry practices relating to the purposes and hypotheses of the study and to other industry problems. Separate questionnaires were designed for and mailed to manufacturers and importers, wholesalers, retailers, large scale retailers, and potential special users of the product. A number of the wholesaler and retailer questionnaires were completed by personal interviews because persons were available. Completed questionnaires made it possible to validate the hypotheses of the study.

Definition of Terms

The following definitions are provided as an explanation of the meaning of each term as it is used in the consumer electronic products industry:

Market penetration is the ratio of a company's sales to the total industry sales in a given geographic area and time period.

Brand share is the ratio of a single brand's sales to the total industry sales of all brands of a given commodity in a given geographic area and time period.

Share of market is considered to be the same as market penetration and brand share; however, reference is generally directed
toward either the company’s sales or the brand’s sales. Sales can be considered in terms of either units or dollars of a given product category.

Market performance is a broader term than share of market and includes such evaluation factors as development of a firm and brand image, advertising effectiveness, percentage of orders filled, promptness in delivery, dealer development, product servicing, and others, as well as share of market.

Market potential is "a calculation of maximum possible sales opportunities for all sellers of a good or service during a stated period."1

Consumer electronic products in this study are considered to be radios, phonographs, stereos, tape recorders, and television sets.

Delimitations

This study includes only those products mentioned in the definition of consumer electronic products. Such items as electronic organs, pianos, guitars, and other musical instruments, as well as

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1 American Marketing Association, Committee on Definitions, Marketing Definitions (Chicago, 1960), p. 15.
phonograph records, photographic equipment, and automobile radios are not included. Frequently consumer electronic products are referred to as "home entertainment" or "home electronic" products.

Order of Presentation

Chapter II presents an analysis of the development of the consumer electronic products industry, its formation, size, growth, and development of individual products. The significance of imports to the industry is treated as well as the nature of competition within the industry.

Chapters III and IV examine the problems of the industry as determined from preliminary interviews and secondary data. Data from all sources other than multiple questionnaires and interviews for completing questionnaires are treated in these chapters. The subjects of market penetration, market and sales potential, and the reporting system for recording industry data are discussed in Chapter III.

Chapter IV includes a discussion of the industry problems related to distribution, products, pricing, promotion, attitudes of the market, consumerism, channel conflict and control, and the legal environment.

Chapter V presents and analyzes the data compiled from multiple questionnaires. Response from these questionnaires
expressed the opinions of the five groups of respondents regarding industry practices relating to the purposes and hypotheses of the study and related industry problems.

Chapter VI includes the summary, conclusions, and recommendations.
CHAPTER II

AN ANALYSIS OF THE CONSUMER ELECTRONIC PRODUCTS INDUSTRY

Early Formation of the Electronic Industry

The history and formation of the consumer electronic products industry can be traced to the development of the recording machine in the late nineteenth century. From the recording machine came the beginning of the phonograph and the record industry. Radio, however, was the first electronic product of the industry.

The commercial possibilities of radio were recognized immediately following World War I when the United States Navy foresaw the need for a United States organization to control radio communication in the United States. Until this time, the British Marconi Company, with its subsidiary, the Marconi Wireless Telegraph Company of America, held the dominant position of leadership and threatened world control of radio communication. To prevent such control, the Navy Department suggested to the General Electric Company that it not sell certain equipment to Marconi, but that General Electric attempt to get Marconi to divest itself of the
American Marconi Company, including patents. From these negotiations and government pressures, the Radio Corporation of America was formed in 1919 by combining the patent rights and interests of the Marconi Wireless Telegraph Company of America and the General Electric Company.

The founding of the Radio Corporation of America seemed to clear the patent deadlock that existed at the time between the Westinghouse Electric and Manufacturing Company, American Telephone and Telegraph Company, and the International Radio Telegraph Company. Cross-license arrangements made it possible for improvements to be made in transmission and receiving equipment. Public broadcasting began with a single station in November, 1920. Instant success accelerated the installation of other new stations.

Nearly three hundred stations were in operation by the end of 1922, between five hundred and six hundred by mid-1926, and nearly seven hundred in mid-1927. This brought about the immediate acceptance of radio as is indicated by the following:

Prior to 1921, the sale of radio apparatus other than that used for public radio-telegraph communication purposes was confined chiefly to the sale of radio parts and vacuum tubes.

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tubes to amateurs and experimenters for their personal use; but when lay interest was aroused by the early broadcasting activities, the demand for simplified radio receivers for home entertainment grew to such volume during 1922 to 1923 that, at times, manufacturing facilities were barely able to cope with the demand. Thus, the sale of radio receivers grew from a business of a few thousand dollars per annum in 1922 to hundreds of millions of dollars per annum subsequent to 1922. 2

General Growth of the Electronics Industry

Table I presents an industry summary of factory sales by selected years since 1925. Total industry sales grew from $180 million in 1925 to over $24 billion in 1970. Today, as in its incubation period, the industry is influenced, as well as supported, to a large degree by the government, especially the military. The government sector has accounted for approximately forty-seven to fifty-seven per cent of industry sales for the last fifteen years.

The second largest segment of the industry is the industrial segment. This segment is experiencing the most rapid growth and now represents approximately one-third of industry sales. If replacement components are included with the industrial sector, total industrial sales exceeded $8.6 billion in 1970.

Consumer electronic product sales have continued to grow, but not at the rate of growth of the electronics industry. Prior to 1951,

2 Ibid., p. 844.
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<td>4,378</td>
<td>6,373</td>
<td>11,720</td>
<td>650</td>
<td>23,121</td>
</tr>
<tr>
<td>1968</td>
<td>4,619</td>
<td>6,693</td>
<td>12,563</td>
<td>675</td>
<td>24,550</td>
</tr>
<tr>
<td>1969</td>
<td>4,829</td>
<td>7,913</td>
<td>12,287</td>
<td>718</td>
<td>25,747</td>
</tr>
<tr>
<td>1970</td>
<td>3,940</td>
<td>7,996</td>
<td>11,687</td>
<td>667</td>
<td>24,290</td>
</tr>
</tbody>
</table>

*Excludes foreign label imports.

consumer electronic products dominated the electronics industry with over fifty per cent of its annual sales. By 1958 this had declined to about twenty per cent. In 1970, consumer electronics accounted for only sixteen per cent of the total sales of the electronics industry. In dollars, consumer electronic product sales grew from $92 million in 1925 to $1.5 billion in 1950, $1.6 billion in 1953, $2.0 billion in 1960, and nearly $4.0 billion in 1970. Dollar sales have increased substantially; however, when the growth years of color TV, 1964-1967, are excluded "you see something startling and even unique: consumer electronics grows today at a rate SLOWER than Gross National Product!" 3

It should be noted that the data in Table I are domestic label sales which include products either produced in the United States or imported by United States manufacturers for sale with their brand name. Therefore, foreign label import sales are excluded, and the significance of consumer electronic product sales is understated because of imports. Domestic production is overstated because some domestic brands are produced in foreign nations.

Individual Product Sales Growth

Electronic Industries Association data, collected on an annual basis, indicate the size and growth of individual products. The data presented in Table II are total U. S. sales by product in units and dollars from 1960 to 1970. All figures are in thousands and include import sales, as well as domestic manufacturers' sales. Import dollar figures are based on the average value of total imports as established by the Department of Commerce.

Combined sales of radio, television, phonograph, and recorder products grew from $1.3 billion in 1960 to $3.2 billion in 1970. Unit sales for these products increased from 28.6 million to 60.3 million during the same period of time. All products had phenomenal growth during the 1960's with the exception of phonographs. While unit sales of phonographs increased from 4.5 million in 1960 to 5.6 million in 1970, dollar sales increased only $17 million, from $359 million to $376 million.

Recorder sales increased from fewer than 300 thousand units in 1960 to more than 8.4 million units in 1970. Dollar sales of recorders increased from $14.6 million to $243.8 million for the same years. Unit sales of radios nearly doubled from 18 million units in 1960 to 34 million units in 1970. Dollar sales of radios did double from $170 million to $380 million. Unit sales of
TABLE II

TOTAL U. S. SALES OF TELEVISION RECEIVERS, RADIOS, PHONOGRAPH AND RECORDER 1960-1970
(Units in Thousands, Dollars in Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Television</th>
<th>Radio</th>
<th>Phonograph</th>
<th>Recorders</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
<td>Units</td>
<td>Dollars</td>
</tr>
<tr>
<td>1960</td>
<td>5,829</td>
<td>797</td>
<td>18,031</td>
<td>190</td>
</tr>
<tr>
<td>1961</td>
<td>6,315</td>
<td>814</td>
<td>23,654</td>
<td>190</td>
</tr>
<tr>
<td>1962</td>
<td>7,134</td>
<td>1,005</td>
<td>24,781</td>
<td>207</td>
</tr>
<tr>
<td>1963</td>
<td>7,983</td>
<td>1,099</td>
<td>23,602</td>
<td>179</td>
</tr>
<tr>
<td>1964</td>
<td>9,764</td>
<td>1,384</td>
<td>23,558</td>
<td>267</td>
</tr>
<tr>
<td>1965</td>
<td>11,477</td>
<td>1,869</td>
<td>31,689</td>
<td>328</td>
</tr>
<tr>
<td>1966</td>
<td>12,714</td>
<td>2,617</td>
<td>34,779</td>
<td>346</td>
</tr>
<tr>
<td>1967</td>
<td>11,564</td>
<td>2,570</td>
<td>31,684</td>
<td>333</td>
</tr>
<tr>
<td>1968</td>
<td>13,211</td>
<td>2,677</td>
<td>23,322</td>
<td>371</td>
</tr>
<tr>
<td>1969</td>
<td>13,308</td>
<td>2,585</td>
<td>39,414</td>
<td>422</td>
</tr>
<tr>
<td>1970</td>
<td>12,220</td>
<td>2,202</td>
<td>34,049</td>
<td>380</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Dollars</th>
<th>Dollars</th>
<th>Units</th>
<th>Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>4,523</td>
<td>359</td>
<td>295</td>
<td>14.6</td>
</tr>
<tr>
<td>1961</td>
<td>3,989</td>
<td>304</td>
<td>1,166</td>
<td>54.1</td>
</tr>
<tr>
<td>1962</td>
<td>4,954</td>
<td>389</td>
<td>1,675</td>
<td>58.0</td>
</tr>
<tr>
<td>1963</td>
<td>5,142</td>
<td>421</td>
<td>2,841</td>
<td>79.2</td>
</tr>
<tr>
<td>1964</td>
<td>5,159</td>
<td>440</td>
<td>3,561</td>
<td>97.0</td>
</tr>
<tr>
<td>1965</td>
<td>6,130</td>
<td>505</td>
<td>3,445</td>
<td>122.2</td>
</tr>
<tr>
<td>1966</td>
<td>6,303</td>
<td>528</td>
<td>3,575</td>
<td>113.3</td>
</tr>
<tr>
<td>1967</td>
<td>6,626</td>
<td>480</td>
<td>4,563</td>
<td>129.3</td>
</tr>
<tr>
<td>1968</td>
<td>6,495</td>
<td>503</td>
<td>5,573</td>
<td>157.8</td>
</tr>
<tr>
<td>1969</td>
<td>6,320</td>
<td>490</td>
<td>6,929</td>
<td>198.4</td>
</tr>
<tr>
<td>1970</td>
<td>5,620</td>
<td>376</td>
<td>8,459</td>
<td>243.3</td>
</tr>
</tbody>
</table>

television sets increased from 5.8 million in 1960 to 12.2 million in 1970 while dollar sales nearly tripled from $797 million to $2.2 billion. Television accounted for over two-thirds of dollar sales for all products in 1970.

Census Comparison of Growth

In order to compare data, Table III presents an abstraction showing quantity and value of shipments and dollar totals for each product with which this study is concerned. The Census of Manufacturers' data in Table III are considerably less in units in every product category than the Electronic Industries Association data.
presented in Table II for comparable years. Differences are substantial in some instances, such as the twenty million unit difference in radio sales in 1967. One reason for part of these major differences is the inclusion of import sales in Table II.

Although the unit sales are less for radio and phonograph products, the total dollar sales are greater. For 1967, the Census of Manufacturers reported radio sales to be 11.1 million units and $475 million. Television sales were 9.7 million units and $2.1 billion. Phonograph sales were 3.7 million units and $138 million while recorder sales were 800 thousand units and $49.6 million. Combined sales for all products in 1967 were 25.3 million units and $2.8 billion.

Average Growth

According to the U. S. Industrial Outlook 1971, the average growth of the consumer electronic products industry shipments between 1963 and 1970 has been about 5.5 per cent per year. The year 1970 was a depressed one for the industry and growth rate declined from previous years. Export values during this period increased at an annual rate of thirteen per cent while imports increased at an annual rate of thirty-two per cent. Exports represented four per cent of product shipments during 1970.  

---

Average Unit Selling Price

The average manufacturer's selling price of each product for the year 1971 through September was $87.08 for monochrome television sets, $340.41 for color television sets, $15.95 for radios, $40.50 for table and portable phonographs, and $196.53 for console phonographs. These data are included in Table IV.

Individual Product Development

Recorder

The recorder was developed during the late nineteenth century. Most of the early products were commercial types used in the process for producing phonograph records. Production of recorders for home use was insignificant until after World War II, although considerable development occurred during the late 1930's through World War II, particularly in Germany.⁵

Early production of recorders was of the disc and wire types. By 1954, all sales were of the magnetic tape type of recorder. Until the development of the transistor, the majority of recorders retailed for more than $200.

<table>
<thead>
<tr>
<th>Product</th>
<th>September Year to Date 1971</th>
<th>September Year to Date 1970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
</tr>
<tr>
<td>Television</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monochrome</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Table &amp; Portable</td>
<td>3,286</td>
<td>269,848</td>
</tr>
<tr>
<td>Console</td>
<td>303</td>
<td>42,667</td>
</tr>
<tr>
<td>Phono. Comb., Total</td>
<td>3,589</td>
<td>312,515</td>
</tr>
<tr>
<td>Color</td>
<td>4,264</td>
<td>1,451,519</td>
</tr>
<tr>
<td>Total Television</td>
<td>7,853</td>
<td>1,764,034</td>
</tr>
<tr>
<td>Radios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Table</td>
<td>864</td>
<td>15,991</td>
</tr>
<tr>
<td>Clock</td>
<td>2,172</td>
<td>39,118</td>
</tr>
<tr>
<td>Portable</td>
<td>3,002</td>
<td>41,195</td>
</tr>
<tr>
<td>Total</td>
<td>5,038</td>
<td>96,304</td>
</tr>
<tr>
<td>Phonographs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Without Radios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Table &amp; Portable</td>
<td>2,019</td>
<td>67,683</td>
</tr>
<tr>
<td>Console</td>
<td>45</td>
<td>4,488</td>
</tr>
<tr>
<td>Total</td>
<td>2,064</td>
<td>72,171</td>
</tr>
<tr>
<td>With Radios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Table &amp; Portable</td>
<td>335</td>
<td>27,656</td>
</tr>
<tr>
<td>Console</td>
<td>568</td>
<td>135,635</td>
</tr>
<tr>
<td>Total</td>
<td>1,003</td>
<td>163,291</td>
</tr>
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</table>
TABLE IV--Continued

<table>
<thead>
<tr>
<th>Product</th>
<th>September Year to Date 1971</th>
<th>September Year to Date 1970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
</tr>
<tr>
<td>Total Phonographs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Table &amp; Portable</td>
<td>2,354</td>
<td>95,339</td>
</tr>
<tr>
<td>Console</td>
<td>713</td>
<td>140,123</td>
</tr>
<tr>
<td>Grand Total</td>
<td>3,067</td>
<td>235,462</td>
</tr>
<tr>
<td>Total Consumer Products</td>
<td>2,095,800</td>
<td></td>
</tr>
</tbody>
</table>

Source: Electronic Trends - U.S.A., Electronic Industries Association, Marketing Services Department, Washington, D.C.

Table V indicates that total United States sales of tape recorders increased from 295 thousand units and $14.6 million in 1960 to 8.4 million units and $243 million in 1970. United States produced recorders accounted for nearly twenty-nine per cent of total sales in 1960. By 1970, United States production had declined to 4.5 per cent of total sales. Imports of domestic brands in 1970 accounted for 15.2 per cent of total unit sales. Foreign label imports accounted for the balance of more than eighty per cent of total sales in 1970.
TABLE V

TOTAL U.S. SALES OF AUDIO HOME MAGNETIC TAPE RECORDERS AND REPRODUCERS, 1960-1970
(Add 000 Units and Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Factory Sales (U.S. Produced)</th>
<th>Imports (Domestic Label)</th>
<th>Imports (Foreign Label)</th>
<th>Total U.S. Market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
<td>Units</td>
<td>Dollars*</td>
</tr>
<tr>
<td>1960</td>
<td>85</td>
<td>8,566</td>
<td>15</td>
<td>434</td>
</tr>
<tr>
<td>1961</td>
<td>366</td>
<td>38,551</td>
<td>23</td>
<td>449</td>
</tr>
<tr>
<td>1962</td>
<td>441</td>
<td>44,628</td>
<td>25</td>
<td>372</td>
</tr>
<tr>
<td>1963</td>
<td>459</td>
<td>51,617</td>
<td>29</td>
<td>383</td>
</tr>
<tr>
<td>1964</td>
<td>486</td>
<td>59,494</td>
<td>35</td>
<td>506</td>
</tr>
<tr>
<td>1965</td>
<td>653</td>
<td>80,646</td>
<td>160</td>
<td>1,917</td>
</tr>
<tr>
<td>1966</td>
<td>868</td>
<td>65,621</td>
<td>265</td>
<td>4,943</td>
</tr>
<tr>
<td>1967</td>
<td>783</td>
<td>56,719</td>
<td>557</td>
<td>20,220</td>
</tr>
<tr>
<td>1968</td>
<td>659</td>
<td>49,552</td>
<td>674</td>
<td>29,110</td>
</tr>
<tr>
<td>1969</td>
<td>676</td>
<td>55,723</td>
<td>825</td>
<td>43,320</td>
</tr>
<tr>
<td>1970</td>
<td>381</td>
<td>41,585</td>
<td>1,288</td>
<td>66,950</td>
</tr>
</tbody>
</table>

*Estimates based on Japan export dollar value prior to 1967.

Note: Excludes automobile tape players, tape decks, commercial recording and playback equipment, and other types of sound recorders and/or reproducers, i.e., magnetic sheet reproducers and background music systems.

Note: Total U.S. Sales includes equipment either produced in the U.S. or imported by U.S. manufacturers for sale with their brand name and those sets imported directly by distributors or dealers for resale.

The Ampex Corporation reported industry sales for 1969 to be 8.8 million units, which is considerably higher than the 6.9 million units reported by Electronic Industries Association as presented in Table IV. Ampex also has projected retail sales of tape recorders to exceed one billion dollars in 1975. Only one-third of United States households owned tape recorders in 1969. Thus, the potential for continued growth is great when compared to the more than ninety per cent saturation levels of other consumer electronic products. 6

Phonograph

Development of the phonograph occurred prior to the introduction of electronics. The invention is attributed to Thomas A. Edison in 1877. The phonograph was one of the earliest home entertainment products, and tended to condition Americans to entertainment in the living room. People look to television, radio, and phonograph products for entertainment. 7 For this reason, the consumer electronics industry is frequently referred to as the home entertainment products industry.


7 "The Public Impact of Science in the Mass Media," Business Topics, VI (Fall, 1958), 12.
Total domestic sales of phonographs from 1946 to 1970 are shown in Table VI. Unit sales declined from 3.9 million units in 1946 to 1.35 million in 1952. Dollar sales for the same year declined from $216 million to $51 million dollars. Although sales have increased since 1952, there has been considerable variation from one year to the next for reasons to be explained. Unit sales in 1970 were 5.6 million. Dollar sales for the same year were $376 million.

It was not until the beginning of the electronics age in the 1920's that the sound box was replaced by electronic amplification. With the development of radio, many persons predicted the death of the phonograph. Sales did decline and the phonograph played a secondary role to radio during the depression years of the 1930's and War years of the 1940's. The pent-up consumer demand and the cumulation of individual savings resulting from World War II provided the necessary stimulus for increasing sales following the War for a period of three years.

The introduction of 45 RPM and 33 1/3 RPM long-playing phonograph systems occurred in 1948 and 1949. The competitive battle between systems and the lack of industry standards tended to confuse buyers and contributed to a depressed market. Hi-fidelity enthusiasts' interest in better quality sound systems during the early
<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
<th>Dollars</th>
<th>Imports Foreign Label Total</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>Units</td>
<td>Dollars</td>
</tr>
<tr>
<td>1946</td>
<td>3,932</td>
<td>216,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>4,206</td>
<td>300,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1948</td>
<td>3,056</td>
<td>207,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1949</td>
<td>2,002</td>
<td>115,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>1,260</td>
<td>122,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>1,549</td>
<td>65,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>1,350</td>
<td>51,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>1,605</td>
<td>58,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1954</td>
<td>2,683</td>
<td>82,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>2,627</td>
<td>99,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>3,788</td>
<td>140,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>4,658</td>
<td>240,000</td>
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<tr>
<td>1958</td>
<td>3,973</td>
<td>259,000</td>
<td></td>
<td></td>
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<tr>
<td>1959</td>
<td>4,304</td>
<td>339,000</td>
<td></td>
<td></td>
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<tr>
<td>1960</td>
<td>4,523</td>
<td>359,000</td>
<td></td>
<td></td>
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<tr>
<td>1961</td>
<td>3,989</td>
<td>304,000</td>
<td></td>
<td></td>
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<tr>
<td>1962</td>
<td>4,954</td>
<td>389,000</td>
<td></td>
<td></td>
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<tr>
<td>1963</td>
<td>5,142</td>
<td>421,000</td>
<td></td>
<td></td>
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<tr>
<td>1964</td>
<td>5,159</td>
<td>440,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>6,130</td>
<td>505,000</td>
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<td></td>
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TABLE VI - Continued

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Units</th>
<th>Total Dollars</th>
<th>Foreign Label Units</th>
<th>Foreign Label Dollars</th>
<th>Grand Total Units</th>
<th>Grand Total Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>6,303</td>
<td>528,000</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>5,411</td>
<td>459,000</td>
<td>1,215</td>
<td>21,000</td>
<td>6,626</td>
<td>480,000</td>
</tr>
<tr>
<td>1968</td>
<td>5,467</td>
<td>485,000</td>
<td>1,028</td>
<td>18,000</td>
<td>6,495</td>
<td>503,000</td>
</tr>
<tr>
<td>1969</td>
<td>4,965</td>
<td>461,000</td>
<td>1,355</td>
<td>29,000</td>
<td>6,320</td>
<td>490,000</td>
</tr>
<tr>
<td>1970</td>
<td>3,991</td>
<td>334,000</td>
<td>1,629</td>
<td>42,000</td>
<td>5,620</td>
<td>376,000</td>
</tr>
</tbody>
</table>


1950's resulted in manufacturers producing this type of equipment. Sales again began in climb in 1953, and were further stimulated by the introduction of stereophonic sound systems in 1958.

Industry dollar sales tended to peak in 1966, and then decline somewhat, although unit sales have continued to increase. Possible reasons for declining dollar sales were market shifts to recorders, recorder play back systems, and color television. A market
shift from consoles to portable, modular, and compact music systems also occurred. Unit sales have continued to increase because of the lower cost of imported phonographs.

Radio

Commercial radio set manufacturing had its beginning in the 1920's. The consumer electronic products industry tends to use 1920 as its birth year rather than the earlier birth date of the phonograph. Approximately 100 thousand units with a retail value of $5 million were produced in 1922. Table VII indicates that by 1925 production totaled 2 million radios with a retail value of $200 million. Data in Table VIII reveal that unit sales in 1970 totaled 34 million units with a manufacturers' value of $380 million. A description of the growth pattern follows.

Growth of radio was continuous through the 1930's and 1940's, but tended to be affected by the introduction of television following World War II. A leveling of radio sales occurred between 1948 and 1958 and many believed radio to be a dying industry. Beginning in 1958, several factors contributed to a resurgence of radio sales: first, a strong teenage or youth market with an interest in radio developed; second, broadcasting stations changed their program format to match the wants of this younger market; third, the transistor was developed and applied to radio construction;
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Radio Sets Manufactured</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>1922</td>
<td>100,000</td>
</tr>
<tr>
<td>1923</td>
<td>550,000</td>
</tr>
<tr>
<td>1924</td>
<td>1,500,000</td>
</tr>
<tr>
<td>1925</td>
<td>2,000,000</td>
</tr>
<tr>
<td>1926</td>
<td>1,750,000</td>
</tr>
<tr>
<td>1927</td>
<td>1,350,000</td>
</tr>
<tr>
<td>1928</td>
<td>3,281,000</td>
</tr>
<tr>
<td>1929</td>
<td>4,428,000</td>
</tr>
<tr>
<td>1930</td>
<td>3,827,000</td>
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<tr>
<td>1931</td>
<td>3,420,000</td>
</tr>
<tr>
<td>1932</td>
<td>3,000,000</td>
</tr>
<tr>
<td>1933</td>
<td>3,806,000</td>
</tr>
<tr>
<td>1934</td>
<td>4,084,000</td>
</tr>
<tr>
<td>1935</td>
<td>6,026,800</td>
</tr>
<tr>
<td>1936</td>
<td>8,248,000</td>
</tr>
<tr>
<td>1937</td>
<td>8,064,780</td>
</tr>
<tr>
<td>1938</td>
<td>6,000,000</td>
</tr>
<tr>
<td>1939</td>
<td>10,500,000</td>
</tr>
<tr>
<td>1940</td>
<td>11,800,000</td>
</tr>
<tr>
<td>1941</td>
<td>13,000,000</td>
</tr>
<tr>
<td>1942</td>
<td>4,400,000</td>
</tr>
<tr>
<td>1943</td>
<td>* * * * *</td>
</tr>
<tr>
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<tr>
<td>1945</td>
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</tr>
<tr>
<td>1946</td>
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<td>17,000,000</td>
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<tr>
<td>1948</td>
<td>14,000,000</td>
</tr>
<tr>
<td>1949</td>
<td>10,000,000</td>
</tr>
</tbody>
</table>

**TABLE VIII**

**TOTAL U. S. SALES OF RADIOS, 1950-1970**

(Add 000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Label</th>
<th>Imports</th>
<th>Foreign Label</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
<td>Units</td>
<td>Dollars</td>
</tr>
<tr>
<td>1950</td>
<td>9,216</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>6,440</td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>7,220</td>
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<td>12</td>
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<tr>
<td>1953</td>
<td>7,258</td>
<td></td>
<td>25</td>
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<tr>
<td>1954</td>
<td>6,064</td>
<td></td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>7,187</td>
<td></td>
<td>140</td>
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<tr>
<td>1956</td>
<td>8,351</td>
<td></td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>8,952</td>
<td></td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>8,227</td>
<td>159,000</td>
<td>2,570</td>
<td>10,797</td>
</tr>
<tr>
<td>1959</td>
<td>9,947</td>
<td>192,000</td>
<td>5,825</td>
<td>15,772</td>
</tr>
<tr>
<td>1960</td>
<td>19,513</td>
<td>190,000</td>
<td>7,518</td>
<td>18,031</td>
</tr>
<tr>
<td>1961</td>
<td>11,590</td>
<td>190,000</td>
<td>12,054</td>
<td>23,654</td>
</tr>
<tr>
<td>1962</td>
<td>11,811</td>
<td>207,000</td>
<td>12,970</td>
<td>24,781</td>
</tr>
<tr>
<td>1963</td>
<td>19,439</td>
<td>179,000</td>
<td>13,163</td>
<td>23,602</td>
</tr>
<tr>
<td>1964</td>
<td>10,836</td>
<td>179,000</td>
<td>12,722</td>
<td>88,000</td>
</tr>
<tr>
<td>1965</td>
<td>13,812</td>
<td>212,000</td>
<td>17,877</td>
<td>116,000</td>
</tr>
<tr>
<td>1966</td>
<td>14,468</td>
<td>231,000</td>
<td>20,311</td>
<td>115,000</td>
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</table>
TABLE VIII - Continued

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Label</th>
<th></th>
<th>Imports</th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
<td>Foreign Label</td>
<td>Units</td>
<td>Dollars*</td>
</tr>
<tr>
<td>1967</td>
<td>12,568</td>
<td>201,000</td>
<td>19,116</td>
<td>132,000</td>
<td>31,684</td>
</tr>
<tr>
<td>1968</td>
<td>11,660</td>
<td>191,000</td>
<td>22,662</td>
<td>180,000</td>
<td>34,322</td>
</tr>
<tr>
<td>1969</td>
<td>10,400</td>
<td>166,000</td>
<td>29,014</td>
<td>256,000</td>
<td>39,414</td>
</tr>
<tr>
<td>1970</td>
<td>7,948</td>
<td>124,000</td>
<td>26,101</td>
<td>256,000</td>
<td>34,049</td>
</tr>
</tbody>
</table>

*Based on average value of total imports as published by the U. S. Department of Commerce, which is F. O. B. and therefore excludes U. S. import duties, freight charges from the foreign country to the U. S. and insurance.

Note: Total U. S. sales includes equipment either produced in the U. S. or imported by U. S. manufacturers for sale with their brand name and these sets imported by distributors or dealers for resale.


and fourth, there was a substantial entry of foreign manufacturers into the domestic market.
Table VIII indicates the importance of import radio sales. Currently, import radios constitute about 91.5 per cent of the total domestic market, but nearly 20 per cent of the imported radios are sold under a domestic manufacturer's brand.

The Radio Advertising Bureau estimated that 62 million United States homes, or more than 98 per cent, were radio equipped in 1970. In addition, portable radios, automobile radios, and multiple set ownership expanded the market further. Domestic sales of radios between 1965 and 1970 exceeded the population of the United States.

Television

"April 30, 1939 marked the real beginning of modern television when President Roosevelt formally opened the New York World's Fair. Only a few hundred receivers, most of them homemade, were in existence to tune in to this ceremony." 9

Although little growth in television sales occurred until after 1946, principally because of the War and government prohibition on new construction of facilities, the growth rate of few industries

---

can compare to that of the television industry. Factory sales, shown in Table IX, moved from an estimated 6,000 units valued at one million dollars in 1946 to over seven million units valued at over one billion dollars in 1950. After this rapid sales increase, television set sales suddenly stabilized and it was not until 1965 that dollar sales exceeded those of 1950. Total television sales in 1970, including imports, were 12.2 million units with a value of $2.2 billion.

The GTE Sylvania Marketing Research Department reports that from 1946 through 1970, a total of 174,775,000 television sets have been sold in the United States. The total number of sets in use in 1970 was 62,850,000, or about five times annual sales. The number of sets scrapped each year when compared to new sets sold the same year has been increasing. During 1968, 1969, and 1970 the scrappage rate has been approximately sixty-five to sixty-seven per cent of annual production. Thus, the replacement market is vital to the industry.\(^{10}\)

In 1969, 58.3 million (ninety-five per cent) of the 61.3 million domestic households had television sets. Thirty per cent of United States families had more than one set, and the total number of sets

\[^{10}\text{Television Factbook, 1971-72 (Washington, 1971), p. 75-a.}\]
TABLE IX
TOTAL U. S. SALES OF TELEVISION RECEIVERS, 1946-1970
(Units in Thousands, Dollars in Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Label</th>
<th>Imports Foreign Label</th>
<th>Total Monochrome &amp; Color</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic Label</td>
<td>FOREIGN LABEL</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MONOCHROME</td>
<td>COLOR</td>
<td></td>
</tr>
<tr>
<td></td>
<td>UNITS</td>
<td>DOLLARS</td>
<td>UNITS</td>
</tr>
<tr>
<td></td>
<td>DOLLARS</td>
<td></td>
<td>DOLLARS</td>
</tr>
<tr>
<td>1946</td>
<td>6</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>1947</td>
<td>179</td>
<td>50</td>
<td>179</td>
</tr>
<tr>
<td>1948</td>
<td>970</td>
<td>226</td>
<td>970</td>
</tr>
<tr>
<td>1949</td>
<td>2,970</td>
<td>574</td>
<td>2,970</td>
</tr>
<tr>
<td>1950</td>
<td>7,355</td>
<td>1,397</td>
<td>7,355</td>
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<tr>
<td>1951</td>
<td>5,312</td>
<td>944</td>
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<tr>
<td>1952</td>
<td>6,194</td>
<td>1,064</td>
<td>6,194</td>
</tr>
<tr>
<td>1953</td>
<td>6,870</td>
<td>1,170</td>
<td>6,870</td>
</tr>
<tr>
<td>1954</td>
<td>7,405</td>
<td>1,040</td>
<td>7,405</td>
</tr>
<tr>
<td>1955</td>
<td>7,738</td>
<td>1,068</td>
<td>7,738</td>
</tr>
<tr>
<td>1956</td>
<td>7,351</td>
<td>934</td>
<td>7,351</td>
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<tr>
<td>1957</td>
<td>6,388</td>
<td>831</td>
<td>6,388</td>
</tr>
<tr>
<td>1958</td>
<td>5,051</td>
<td>686</td>
<td>5,051</td>
</tr>
<tr>
<td>1959</td>
<td>6,278</td>
<td>806</td>
<td>6,278</td>
</tr>
<tr>
<td>1960</td>
<td>5,707</td>
<td>750</td>
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<tr>
<td>1961</td>
<td>6,155</td>
<td>757</td>
<td>6,155</td>
</tr>
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</table>
TABLE IX--Continued

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Label</th>
<th>Imports Foreign Label</th>
<th>Total Monochrome &amp; Color</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Monochrome</td>
<td>Color</td>
<td>Monochrome</td>
</tr>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
<td>Units</td>
</tr>
<tr>
<td>1962</td>
<td>6,558</td>
<td>841</td>
<td>438</td>
</tr>
<tr>
<td>1963</td>
<td>7,019</td>
<td>828</td>
<td>747</td>
</tr>
<tr>
<td>1964</td>
<td>8,028</td>
<td>878</td>
<td>1,404</td>
</tr>
<tr>
<td>1965</td>
<td>8,409</td>
<td>890</td>
<td>2,694</td>
</tr>
<tr>
<td>1966</td>
<td>7,189</td>
<td>717</td>
<td>5,012</td>
</tr>
<tr>
<td>1967</td>
<td>5,290</td>
<td>500</td>
<td>5,563</td>
</tr>
<tr>
<td>1968</td>
<td>5,778</td>
<td>533</td>
<td>5,972</td>
</tr>
<tr>
<td>1969</td>
<td>5,191</td>
<td>460</td>
<td>5,744</td>
</tr>
<tr>
<td>1970</td>
<td>4,704</td>
<td>412</td>
<td>4,729</td>
</tr>
</tbody>
</table>


In use was nearly eighty million. One-third of the households had color sets. In multiple set homes, the color penetration tended to be more than double the penetration of one-set households. 11

---

Other consumer electronic products tend to have high replacement demand also. Reduction in the retail prices of all products, coupled with increasing costs for repair service, contribute to the increasing scrappage rate. Some products, such as portable television and radio, almost attain a disposable status since it frequently costs less to purchase a new product than to repair the old one.

Structure of the Industry

Distribution System

Traditionally, the consumer electronics industry has tended to make use of a "two-step" distribution approach whereby sale of the product moved from manufacturers to wholesalers to retailers to consumer. While most major domestic manufacturers continue to make at least partial use of this "two-step" distribution approach, the patterns of distribution have changed frequently since World War II. A "one-step" approach is used by a number of manufacturers who sell directly to the retailer. In this system, salesmen working directly for the manufacturer call on retailers. The salesmen may work out of branch offices, either with or without warehouse facilities, or they may work out of a central national office.
Many small domestic manufacturers make use of independent manufacturers' representatives who carry related lines of goods and sell primarily to specialized types of wholesalers, large scale retailers, and chain store buyers. The majority of foreign manufacturers sell through domestic manufacturers, importers, and independent manufacturers' representatives. A few of the larger and more popular foreign manufacturers make use of national sales agents, and have recently begun to establish their own national selling organizations. Exclusive and multiple distribution systems are used by both domestic and foreign manufacturers.

Scrambled merchandising has caused many manufacturers to change to a policy of multiple distribution. Even though exclusive distribution is provided to wholesalers or retailers, most manufacturers tend to have special sales departments for the purpose of selling to specialized large scale buyers. These buyers include premium, incentive, and stamp merchandising firms, and hotels, motels, leasing companies, direct mail companies, mobile home manufacturers, and others. Also, a number of domestic and foreign manufacturers engage in manufacturing private brands for other manufacturers and large scale retailers.
**Vertical Competition**

The consumer electronic products industry is highly competitive. Competition exists horizontally on each level of distribution among different brands being sold by numerous different types of business. Vertical competition also exists for the business of large scale buyers and users of the product among retailers, wholesalers, manufacturers, and their representatives. An element of vertical conflict exists among sellers of the same brand for the privilege of selling to large scale buyers and special users.

The industry exists under the pressure and conflict of which brand and which seller will make the sale. A. R. Oxenfeldt's investigation of the television set industry concluded: "Management thinks, plans, schemes, and talks about sales. Concern with sales permeates every department of every business in the industry." 12

**Concentration of Manufacturers**

The United States output of household radio receivers, television sets, radio-phonographs, phonographs, and record players in 1950 was over 1,600 million dollars, an amount which far exceeded the shipments of all other classes of radio combined. Over 76 per cent of the total output came from 21 firms among the 1,000 largest manufacturing companies. The leading firms were Admiral Corporation, Motorola, Inc., Philco Corporation and Radio Corporation of America. . . . These four firms

---

supplied 44 per cent of the United States output, and the first eight companies supplied over 59 per cent.\textsuperscript{13}

Concentration of sales among domestic manufacturers has increased since 1950 and is greater in the more specialized high volume product areas of television, radio, phonograph, and recorders. During 1967 the four largest domestic manufacturers produced sixty-four per cent of the value of television sets shipped, forty-eight per cent of household and automobile radios, and twenty-eight per cent of recorders and phonographs. The eight largest domestic manufacturers produced eighty-six per cent of the value of television sets, seventy-two per cent of radios, and forty-two per cent of recorders and phonographs. The twenty largest companies produced ninety-nine per cent of the value of television sets shipped, ninety-five per cent of radios, and seventy-five per cent of recorders and phonographs.\textsuperscript{14} The twenty firms who produce virtually the entire output of the industry possess a major element of power.


Import Structure

Foreign made electronic products—primarily Japanese products—reach the United States market generally through the manufacturer's own marketing organizations and through United States manufacturers, retailers and specialized importers.

U. S. manufacturers, such as General Electric and RCA, account for an estimated 15% of import sales. These firms have either opened their own factories abroad or they have contracted work to local manufacturers, which is sold domestically under their well known brand labels. Their import sales have been growing but at the expense of their own domestic production, and their actual share of market has been declining. . . . Such companies as Sony, Panasonic, Hitachi, and Toshiba, typify the Japanese manufacturers who also market their own products in the United States. These companies have an estimated 15-20% of the imported market . . .

A number of companies, such as Sears, Korvette, and Montgomery Ward, have their own import organizations to service their own retail outlets. We believe these companies have an estimated 15-20% of the import market . . . The importer is usually a small company (under $75 million in sales) whose products have relatively little brand image. Yet these companies probably account for as much as 50% of the import market. 15

Importers design the product line, contract for manufacturing, import, warehouse, and sell to retail outlets. Many sell to specialty wholesalers while others engage in mail order catalog business direct to the consumer. Lead time of six to nine months is required, which makes forecasting difficult and the risks high.

Types.--The distribution structure of the consumer electronics products industry includes most wholesale middlemen classifications such as merchant wholesalers, manufacturers' sales branches and offices, merchandise agents and brokers, and importers. Merchandise in route from the manufacturer to the ultimate consumer may move through one or several of the aforementioned wholesale middlemen.

Number and sales.--The exact number of wholesalers of consumer electronic products or their sales in the United States is not known. Merchandising Week, in its "First Annual Distributor Directory" listed 1,631 and estimated there were over 2,000 wholesalers in 1970. The 1967 Census of Business shows 16,730 establishments (not companies) with sales of $34 billion for Standard Industrial Classification (SIC) number 506 electrical goods. This code number includes three major segments: SIC 5063 electrical apparatus, equipment, and supplies with 7,742 establishments and $17 billion sales; SIC 5064 electrical appliances, TV and radio sets with 2,935 establishments and $8.1 billion sales; and SIC 5065

16 "First Annual Distributor Directory," Merchandising Week, CII (September 14, 1970), Sec. II, 6-66.
electronic parts and equipment with 6,083 establishments and $6.2 billion sales.\textsuperscript{17} It is unfortunate that the Census of Business does not publish data specifically pertaining to the consumer electronic products industry. Such data are included with that of other industries.

\textbf{Retailers}

\textbf{Potential number.} -- Consumer electronic products have mass appeal. As a result, the number and kinds of retail outlets are virtually unlimited. An example of the vast number of potential retail outlets for consumer electronic products as tabulated from sales records of a manufacturers' representative's customers is shown in Table X. While this listing includes eighteen different kinds of retailers with 427,558 potential outlets, it could be expanded further by such stores as furniture, jewelry, and others.

Since many manufacturers produce both appliances and electronic products, and a large percentage of wholesale and retail middlemen engage in selling appliances and electronic products, much of the available data reflect both product categories. This makes it difficult to analyze each product by itself. The \textit{Census of

### TABLE X

**RETAILERS AND PUBLIC LEVEL PURVEYORS IN SOME PHASE OF APPLIANCE-RADIO-TV MERCHANDISING**

<table>
<thead>
<tr>
<th>Type Outlet</th>
<th>Number Outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Stores</td>
<td>14,500</td>
</tr>
<tr>
<td>Discount Houses</td>
<td>4,727</td>
</tr>
<tr>
<td>Radio-TV Dealers</td>
<td>47,396</td>
</tr>
<tr>
<td>Sports Goods Stores</td>
<td>12,413</td>
</tr>
<tr>
<td>Stationers</td>
<td>15,540</td>
</tr>
<tr>
<td>Audio-Visual Suppliers</td>
<td>715</td>
</tr>
<tr>
<td>Premium Catalogue Houses</td>
<td>14,826</td>
</tr>
<tr>
<td>Chains</td>
<td>1,312</td>
</tr>
<tr>
<td>Drug Stores</td>
<td>54,627</td>
</tr>
<tr>
<td>Hi-Fi Component Dealers</td>
<td>1,919</td>
</tr>
<tr>
<td>Hardware Stores</td>
<td>30,260</td>
</tr>
<tr>
<td>Music Merchants</td>
<td>7,727</td>
</tr>
<tr>
<td>Office Supply Dealers</td>
<td>7,678</td>
</tr>
<tr>
<td>Supermarket Chains</td>
<td>13,821</td>
</tr>
<tr>
<td>Toy Retailers</td>
<td>5,484</td>
</tr>
<tr>
<td>Variety Stores</td>
<td>32,613</td>
</tr>
<tr>
<td>Service Repair Shops</td>
<td>120,000</td>
</tr>
<tr>
<td>Sound Salon Interior Decorator Shops</td>
<td>42,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>427,558</strong></td>
</tr>
</tbody>
</table>


business retail trade combines appliance and electronic products data and is presented in Table XI.

This table indicates that retail sales of major appliances, radio, TV, and musical instruments were $10 billion in 1967. The table
## TABLE XI

**MAJOR APPLIANCE, RADIO, TV, MUSICAL INSTRUMENTS SALES BY KIND OF BUSINESS HANDLING THE PRODUCTS**

<table>
<thead>
<tr>
<th>Kind of Business</th>
<th>1967* Establishment Number</th>
<th>1967 Sales (1,000)</th>
<th>% of Total Sales Accounted for by the Specified Kind of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building materials, hardware, and farm equipment dealers</td>
<td>86,373</td>
<td>219,573</td>
<td>2.2</td>
</tr>
<tr>
<td>General merchandise group stores</td>
<td>67,307</td>
<td>3,113,894</td>
<td>30.9</td>
</tr>
<tr>
<td>Department stores</td>
<td>2,625,738</td>
<td>26.0</td>
<td></td>
</tr>
<tr>
<td>Automotive dealers</td>
<td>105,500</td>
<td>456,231</td>
<td>4.5</td>
</tr>
<tr>
<td>Home, auto, and TBA dealers</td>
<td>446,770</td>
<td>4.4</td>
<td></td>
</tr>
<tr>
<td>Furniture, home furnishings, and equipment stores</td>
<td>98,826</td>
<td>5,442,487</td>
<td>53.9</td>
</tr>
<tr>
<td>Furniture stores</td>
<td>23,274</td>
<td>684,868</td>
<td>6.8</td>
</tr>
<tr>
<td>Household appliance</td>
<td>26,806</td>
<td>2,229,418</td>
<td>22.1</td>
</tr>
<tr>
<td>Radio and TV</td>
<td>22,813</td>
<td>1,655,298</td>
<td>16.4</td>
</tr>
<tr>
<td>Musical instrument and record shops</td>
<td>22,813</td>
<td>862,310</td>
<td>8.6</td>
</tr>
<tr>
<td>Drug stores, proprietary stores</td>
<td>53,722</td>
<td>99,885</td>
<td>1.0</td>
</tr>
<tr>
<td>Drug stores</td>
<td>96,195</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous retail</td>
<td>288,772</td>
<td>221,041</td>
<td>2.2</td>
</tr>
<tr>
<td>Nonstore retailers</td>
<td>98,468</td>
<td>499,989</td>
<td>5.0</td>
</tr>
<tr>
<td>Mail order houses</td>
<td>373,208</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>Direct selling establishments</td>
<td>126,208</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>All other retailers</td>
<td>40,147</td>
<td>.3</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>798,698</strong></td>
<td><strong>10,093,247</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Represents total establishments in group, not just those reporting.

also indicates the major kinds of business which sell these products necessary to provide any benefits. Such analysis would not provide total accuracy however, as many kinds of business would not be represented and the product lines would not be reported if only sold as secondary lines.

An indication of market potential can be detected in Table XI by the total number of establishments in the major kinds of businesses handling the products. These major groups represent 798,968 establishments or over forty-seven per cent of all retail establishments in the United States. Nearly one-half of all the retail establishments in the United States are potential outlets for either major appliances, radio, TV, or musical instruments. Thus competition at the retail level is great even in terms of conservative estimates. Manufacturers and wholesalers are eager to reach these potential outlets and therefore frequently design their strategies with the objective being to sell to as many outlets as possible.

**Sales by type of outlet.** - Sales of home entertainment products through selected types of outlets are reported in the Census of Business after being compiled by the U. S. Census Bureau. Not all types of outlets are included, nor does each type of outlet have an exact breakdown of its sales by product when it carries multiple
lines of goods. In addition, only outlets with payrolls are included, and this eliminates many small scale retailers. Therefore, total retail sales would be less than actual. But these data do provide some indication of sales activity at the retail level and the relative share of market by type of outlet.

Table XII indicates that total dollar sales of home entertainment lines in 1967 were $2.9 billion, up 76 per cent over the 1963 sales of $1.6 billion. Of this total, the selected outlets of radio-TV stores accounted for 44.5 per cent of 1967 sales, department stores and mass merchandisers 38.6 per cent, and appliance stores 14.7 per cent of total sales. The radio-TV stores increased their share of market by 4.5 per cent while department stores increased their share by 3.4 per cent. Appliance stores' share of market dropped by 7.2 per cent to 14.7 per cent of the total market. Record shops and music stores accounted for a combined 2.2 per cent of the total market in 1967.

Retailer concentration. -- Industry concentration among retailers within the radio, television, and music store group is centered around the growth of chain stores. In 1967, 4.4 per cent of the chain store organizations represented 12 per cent of the total outlets and 27.7 per cent of total sales, while in 1963, 37 per cent
<table>
<thead>
<tr>
<th>Type Retail Outlet</th>
<th>Sales in (Millions)</th>
<th>% to 1967</th>
<th>Total 1967</th>
<th>Total 1963</th>
<th>% Change 1967/63</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radios, TV, recorders, record players, etc.</td>
<td>$2,924.8</td>
<td>$1,656.5</td>
<td>100.0</td>
<td>100.0</td>
<td>+76.6</td>
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<td>Selected outlet types reporting:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Radio-TV stores</td>
<td>1,310.4</td>
<td>662.9</td>
<td>44.5</td>
<td>40.0</td>
<td>+96.3</td>
</tr>
<tr>
<td>Department</td>
<td>1,129.3</td>
<td>586.4</td>
<td>38.6</td>
<td>35.4</td>
<td>+92.5</td>
</tr>
<tr>
<td>Appliance</td>
<td>430.6</td>
<td>362.0</td>
<td>14.7</td>
<td>21.9</td>
<td>+18.9</td>
</tr>
<tr>
<td>Record Shops</td>
<td>15.2</td>
<td>8.2</td>
<td>0.5</td>
<td>0.5</td>
<td>+85.4</td>
</tr>
<tr>
<td>Musical instrument stores</td>
<td>48.3</td>
<td>57.0</td>
<td>1.7</td>
<td>2.2</td>
<td>+30.5</td>
</tr>
</tbody>
</table>


Note: Sales specifically of home entertainment products were not separately reported for other outlet types important in the distribution of this merchandise. For example, in furniture stores this category was combined with sales of major appliances and musical instruments, for a total of $685 million in 1967, $537 million in 1963.
of the firms controlled only 7.4 per cent of the outlets and 15.5 per cent of total sales for the group.  

Competition

Manufacturers

Manufacturers compete in technological developments, product style, quality, features, pricing, production systems, distribution, advertising and promotional offerings, warranty and service, and other activities. Each year manufacturers spend millions of dollars in each of the foregoing competitive activities to maintain or improve their market position. Strategies among manufacturers differ significantly as to the approach taken in a given competitive situation. These strategies are being increasingly influenced by foreign competition.

Competitive Problems of Wholesalers

Independent merchant wholesalers. At the wholesale level of distribution, the dominant force continues to be the independently owned merchant wholesalers representing a major domestic brand. The independent wholesalers, however, tend to be in a squeeze.

between a few large manufacturers and an increasing number of giant retailing chains plus a growing number of imports. In addition, the independent wholesalers are losing sales to direct special market purchasers, such as premium companies and others.

Probably the independent wholesaler's greatest fear is the possibility of being replaced by a factory branch. As the independent loses control of certain segments of his market because of direct selling by manufacturers, his bargaining position weakens. The wholesaler today can be commanding a large share of the market over which he has control, but his performance may be diluted by manufacturer sales to special user groups in the wholesaler's market. Manufacturers sometime believe they can do a better job than independent wholesalers and therefore will distribute through manufacturer sales branch operations. Business Week, in 1960, detected a trend toward branch distribution and commented:

With slim profits and lack of capital squeezing the distributor, the manufacturer increasingly has to rely on his own forces. As a producer, he has two primary concerns: to keep the plant rolling, and to hang on to his share of the market. Profit at the distribution level becomes secondary.¹⁹

Declining profits, increasing competition, increasing pressures from the manufacturers, high investment, and retirement age of

owners were reasons for many independent wholesalers dropping out of the business during the 1960's.

In surveying the literature, no definite lasting trend of manufacturers replacing independents with branches could be detected. During the early 1960's, there was a tendency for manufacturers to establish branches in major metropolitan areas on the assumption that these markets could be easily served because they represented a large portion of the total market and would be profitable. Seldom was this assumption true, however, because the large markets were more competitive, required greater investments than anticipated, and seldom realized any profit.

Rather than detecting a trend toward branches, it appears that there is a tendency for factory branches to increase when general economic conditions are good. As the general economy slows, the branches are replaced by independents. A recent article in Home Furnishings Daily tends to verify this position, "Manufacturers don't want to get into distribution. Look at the TV business. There, all the producers are scrambling for independent distributors. They don't want factory branches," virtually all domestic manufacturers have several branch operations however. General Electric Company

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and Philco-Ford have a larger number of factory branches than most major manufacturers.

Selling agents and manufacturers' representatives. -- Selling agents and manufacturers' representatives have tended to operate in the highly specialized audio components field. As import merchandise began to take on greater significance, these agents and representatives grew in importance by selling foreign brands of consumer electronic products. These middlemen often seek out large scale buyers as well as selling to several wholesalers in the same geographic area.

Many of the middlemen have lost representation of lines because of doing too good a selling job. As they built sales and acceptance for a brand, they frequently were replaced by a manufacturer's branch or selling organization. Losing the lines they have been representing appears to be a problem now facing representatives for some of the better known import brands whose manufacturers are beginning to establish United States subsidiaries and sales organizations. Import brands with little acceptance in the market will likely continue to be distributed through agents and manufacturers' representatives.

Trend toward distribution centers. -- There is a trend among both domestic and foreign manufacturers to establish supplemental
physical distribution centers at several locations throughout the United States. These distribution centers service the manufacturer’s normal wholesale and retail distribution system. It is possible that the trend of manufacturer owned distribution centers could result in independent wholesalers becoming selling organizations only, as is the case with several import brands; manufacturers using their own selling organizations, and eliminating independent wholesalers; or independent wholesalers merging into regional wholesalers and taking over the manufacturer’s distribution centers. Any one of these possibilities would likely reduce overall distribution cost without sacrificing effectiveness.

Currently, major domestic manufacturers selling through branches and/or wholesalers generally have from seventy to ninety distribution points. Studies reveal that five distribution points could provide one day delivery to ninety per cent of the United States market while reducing inventory costs substantially.

Retail Competition

It was revealed that the total number of establishments in the major kinds of business handling consumer electronic products represented forty-seven per cent of the retail establishments in the United States. This fact, combined with the use of these products as promotional items by other retailers, indicates the extreme competitive situation at the retail level.
Scrambled merchandising.--The retailing of consumer electronic products has become truly "scrambled." With the vast number of different types of outlets selling consumer electronic products, it appears that industry efforts are being directed toward selling to all interested retailers. Paul Schuenemann, Jr. had this to say at a Mart Magazine Dealer Advisory Board meeting:

Today there are in many cases more TV sets and housewares supplied by banks than retailers... A lot of volume is being done by gas stations and oil companies in general. Between July '67 and July '69, $1 million in radios and so forth moved through oil company credit cards... In addition, there are drug stores, supermarkets, and other types of stores selling a considerable amount of merchandise that we should be selling. Also another factor is the trading stamp and premium houses that represent a fair size volume.21

Multiple unit operations.--The trend toward multiple unit operations has continued with the greatest multiple unit expansions occurring among department stores, discount, mail order, variety, drug, and hardware chains. Also, retailer cooperatives have expanded while franchise operations such as the Tandy Corporation, which includes Allied Radio and Radio Shack, have been increasing their outlets substantially.

Problems of small retailers. -- Problems of the small dealer center around the following factors: (1) lack of buying power, which prevents him from being offered specials; (2) inability to buy in quantity for lower prices; (3) inability to build advertising funds; and (4) the vast number of outlets with which he must compete. His product knowledge, sales and service ability, and personal attention to customer needs are the factors which keep him in business. To overcome their problems, independent retailers have, in some eastern markets, begun to form retailer cooperatives. A few of the cooperatives, such as Marta, which now has an annual volume of $310 million, have attained a degree of success.22

Significance of Imports to Industry

Development of Foreign Industry

After World War II, Japan, under the guidance of General Douglas MacArthur, switched from the manufacture of guns to that of radios. The ideal thought for progress, "Switzerland for watches, Japan for radios," was conceived for Japan by the leaders of the Occupation, and this bore fruit, Japan becoming the world's largest producer of radios.23


Soon after World War II the United States began importing consumer electronic products, particularly radios, phonographs, and components, from European nations. These products had little influence on the United States market. Most had European rather than American styling and were priced near or above comparable United States produced goods; therefore, European manufacturers were unable to significantly penetrate the United States market.

Japan, on the other hand, began shipping low priced, low quality tube type radios and phonographs to the United States in the early 1950's and was able to make deep penetrations into the market with the transistor radio during the 1955-1960 period. Succeeding with radios, the Japanese broadened their product lines to include phonographs and tape recorders, black and white small screen television, and then color television.

Hong Kong, Taiwan, and South Korea developed electronics industries patterned after Japan's success. Hong Kong today is called the low cost radio capital of the world. Taiwan has attracted many United States owned manufacturing plants in recent years.

Sales Growth

Tables XIII to XVII, prepared by the United States Tariff Commission, point out the deep penetration which foreign produced
goods have made into the domestic market. Shipments data in these tables are domestic production and are the same as those published by the Census of Manufacturers. Apparent consumption is equal to shipments plus imports less exports. Import and export data should be the most accurate data available because of the forced reporting system involving customs duties and controls.

Imports of television sets. -- Imports of television sets, as presented in Table XIII, have increased from 1.5 million units in 1966 to 4.5 million units in 1970, and to an estimated 5.4 million in 1971. The ratio of units imported to apparent consumption was twelve per cent in 1966, thirty-eight per cent in 1970, and forty per cent in 1971. Dollar value of imported television sets has increased from $116 million in 1966 to $316 million in 1970, and to an estimated $413 million in 1971. The ratio of dollar value of television sets imported to apparent consumption was five per cent in 1966, seventeen per cent in 1970, and an estimated twenty per cent in 1971.

All import data related to value tend to be underestimated if related to actual market value because the data exclude import duties, freight charges from the foreign country, insurance, and other charges not normally included in domestic production. Total estimated apparent consumption in 1971 was 13.5 million units with a value of $2.0 billion.
### TABLE XIII

TELEVISION RECEIVERS (MONOCHROME AND COLOR) AND COMBINATIONS
U. S. SHIPMENTS, IMPORTS FOR CONSUMPTION, EXPORTS OF
DOMESTIC MERCHANDISE, AND APPARENT
CONSUMPTION, 1966-71

<table>
<thead>
<tr>
<th>Year</th>
<th>Shipments</th>
<th>Imports</th>
<th>Exports</th>
<th>Apparent Consumption</th>
<th>Ratio (per cent) of imports to Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity (Thousands of Units)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>11,673</td>
<td>1,524</td>
<td>168</td>
<td>13,029</td>
<td>12</td>
</tr>
<tr>
<td>1967</td>
<td>9,701</td>
<td>1,614</td>
<td>139</td>
<td>11,176</td>
<td>14</td>
</tr>
<tr>
<td>1968</td>
<td>10,346</td>
<td>2,710</td>
<td>144</td>
<td>12,912</td>
<td>21</td>
</tr>
<tr>
<td>1969</td>
<td>8,914</td>
<td>4,034</td>
<td>157</td>
<td>12,791</td>
<td>32</td>
</tr>
<tr>
<td>1970</td>
<td>7,523</td>
<td>4,513</td>
<td>126</td>
<td>11,910</td>
<td>38</td>
</tr>
<tr>
<td>1971</td>
<td>1/ 8,300</td>
<td>5,451</td>
<td>162</td>
<td>13,589</td>
<td>1/ 40</td>
</tr>
<tr>
<td></td>
<td>Value (Millions of Dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>2,350</td>
<td>116</td>
<td>26</td>
<td>2,439</td>
<td>5</td>
</tr>
<tr>
<td>1967</td>
<td>2,192</td>
<td>126</td>
<td>24</td>
<td>2,294</td>
<td>6</td>
</tr>
<tr>
<td>1968</td>
<td>2,222</td>
<td>204</td>
<td>28</td>
<td>2,398</td>
<td>8</td>
</tr>
<tr>
<td>1969</td>
<td>1,859</td>
<td>296</td>
<td>33</td>
<td>2,122</td>
<td>14</td>
</tr>
<tr>
<td>1970</td>
<td>1,517</td>
<td>316</td>
<td>26</td>
<td>1,807</td>
<td>17</td>
</tr>
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<td>1971</td>
<td>1/ 1,700</td>
<td>413</td>
<td>37</td>
<td>2,076</td>
<td>1/ 20</td>
</tr>
</tbody>
</table>

1/Estimated by the staff of the U. S. Tariff Commission.

Source: Compiled by the United States Tariff Commission from official statistics of the U. S. Department of Commerce, except as indicated.
Imports of radios. -- Imports of radios, as presented in Table XIV, have increased from 25.1 million units in 1966 to 33.3 million units in 1970, and to an estimated 34.1 million units in 1971. The ratio of units imported to apparent consumption was 41.4 per cent in 1966, 73.7 per cent in 1970, and an estimated 73.5 per cent in 1971. Dollar value of imported radios has increased from $144 million in 1966 to $343 million in 1970, and to an estimated $358 million in 1971. The ratio of dollar value of radios imported to apparent consumption was 25.3 per cent in 1966, 55.4 per cent in 1970, and an estimated 57.1 per cent in 1971.

The data in Table XIV include automobile radios. The significance of imports, however, is not greatly diminished because imports of automobile radios have been less than ten per cent of the total of radios imported. Also, domestic production of automobile radios has ranged around ten million units a year for the period covered. Total estimated apparent consumption in 1971 was 46.4 million units with a value of $627 million.

Imports of phonographs. -- Imports of phonographs and record players, as presented in Table XV, have increased from 3.8 million units in 1968 to 4.4 million units in 1970, and to an estimated 5.3 million units in 1971. The ratio of units imported to apparent consumption was forty-five per cent in 1968, fifty-three per cent in
**TABLE XIV**

**RADIO RECEIVERS--U. S. SHIPMENTS, IMPORTS FOR CONSUMPTION, EXPORTS OF DOMESTIC MERCHANDISE, AND APPARENT CONSUMPTION, 1966-71**

<table>
<thead>
<tr>
<th>Year</th>
<th>Shipments</th>
<th>Imports</th>
<th>Exports</th>
<th>Apparent Consumption</th>
<th>Ratio (per cent) of Imports to Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1,000 Units)</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1966</td>
<td>22,956</td>
<td>25,129</td>
<td>342</td>
<td>38,581</td>
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<tr>
<td>1967</td>
<td>17,527</td>
<td>24,200</td>
<td>437</td>
<td>41,290</td>
<td>58.6</td>
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<tr>
<td>1968</td>
<td>17,510</td>
<td>30,161</td>
<td>644</td>
<td>47,290</td>
<td>64.1</td>
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<tr>
<td>1969</td>
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<td>36,463</td>
<td>770</td>
<td>51,458</td>
<td>70.9</td>
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<td>1970</td>
<td>12,610</td>
<td>33,383</td>
<td>678</td>
<td>45,315</td>
<td>73.7</td>
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<tr>
<td>1971</td>
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<td>34,138</td>
<td>719</td>
<td>46,419</td>
<td>73.5</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Value (1,000 Dollars)</th>
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<td>638,123</td>
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<td>1969</td>
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<td>1970</td>
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<td>343,763</td>
<td>13,407</td>
<td>620,680</td>
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<td>1971</td>
<td>1/ 285,000</td>
<td>358,088</td>
<td>16,171</td>
<td>1/ 626,917</td>
<td>1/ 57.1</td>
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</tbody>
</table>

1/ Estimated.

Source: Compiled by the United States Tariff Commission from official statistics of the U. S. Department of Commerce except as indicated.
<table>
<thead>
<tr>
<th>Year</th>
<th>Shipments</th>
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<th>Exports</th>
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<th>Ratio (per cent) of Imports to Consumption</th>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>(Thousands of Units)</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>4,686</td>
<td>1/</td>
<td>64</td>
<td>1/</td>
<td>1/</td>
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<tr>
<td>1967</td>
<td>4,285</td>
<td>1/</td>
<td>61</td>
<td>1/</td>
<td>1/</td>
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<tr>
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<tr>
<td>1969</td>
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<td>3/ 8,797</td>
<td>3/ 61</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Millions of Dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>220</td>
<td>54</td>
<td>17</td>
<td>257</td>
<td>20</td>
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<tr>
<td>1967</td>
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<td>17</td>
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<tr>
<td>1968</td>
<td>223</td>
<td>43</td>
<td>21</td>
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<tr>
<td>1969</td>
<td>214</td>
<td>47</td>
<td>18</td>
<td>243</td>
<td>19</td>
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<tr>
<td>1970</td>
<td>174</td>
<td>50</td>
<td>23</td>
<td>201</td>
<td>25</td>
</tr>
</tbody>
</table>

1/Not available.

2/Estimated by the staff of the U. S. Tariff Commission.

3/Calculations derived partly from rounded figures.

Source: Compiled by the U. S. Tariff Commission from official statistics of the U. S. Department of Commerce except as indicated.
1970, and an estimated sixty-one per cent in 1971. Dollar value of imported phonographs has increased from $43 million in 1968 to $50 million in 1970, and to an estimated $62 million in 1971. The ratio of dollar value of phonographs to apparent consumption was sixteen per cent in 1968, twenty-five per cent in 1970, and an estimated thirty-one per cent in 1971. Total estimated apparent consumption of phonographs in 1971 was 8.7 million units with a value of $199 million.

Imports of radio-phonograph combinations. Imports of radio-phonograph combinations, as presented in Table XVI, have increased from 828 thousand units in 1966 to 1.5 million units in 1970, and an estimated 1.5 million units in 1971. The ratio of units imported to apparent consumption was thirty-three per cent in 1966, forty-nine per cent in 1970, and an estimated fifty-one per cent in 1971. Dollar value of imported radio-phonograph combinations has increased from $17 million in 1966 to $45 million in 1970, and to an estimated $54 million in 1971. The ratio of dollar value of radio-phonograph combinations to apparent consumption was five per cent in 1966, fourteen per cent in 1970, and an estimated nineteen per cent in 1971. Total estimated apparent consumption of radio-phonograph combinations in 1971 was 3.0 million units with a value of $290 million.
TABLE XVI

RADIO-PHONOGRAPH COMBINATIONS--U. S. SHIPMENTS, IMPORTS FOR CONSUMPTION, EXPORTS OF DOMESTIC MERCHANDISE, AND APPARENT CONSUMPTION, 1966-71

<table>
<thead>
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<th>Year</th>
<th>Shipments</th>
<th>Imports</th>
<th>Exports</th>
<th>Apparent Consumption</th>
<th>Ratio (per cent) of Imports to Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity (Thousands of Units)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>1,702</td>
<td>828</td>
<td>17</td>
<td>2,513</td>
<td>33</td>
</tr>
<tr>
<td>1967</td>
<td>1,730</td>
<td>1,315</td>
<td>18</td>
<td>3,027</td>
<td>43</td>
</tr>
<tr>
<td>1968</td>
<td>1,982</td>
<td>1,611</td>
<td>19</td>
<td>3,574</td>
<td>45</td>
</tr>
<tr>
<td>1969</td>
<td>1,842</td>
<td>1,658</td>
<td>28</td>
<td>3,472</td>
<td>48</td>
</tr>
<tr>
<td>1970</td>
<td>1,661</td>
<td>1,579</td>
<td>20</td>
<td>3,220</td>
<td>49</td>
</tr>
<tr>
<td>1971</td>
<td>1/ 1,500</td>
<td>1,531</td>
<td>27</td>
<td>2/ 3,004</td>
<td>2/ 51</td>
</tr>
</tbody>
</table>

|      | Value (Millions of Dollars) | | | | |
| 1966 | 312 | 17 | 2 | 326 | 5 |
| 1967 | 324 | 26 | 3 | 347 | 7 |
| 1968 | 379 | 30 | 3 | 405 | 7 |
| 1969 | 326 | 36 | 4 | 368 | 10 |
| 1970 | 275 | 45 | 3 | 317 | 14 |
| 1971 | 1/ 240 | 54 | 4 | 290 | 2/ 19 |

1/ Estimated by the staff of the U. S. Tariff Commission.

2/Calculation derived partly from rounded figures.

Source: Compiled by the U. S. Tariff Commission from official statistics of the U. S. Department of Commerce except as indicated.
Imports of recorders, as presented in Table XVII, have increased from 7.7 million units in 1968 to 13.2 million units in 1970, and to an estimated 15.1 million units in 1971. The ratio of units imported to apparent consumption was ninety-two per cent in 1968, ninety-seven per cent in 1970, and an estimated ninety-seven per cent in 1971. Dollar value of imported tape players and recorders has increased from $180 million in 1968 to $335 million in 1970, and to an estimated $372 million in 1971. The ratio of dollar value of tape players and recorders to apparent consumption was seventy-nine per cent in 1968, ninety per cent in 1970, and an estimated ninety-one per cent in 1971. Total estimated apparent consumption of tape players and recorders in 1971 was 15.5 million units with a value of $408 million.

Data included in Table XVII are not directly comparable with other data sources because the table includes automobile types of recorders and playback units. The data substantiate, however, the fact that the domestic tape recorder market is almost totally dominated by imports since the ratio of imports to consumption in both units and dollar value exceeds ninety per cent.

Current position. -- The data presented in Tables XIII to XVII indicate that import merchandise has moved to a position of dominance in the domestic market for consumer electronic products.
TABLE XVII
TAPE PLAYERS AND RECORDERS--U. S. SHIPMENTS, IMPORTS FOR CONSUMPTION AND APPARENT CONSUMPTION, 1966-71

<table>
<thead>
<tr>
<th>Year</th>
<th>Shipments</th>
<th>Imports</th>
<th>Apparent Consumption</th>
<th>Ratio (per cent) of Imports to Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity (Thousands of Units)</td>
<td>Value (Millions of Dollars)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>608</td>
<td>1/</td>
<td>1/</td>
<td>1/</td>
</tr>
<tr>
<td>1967</td>
<td>846</td>
<td>1/</td>
<td>1/</td>
<td>1/</td>
</tr>
<tr>
<td>1968</td>
<td>679</td>
<td>7,737</td>
<td>8,416</td>
<td>92</td>
</tr>
<tr>
<td>1969</td>
<td>650</td>
<td>11,493</td>
<td>12,143</td>
<td>95</td>
</tr>
<tr>
<td>1970</td>
<td>454</td>
<td>13,211</td>
<td>13,665</td>
<td>97</td>
</tr>
<tr>
<td>1971</td>
<td>2/ 400</td>
<td>15,121</td>
<td>2/15,521</td>
<td>1/ 97</td>
</tr>
</tbody>
</table>

1/ Not available.
2/ Estimated by the staff of the U. S. Tariff Commission.

Source: Compiled by the U. S. Tariff Commission from official statistics of the U. S. Department of Commerce, except as indicated.

Note: Data on exports are not shown here, as they apparently are not comparable to those on shipments and imports; the annual exports are believed to have been nil or negligible during 1966-71.
since 1966. The estimated percentage of imports to consumption in 1971 exceeded fifty per cent in all products, with exception of television, which was estimated at forty per cent. A dock strike during the latter part of 1971 prevented import percentages from being greater than estimates indicate. Very likely imports of black and white television exceed fifty per cent penetration, leaving color television as the only product not being totally dominated by imports in units.

The dollar value ratio of imports to apparent consumption is lower than unit ratios and does not indicate dominance in products other than radios and tape recorders. However, indications are that imports penetrate the market first with low value units. As imports gain acceptance, the dollar value ratio of imports to consumption increases at a faster rate than the ratio of imported units to apparent consumption.

Current International Situation

During 1971 a number of things occurred which could have significant effects on the international sector, particularly Japan. Imports to the United States were affected by the economic recession. Also, a dock strike tied up goods in ports for months. Accusations of "dumping" in the United States market were being directed at the Japanese. As a result of these dumping charges,
Japanese consumers learned of the lower prices being offered in the United States and went on a buyers' strike. Severe price cutting occurred at the retail level in Japan which weakened the manufacturers' control over its domestic market. In August, the United States imposed a ten per cent surcharge tax on all imports. However, most manufacturers tended to absorb the surcharges to avoid increasing prices in the United States market at a time when the market was showing indications of recovery.

The foregoing occurrences placed Japanese manufacturers in a profit squeeze. The revaluation of international currencies, however, probably will have the greatest and most lasting effect. The upward revaluation of the yen and the devaluation of the dollar has made domestic manufacturers' goods more competitive. However, the net effect of revaluation remains unclear. It is possible that United States manufacturers can hold their remaining markets and be in a better position to engage competition in marketing new products, as well as being more competitive in the international market.

**Japanese Recession Cartels**

As the Japanese economy has slowed, many of its industries have formed recession cartels.
A recession cartel can be formed by a group of Japanese manufacturers—with the approval of MITI and the Fair Trade Commission (FTC)—when the market prices of the product are below its average cost of production and a substantial proportion of the enterprises affected would be endangered by the recession in spite of rationalization.24

With the prior approval of the FTC, recession cartels can regulate production, sales, prices, and share of market. These cartels are generally limited to six months duration although extensions are available. Policing non-members becomes a problem since generally only seventy to eighty per cent of the market must be represented. These cartels, if formed by the electronics industry, could create legal problems for United States firms involved in joint ventures with a Japanese trading partner as well as increasing the intensity of competition.

**Japanese Marketing Strategy**

The trend of Japanese manufacturers toward direct selling, promoting their own brands, and expanding their own distribution organizations in the United States market is one of the greater threats to domestic manufacturers and wholesalers. Japanese manufacturers, in their home markets, have traditionally moved

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in directions of integrating with or controlling every level in the
distribution structure.\textsuperscript{25} It is likely that this pattern will be fol-
lowed in the United States.

In early arguments for controls on Japanese imports and
warnings of dangers facing the United States consumer electronics
industry, the Electronic Industry Association commented:

a. That the reason for the Japanese success is the
"extreme low cost" of Japanese products, made possible
by low wages plus the fact that the quality is "sufficiently
good to make them competitive in most instances;"
b. that damage has already been inflicted on small
U. S. electronics manufacturers with limited product
lines, who "cannot shift to other products with the same
ease as larger companies with a more diversified output;"
c. that if imports are not restricted, "thousands of
workers in this industry may lose their jobs;"
d. that U. S. aid and U. S. private investments
and licensing arrangements have "put Japanese manu-
facturers on a footing equal or superior to many American
competitors in terms of modern production facilities;"
e. that the Japanese "sector-by-sector technique of
market exploration" is to first send in a trickle of imports
to judge the market potential, then "a gush" to feel out the
competition, and then flood the market if the first two steps
are promising;
f. that the electronics industry is essential to defense,
but U. S. manufacturers "can't respond adequately (to the
needs of national emergency) if uncontrolled imports have
forced curtailment of production."\textsuperscript{26}

\textsuperscript{25} For detailed explanation of the Japanese marketing system
see: Donald N. Thompson, \textit{Contractual Marketing System} (Lex-

\textsuperscript{26} Committee for a National Trade Policy, "The Electronics
industry and U. S. Trade Policy," unpublished paper, Washington,
no date, pp. 4-5.
Low cost products, United States aid, and a sector-by-sector technique appear to be the means by which entry was made into the United States market. It would appear that these same techniques, excepting United States aid, are now being utilized in opening other world markets.

In the foregoing discussion, the history and formation of the consumer electronic products industry was traced from the invention of the recording machine in the late nineteenth century to the present. Phonographs were the first commercially produced products, followed by radios, black and white television sets, recorders, and color television sets. Product improvement has been continuous and has been generally accompanied by lower prices to the consumer. While the total value of industry shipments has been concentrated among a few domestic manufacturers, this concentration has not prevented foreign produced goods from dominating the consumer electronic products market in recent years.

It has been shown that the consumer electronic products industry is extremely competitive at every level in the distribution structure. Vertical competition as well as horizontal competition was found to exist in the industry. Foreign produced products were shown to be of increasing importance in the domestic market.

Problems of concern to the industry, such as determining the extent of market penetration and establishing potentials for
individual products by market require that accurate data be available. The problems of market penetration, market potentials, and the reporting system for recording industry data are discussed in Chapter III.
CHAPTER III

MARKET PENETRATION, MARKET POTENTIAL, AND THE REPORTING MECHANISM FOR RECORDING INDUSTRY DATA

Problems of the Industry

Preliminary interviews with manufacturers, wholesalers, and retailers, and a thorough study of industry trade publications revealed market penetration to be a significant problem within the consumer electronic products industry. In addition, these interviews and trade publications indicated that other industry problems have a relationship to market penetration. These other industry problems included the following: market potentials, the reporting mechanism for recording industry data, distribution, product, pricing, promotion, attitudes of the market, consumerism, channel conflict and control, and the legal environment within which the industry operates.

Market penetration is the central topic of this study. Treatment of the subject includes a study of: (1) the value and uses of market penetration, (2) the problems related to market penetration, (3) the factors affecting a firm's share of market, (4) the unit and
dollar significance of market penetration, and (5) the element of
secrecy placed by the industry on market penetration data.

Since quota assignments are an integral part of every segment
of the industry, it is necessary that they be as accurate as possible.
Market potentials are a basis for quota assignments; therefore, an
analysis is made of the following: (1) the uses of market potentials,
(2) the ways of developing market potentials, and (3) the techniques
available for improving market potentials. The reporting mecha-
nism for recording industry data is analyzed from the viewpoint
of determining the available data sources, and the accuracy of
data sources. Accurate data is essential to determining a firm's
share of market.

Distribution problems of the industry are as follows: (1) the
vast number of special users of consumer electronic products,
(2) the competition among channel members directed toward selling
the special user market, (3) the struggle among channel members
for control of the distribution channel, and (4) the effects of trans-
shipping on channel control and market penetration. The nature
of the product problems of the industry relate to: (1) product com-
petition, (2) full line forcing, (3) product introduction and model
changes, (4) product deletion, (5) service and warranty policies,
(6) products of the future, and (7) product standardization,
Problems of the industry as they relate to pricing include the following: (1) price competition among channel members, (2) frequency of price changes, (3) profit margins, (4) efforts of suppliers to control retail prices, and (5) special prices offered to large scale purchasers. Since all levels of the consumer electronic products industry are promotionally oriented, the problems of the industry relating to promotion include the following: (1) types of promotional activities, (2) expenditures, and (3) cooperative advertising.

Attitudes of the market are principally concerned with factors influencing consumers in their purchasing decisions. In addition, the attitudes of the market toward import products are of current significance. The industry's problems as related to consumerism are as follows: (1) the objectives of consumerism, (2) the legal implications of consumerism, and (3) the effects of private consumer organizations on the industry.

Channel conflict and channel control are defined and related to power. Means of channel control by channel members are discussed. Legal problems of the consumer electronic products industry relate principally to anti-trust legislation which includes collusive and monopolistic practices, such as price fixing, exclusive dealing, full line forcing, price discrimination, and others. In addition, the
reasonable probability of firms having the power to control markets is important.

The problems of the consumer electronic products industry to be discussed in this chapter include market penetration, market potentials, and the reporting mechanism for recording industry data. Chapter IV is a presentation of the remaining industry problems, which include distribution, product, pricing, promotion, attitudes of the market, consumerism, channel conflict and control, and the legal environment within which the industry operates.

Market Penetration

It has been shown that the consumer electronic products industry operates within a highly competitive environment. Each channel member, particularly manufacturers and wholesalers, is concerned with his firm's or brand's sales position relative to the sales position of other firms or brands in the industry. A firm may relate its sales to the total sales of the industry. This provides the firm its share of market. As previously indicated, this is most frequently referred to in the consumer electronic products industry as market penetration.

Value and Uses of Market Penetration

Market penetration is used as a measurement tool to indicate a firm's or brand's sales position relative to that of total industry
sales in units or dollars. The firm is able to note net changes in relative position which take place, and is not misled by sales increases not accompanied by an increase in the firm’s share of market. Any change in relative position within the industry can be detected. As a result, market penetration data become a tool for decision making. When a firm’s share of market is rising, present policies of the firm are likely to continue. When market share is declining, the firm’s policies are likely to be revised. The result of such actions is the establishment of a specific share of market as a company objective, even though such an objective may not have existed before.

By combining market penetration data with other data, such as the firm’s marketing mix, it is possible to determine the effectiveness of the firm’s strategy. The effectiveness of the marketing mix of competitors can be evaluated in similar fashion. Correlation can be established between expenditures and changes in market share in many instances.

Market penetration data provide a tool for evaluating managerial effectiveness. The firm can evaluate its performance individually compared to its past performance or as compared to other firms within the industry. Also, analysis of individual products, price classes, and markets are possible. From this segmented approach,
the firm can detect trends at an early stage and can identify seasonal variations. These additional data aid in preparing sales forecasts.

Another important use of market penetration data is that of planning strategies, particularly those related to product additions, deletions, and modifications, pricing decisions, promotional plans, and distribution policy. The expenditures and relative emphasis placed on each of these factors have a significant effect on the attainment of the desired share of market by the firm.

It is possible for a firm to separate non-controllable factors in the total environment from those which are controllable by management. There is a tendency for non-controllable forces outside the industry to affect the sales of the entire industry at the same time, though not always affecting each firm equally.

Market penetration data are useful in model building and are subject to statistical analysis, which contributes to the development of sales forecasts. Such techniques as multiple-factor analysis, correlation and regression analysis, and Markov chain analysis are effectively utilized in market analysis.

Many firms make use of market penetration data when test marketing, introducing new products, or initiating special promotions. Generally, store audits and consumer panels are used in these situations in order to secure immediate feedback of sales.
Firms may use market penetration data for purposes of limiting their share of market. When a single firm controls a large share of the total market for a given product, the firm may not want to increase its share for fear of anti-trust violations. In such situations, a firm may elect to direct its efforts toward increasing the primary demand for the product type rather than selective demand for the firm's brand.

When adequate market penetration data are available or can be assembled, the data will pinpoint all competitors in the market place. Such data permit the detection of entries into the market and exits from the market, as well as the effects of mergers within the industry.

A firm's management feels that its status has been improved when the firm's market penetration position has improved. Management desires to rank as high as possible within the industry so long as the level of market penetration does not lead to legal difficulties. As a result, market penetration tends to become an objective of the firm rather than serving only as a measurement tool.

Comments from marketing literature. Marketing literature tends to emphasize the significance of market penetration as a tool or standard of measurement and as a market objective or goal.
Treatment of the subject, however, tends to lack depth in coverage.

Examples of statements found in marketing literature are the following:

As a guide in sales planning, an objective picture of your share of industry volume is essential. You should have this information on each major product, both nationally and in as much detail as possible. There are many practical applications of this information. One of the most important is in planning your over-all sales strategy. If you already have the lion's share of the industry volume, your promotional problem is to expand industry volume rather than to try to secure sales gains at the expense of competitors. ¹

Rather than be guided by the profit motive, many companies strive for their share of customers. ²

By setting as its marketing goal a stated share of the market, a company is more apt to maintain its market position than it would if its goal were profits alone. ³

Measures of the company's market share in the industry are an important yardstick for measuring progress in the net, despite ups and downs in industry sales. ⁴

The task of determining industry volume, the size of the market for specific products, and the competitive positions of company within the industry ranks higher than other


³ Ibid.

marketing research activities . . . among consumer products manufacturers. This point is significant, because it underlines an important trend.\(^5\)

Market position (usually defined as a firm's share or percentage of the total market) constitutes one of the principle measurements made by business firms. Not infrequently, marketing plans are expressly formulated with a view toward either increasing the level of this variable or at least maintaining it at some desired level. More usually, market share provides an important measure of the firm's marketing efforts and represents an intermediate variable for deriving cash flows required in the evaluation of alternative plans.\(^6\)

Market share measurement is among the most widely used of all business tools, and it is consequently surprising that one cannot find any where a full discussion of why it is used, the assumptions it implies, and the occasions when it is likely to be reliable or those when it will lead one astray.\(^7\)

**Problems Related to Market Penetration**

Although it has been shown that market penetration is significant as a measuring tool and a company objective, market penetration data have weaknesses and present problems. The problems created sometimes outweigh the advantages to be derived from market penetration data.

\(^5\)Ibid.


When used as a measurement tool, market penetration data show the firm's sales position relative to the position of other industry firms. Until market penetration data is related to other information, however, it provides nothing else.

As a company objective, market penetration frequently results in a sacrifice of profit to maintain or improve market position. Increased expenditures and price reductions that may be necessary to maintain or increase a firm's market share may more than offset any resulting increments in profit. Improving a firm's market share often becomes an objective to be "achieved at any cost."

Increased market penetration does not necessarily mean increased profit as, often, no relationship exists between the two. Adopting a greater market share as an objective leads to conflicts with other business objectives, particularly, when greater market penetration becomes the primary goal of the firm, as is the case with many firms in the consumer electronics industry. Thus, the struggle for maintaining or improving market penetration becomes a dominant competitive characteristic of the industry. Moreover, when the measurement of market penetration tends to be in units rather than in dollars, the danger of losing sight of more important company goals is greater.
It is not unusual for extreme pressure for increased market penetration to be applied to the firm's organization and distribution systems. Pressure can result in further inefficiencies. Too much pressure weakens managerial effectiveness within the organization structure and conflicts with goals of distribution channel members.

**Data Availability and Sources of Inaccuracies**

The amount of market penetration data available at a low cost tends to be limited. Securing adequate data relating to competitive market shares for members of the industry by product and by market can be extremely costly. Trade associations typically furnish only total industry sales by product and market. Specialized research is necessary in many situations if competitive information is to be secured because such data tend to be highly confidential. Since data change daily and are accurate only for the period reported it is necessary to continually update market penetration data.

Because of the difficulty and costs of securing data, many firms make estimates of competitors' share of market. These estimates tend to be inaccurate because of the prejudice of one's own strength. This prejudice tends to underestimate competitive strengths. At the same time, a firm's optimism toward its own ability to increase its share of market leads to expansion of
facilities and overproduction, which eventually results in price reductions, dumping, and extreme competition within the industry.

Additional examples of possible inaccuracies of data result from failure of industry members to report their sales to the Electronic Industries Association. Other firms will hold sales to the end of an accounting period before reporting, or if their position looks good, firms will carry sales from one year to the next in order to mislead competition. Similar situations occur when firms report sales in a different area from where sold. Wholesalers sometimes do this in order to make their performance look more balanced.

Inaccurate data result from failure of import sales to be included in industry sales. Also, direct sales to consumers, to large scale retailers who redistribute to associate stores, and transshipping among wholesalers and retailers tend to place sales in markets other than where originally sold and recorded. Since today's large markets encompass several counties, retailers frequently make sales outside the county where the retailer is located.

Market penetration, when measured in units as opposed to dollar measurements, will provide a different share of market for firms within the industry, as some firms emphasize low priced rather than high priced merchandise. Such firms could have a
large per cent of the total market in units, but a low percentage of
market in dollar sales.

Data accuracy is further impaired when industry data are
gathered at the point of manufacture, or manufacturers' shipments
to wholesalers, or even wholesalers' shipments to retailers. While
providing valuable data, these points of measurement are not the
source of the most vital data, which should be gathered at the
point of sale to the ultimate consumer. Other points of measure-
ment do not record the location of the final sale.

Time Lag in Reporting Data

Any reporting system will have some lag between the time of
sale and the feedback of information. Despite a time lag of several
months, trade association data are generally available sooner than
government data. Therefore, virtually all sales projections are
based on the past rather than on what is happening at the moment.
The delay in securing sales data makes it difficult to analyze
activities of the firm and its competition which took place several
months before, when the sales were made. To overcome the time
lag problem would involve maintaining a continuous inventory of
the firms' activities as well as the activities of its competitors in
every market. Such an inventory would be worthwhile, but probably
would be too costly to justify. To overcome the problem, many
firms employ outside market research firms to measure retail sales to consumers by brand and by market. Such research firms reduce the time lag to between four and six weeks.

Data Utilization

Market penetration data often are subjected to an emotional evaluation. A decline in a firm's market penetration may be viewed by management as a personal failure. To many persons in the firm a decline in market penetration suggests that the firm is facing potential bankruptcy. Market penetration data do not provide explanations of the causes of decline or improvement in product sales performance. Since there are so many variables which can cause changes in the share of market, it is difficult for a firm to maintain its relative position in the market. This is especially true since managerial ability differs among firms, and resources are not available to all firms within an industry on the same relatively proportionate basis. And, certainly, these resources are not applied to the marketing mix in the same manner.

When establishing market penetration goals, firms frequently assume no new entries into nor exits from the industry, and do not consider mergers, strikes or shutdown, or the effects of these factors on the firm or its competition. By not reporting sales to the Electronic Industries Association, new firms may enter the
industry and go unnoticed until they have firmly entrenched themselves in the market.

Manufacturers who tend to grade each local market on the basis of national average market penetration are expecting the impossible, as there is no way in which every market can exceed national average. Also, there is little consistency in sales by product between national markets and local markets. All markets tend to behave differently. Since trends begin in local markets, each market should be studied individually.

Factors Affecting a Firm's Share of Market

To analyze all of the factors which affect a firm's share of market would become a study within itself. Most of the factors relate to the firm's development of a balanced marketing mix and the efficient utilization of the firm's resources in the performance of marketing functions to meet the needs of the market. A listing of the more frequently mentioned factors affecting a firm's market share include: (1) market demand and consumer attitudes, (2) the distribution system, (3) product line and warranty policy, (4) competitive pricing, (5) extensive promotion, (6) strength and effectiveness of competition, (7) mergers and new entries into the industry, (8) wholesale and retail credit, (9) legal restrictions, and (10) the degree of commitment to achieve a given market share by the firm.
Unit and Dollar Significance

Industry sales data for 1970 reflect the unit and dollar importance of market penetration. Each one per cent share of market for a manufacturer or importer represented 122,200 units in television or $22,020,000 in revenue; 340,000 units in radio or $3,800,000 in revenue; 56,200 units in phonographs or $3,760,000 in revenue; and 84,590 units in recorders or $2,438,360 in revenue. Total dollar value of sales of all consumer electronic products in 1970 were $3,201,836,000.  

Industry Comments

Executive turnover.--Industry trade journals reveal that turnover of management within the consumer electronic products industry is high. Much of the cause of the turnover appears to relate to failure in maintaining or improving market penetration of the firm involved. Generally the new top executive makes changes in key executive positions, and sometimes completely reorganizes the firm. For example, "... Sylvania named a new senior vice-president for entertainment products--Thomas H. Cashin--who promptly brought in 137 new management people." Apparently  

^See Table II, p. 19.

distressed by the firm's emphasis on market penetration rather than profit. Cashin commented: "We've had our fill of entrepreneurs who wanted to sell the most sets, whether or not it was profitable."^{10}

**Changing strategies.** - The new assistant general manager of Motorola, Inc.'s Consumer Products Division, Edward P. Reavey, Jr., reflected that the consumer electronic products industry suffers from sameness. "One company cuts a price, so everyone else cuts a price. What this industry calls marketing is slashing prices and dumping merchandise."^{11} Reavey believed the industry to be unsophisticated in its marketing approach because firms failed to define what business they are in or what their customers' needs are, and they do not do sufficient market research or test marketing. On assumption of his new position, "he found Motorola management fighting to reverse a declining share of the color TV market..."^{12}

By following a total marketing concept which included defining the nature of the business, customer needs, market research, and test marketing, Reavey was able to increase sales, market penetration, and profit in color TV. In addition, as vice-president and

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^{10} Ibid.

^{11} "Color TV's Renegade," *Sales Management*, CII (May 1, 1969), 35.

^{12} Ibid.
general manager of the consumer products division of Motorola, Reavey added one thousand retail accounts, doubled employment, changed thirty-four per cent of the distributors in one year, increased market effort and penetration of color TV in the hotel-motel field to over twenty-five per cent, improved services, and introduced a solid state transistorized chassis with plug-in circuits. 13

Arjoy Miller, president of the Ford Motor Company, indicated the job of turning Philco around was more difficult than was anticipated at the time of the purchase. Ford purchased Philco because of Philco's strong research and development base in military and space electronics, and because of its defense contract sales.

Unfortunately, Philco's strong position in defense was more than offset by its consumer electronics business. Philco's radio, TV, and appliance lines had been losing their share of the market (as well as money) for years. The company's old-fashioned distribution system--through some 20,000 dealers, mostly of the "Mom and Pop" variety--had been falling apart. 14

After losing money in consumer electronic products for several years while under the direction of Ford management, Miller hired

13 "Motorola Eyeing No. 2 Color Spot, " Home Furnishings Daily, XLIII (December 14, 1971), 1, 4.

Robert O. Fickes as president of Philco's consumer products group.

A former president of Norge and department head for General Electric, Fickes began to reorganize the division. In a comment to Forbes Fickes said:

One of my advantages over my predecessor has been that I did not come from the Ford Motor Company. Ford Motors is basically a one-product company where franchised dealers have a contract to handle a single line apiece. In appliances and TV sets you can have a dozen competitors on the same dealer's floor.  

In order to return Philco to a profitable operation, Fickes' reorganization included hiring executives experienced in consumer electronic products. One such executive was Carl E. Lanty, former president of Admiral Sales Corporation. Other actions included the following: (1) replacing the old regional manager system with the factory-to-distributor system; (2) conducting market research which included extensive in-depth consumer interviews, product revision and model expansion; (3) doubling the number of volume dealers; and (4) quadrupling capital expenditures to around $125 million.

Price competition. - Competition, particularly in the form of pricing, appears to plague the industry. Merle Kremer, president

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15 Ibid.  
16 Ibid., pp. 54-55.
of GTE Sylvania, Inc., believes the color TV industry to be unnecessarily combative, particularly in the way it cuts prices. The reasons for this are "... the industry has too much excess capacity and nobody wants to lose his share of market."\(^{17}\)

Little doubt exists that the industry does operate in an environment of frequent price changes. The typical approach in the industry is one of introducing new models at a particular price and then cutting the established introductory price throughout the year. Sylvania recently introduced models at higher priced levels than those previously used, but as Kremer reflects "... competition wouldn't let them stay there. The problem was we waited too long before reducing them, and that cost us market penetration..."\(^{18}\)

Communications. -- All members of the industry do not admit the significance of planned marketing activities or of market penetration. The Matsushita Electric Corporation of America, a United States subsidiary of the Japanese manufacturer of Panasonic revealed the following:

... we don't have any professional marketing program. Our marketing is done on an informal basis. Our

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\(^{18}\)Ibid.
sales executives keeping close contacts with the sales force and key dealers throughout the country. Also, we make constant analysis of inventory trends.\footnote{Correspondence from Susan Hennencier, Executive Offices, Matsushita Electric Corporation of America, New York, November 24, 1970.}

With the high degree of success of the Panasonic brand of merchandise, it is likely that a better marketing program has existed than indicated. The importance which Matsushita attaches to communications between management and its sales force and key dealers, and to inventory trends should be a guide for other manufacturers to follow.

Data analysis. --RCA conducts meetings each Monday to discuss production, sales, and inventory to permit greater precision in forecasting. Statistical data are presented at these meetings which reflect "factory sales, factory inventory, week's supply, distributor sales, distributor inventory, week's supply at the distributor level and . . . per cent share of industry."\footnote{David J. McCarty, "The Three C's of Sales Forecasting," Marketing Precision and Executive Action, Proceedings of the Forty-Fifth National Conference of the American Marketing Association, edited by Charles H. Hindersman (Chicago, 1962), p. 249.} While the system is even more sophisticated than presented, it lacks consideration of dealer inventories, or of what is currently taking place at the point of ultimate consumption.
Industry comments reveal increasing attention to inventories. The burden of carrying inventory has tended to shift somewhat from retailer to wholesaler to manufacturer in recent years. "In the TV industry, for example, dealers today carry 35-40 per cent of the total pipeline inventories while factories and distributors carry 60-65 per cent.\(^{21}\) In years past it was not unusual for retailers to carry 50 per cent, distributors 30 per cent, and manufacturers 20 per cent of the total inventory in pipelines.

A similar but less sophisticated system than that of RCA exists at Zenith for analyzing distributor sales and inventories. For Zenith, "an important purpose of the market penetration analysis is to bolster poor distributor performance."\(^{22}\)

**Secrecy of Data**

Industry members place great significance on their share of market within the industry, yet they tend to want this data to remain confidential. While the Electronic Industries Association has share of market data for domestic brands, the Association is not permitted to publish the data. The Electronic Industries

\(^{21}\)Ibid., p. 250.

Association provides industry sales for the United States as a whole and for individual states and counties to members. The industry members can then determine their share of market. Private research organizations or other means must be used by industry members, however, to determine their competition's market penetration.

Import data are recorded and published by the U. S. Customs Department by type of product and originating country of shipment. Customs invoices and declarations contain data by brand or company producing the product, and this information would be beneficial to the domestic industry if published. This type data would have benefited United States companies in meeting foreign competition but apparently no effort was made by the industry or the EIA to encourage the Customs Department to publish this data. Also, there has been little encouragement by the industry or importers and foreign manufacturers to join or report sales to the EIA.

**Reasons for secrecy.** -- In the consumer electronic products industry individual firms desire data to remain secret because they consider their share of market to be private information. Maintaining secrecy is an effort to prevent competition from knowing anything about the firm's business. Many in the industry believe that if market penetration data were public information, competitors
would increase their efforts when others in the industry were increasing their market share. It is feared that if a firm's share was declining, the firm's competitors would make this fact known through advertising. In addition, many suppliers do not want their customers to know how good or bad the firm or its brand may be performing relative to the total industry.

Other reasons why firms hold their market penetration data confidential are the following: (1) to prevent competition from determining the effectiveness of product introduction and marketing programs; (2) to make competition believe the firm is overspending and will soon be forced to reduce marketing efforts; (3) to prevent competition from determining the firm's strong market areas, thereby preventing the possible loss of distribution outlets; (4) to grow and become entrenched in the market before competition fully realizes the firm's strength; (5) to retain the ability to withhold information from stockholders until situations have been corrected; (6) to provide a shield against personal attacks on a firm's managerial ability by industry trade journals; and (7) to prevent management from reacting too quickly in combating changes in market shares of competitors.

Disadvantages of secrecy. --- Most of the foregoing advantages of secrecy for a particular firm are disadvantages for the firm's
competitors. For example, public information could possibly prevent new entries into a market from becoming well established before present industry members become totally aware of their presence and strength. Had information regarding the increasing strength of import brands been public, it is possible that domestic firms could have acted to retard the early growth of imported merchandise.

The disadvantages in maintaining secrecy of market penetration data include the following: (1) the difficulty in determining the accuracy of available data; (2) the tendency to overestimate competitive strengths; (3) the difficulty in relating share of market data to business cycles and general economic conditions; (4) the difficulty in promoting the significance of size or growth of the firm; (5) the cost of securing competitive data, particularly for every market; (6) the fact that management is frequently not aware of poor performance until the situation has become critical; and (7) the fact that secrecy does not allow stockholders and customers to be aware of a brand's problems until the brand's image as well as profits have deteriorated.

It is possible that the advantages to be derived by the consumer electronic products industry from making market penetration data public could very well outweigh the advantages of maintaining
secrecy of data, at least from a national point of view. Since the industry has been determined to be highly competitive, as well as concerned with market penetration, there appears to be little for the industry to fear from having accurate public data rather than costly, incomplete, or no data which remains secretive.

Market and Sales Potential

Market potential is "a calculation of maximum possible sales opportunities for all sellers of a good or service during a stated period." Market potential represents a forecast of industry sales. From the total industry market potential, individual firms estimate the sales potential that exists for the firm for specific products by brand and for specific geographic areas by firm, product, and brand. After sales potentials are determined they generally become the basis for the establishment of quotas.

Uses of Market Potentials

The more frequent uses of market potential data are to determine the following: (1) sales territories; (2) sales quotas; (3) trade channels; (4) allocation of promotional effort; (5) plant, branch, and warehouse location; (6) equitable sales compensation plans; (7) sales

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23 American Marketing Association, Committee on Definitions, Marketing Definitions (Chicago, 1960), p. 15.
force effectiveness; (8) prospects, and (9) new product introductions
and market expansion. When market penetration is a firm's goal, the goal becomes a sales quota.

Since quota assignments are an integral part of every segment of the industry, quotas should be as accurate as possible. Conflict among channels of distribution arises because of the feeling of inequity believed to exist in quota assignments by manufacturers and wholesalers to their customers.

Developing Potentials

With only a few exceptions, consumer product manufacturers can look to one or both of two methods for the basic technique to develop potentials; the Sales Data Method and the Index Method.25

In making use of the Sales Data Method, all the sales of the industry must be reported by product by geographic area to a central data collection agency. In this manner actual total industry sales form the basis for estimating market potentials for the future. When data are available for a period of several years, reasonably accurate trends can be established. The most obvious characteristic of the Sales Data Method is that a different market potential


will result for each product since the market potential is based on actual sales. For example, industry sales in Texas for radios during 1970 was 4,589 per cent of the national market; for color televisions, 5,582 per cent; for console phonographs, 6,598 per cent; for portable phonographs, 5,187 per cent; for black and white televisions, 5,048 per cent, and for tape recorders, 4,78 per cent. 26

Since reliable and accurate data are not always available at a moderate cost it frequently becomes necessary to use the Index Method to develop market potentials for the industry. This technique "employs a general measurement of purchasing power as the basis for estimating the market potential for a given commodity. 27

A number of general market factors, such as population, personal or family income, retail sales, wholesale sales, income tax returns, bank deposits, and others, are combined to produce a single index. On occasion, only one of the aforementioned factors will be utilized as a single index. Frequently, retail sales are used to form a single index because they represent actual purchases of goods and services.


A number of prepared indexes, such as the Rand-McNally Index, the Crowell Index, and the McCann Index are available. The Sales Management "Survey of Buying Power" is a prepared index used extensively in the consumer electronic products industry. It is described as being a weighted index that converts three basic elements—population, Effective Buying Income and Retail Sales—into a measurement of a market's ability to buy, and expresses it as a percentage of the U. S. potential. It is calculated by giving a weight of 5 to the markets per cent of the U. S. Effective Income, 3 to its per cent of U. S. retail sales, and 2 to its per cent of U. S. population. The total of these weighted per cents is then divided by 10 to arrive at the BPL.

Sales Management indicates that its subscribers use the "Survey of Buying Power" to establish quotas and territory potentials, to select markets to test or concentrate efforts, to use the advertising dollar more effectively, to determine the routes of the sales force, to establish new product marketing, and to locate distribution points.

The greatest weakness of the Sales Management Buying Index, as is true of all single index methods, is that the index fails to

28 "Behind the Small Type in the Sales Management Survey of Buying Power," Sales Management, CIV (June 10, 1970), 7.

account for differences in the markets for different products. In the discussion of the Sales Data Method the difference in the percentage of national sales of each consumer electronic product sold in Texas was shown to vary from 4.589 per cent for radio to 6.598 per cent for console phonograph. The single 1970 Sales Management Buying Power Index for Texas was 5.2046 per cent of the United States total. If quotas had been established on the 5.2046 per cent BPI, an overestimate of radio potential by 49,142 units and an underestimate of 15,140 console stereo units in Texas would have resulted. These variations would be reflected in other states as well.

When the 1970 Sales Management Buying Power Index was applied to actual 1970 unit sales, the average per cent of error of all states was 16.4 per cent for radio sales, 16.0 per cent for color TV, 29.6 per cent for black and white TV sales, 22.5 per cent for console phonographs, 20.7 per cent for portable phonographs, and 16.2 per cent for tape recorders. The range of error was from one-half per cent to ninety-one per cent, indicating that the Sales Management Buying Power Index is apparently inadequate for establishing market potentials for consumer electronic products.

30 Sales Management, CIV (June 10, 1970), D-161.
Improving Techniques for Estimating Market Potential

In order to improve the technique for estimating market potential, it is necessary to construct an index for each separate product. Market factors should vary for each product. By means of regression analysis, weights can be assigned to each factor which will achieve improved accuracy over prepared indexes of published sources.

Even though great effort may be put forth in preparing indexes, most of the factors considered relate to purchasing power. Such factors as consumer buying habits are not used in the preparation of these indexes, yet influence the sale of products.

The Reporting Mechanism for Recording Industry Data

Data Collection Sources

Data collection sources for consumer electronic products are trade associations, governmental agencies, business magazines, trade journals, and private sources. The most important industry trade association is the Electronic Industries Association (EIA). Other associations of varying importance as information sources include the National Appliance and Radio-TV Dealers Association (NARDA), National Electronic Distributors Association (NEDA),
National Association of Broadcasters (NAB), Radio Advertising Bureau (RAB), and Electronic Representatives Association (ERA).

The Electronic Industries Association of Japan, which has no relationship to the United States organization, is becoming important as an information source.

The Department of Commerce and its many divisions is the most important government source. Virtually all other U.S. government departments provide data of some type, particularly the Treasury Department, the Department of Labor, and the Department of Health, Education and Welfare.

Business magazines and trade journals do much to keep the industry posted on current events. Most of these journals make use of data collected by trade associations, particularly EIA, and government data in their reporting. Frequently, studies originate and are reported in journals important to the industry, such as Home Furnishings Daily, Mart, Electronics, Broadcasting, Electronics Distributing and Marketing, NEDA Journal, Television Digest, Television Factbook, and numerous others specializing in various segments of the industry.

Private research organizations, such as Audits and Surveys, Market Research Corporation of America, Daniel Starch, Trendex, Inc., Samson Trends, and Arthur D. Little, Inc., perform
specialized studies generally tailored to the specific needs and requests of their clients. Much of this data becomes the property of the client and remains confidential. Public utilities in many areas collect sales data. These data are published in the utilities' own publications, as well as in such trade magazines as Mart and Dealerscope. Dun and Bradstreet and the Electronics Engineer now offer custom research to the industry. Financial analysts also perform industry research, particularly when the research pertains to individual firms.

Accuracy of Data Sources

Fortune magazine editors make the following comment about the accuracy of industry data:

A serious effort to analyze the home goods market soon encounters a haziness in the statistics. The industry's sales data extend no further than the factory or distributor levels, so precise knowledge of the units sold at retail and what they fetch is lacking. Some appliance manufacturers analyze the warranty cards their customers turn in. Others rely on sampling surveys, or base rough estimates on wholesale figures. One result of the lack of accurate retail data is that total inventory position of individual products in retailers' hands is only sketchily known. 31

31 Markets of the Seventies, by the editors of Fortune (New York, 1968), p. 82.
Government data. Fortune magazine indicates that total retail value of sales of consumer goods is known to a fair degree of accuracy in Department of Commerce data, but then suggests that sales are understated because of allocations to construction, investment, or some other sector rather than the consumer sector. Questions exist pertaining to how volume is allocated. 32

Government data will frequently differ among departments of the government and even within such departments as the Department of Commerce. For example, consumer electronics production data published in the U. S. Industrial Outlook, 1971, differs from Census of Manufacturers data.

Much of the problem in analyzing data collected by government sources pertain to data comparability. Accurate determination of the exact number of firms and their sales of any single consumer electronic product type is difficult because of such factors as product diversification and conglomerate structures; confusion of data reported by establishments as opposed to companies; extensive use of footnotes and reference to definitions; uncertainty as to which Standard Industrial Classification number applies to sales of manufacturers, wholesalers, and retailers; combination types products

32 Ibid., pp. 82-83.
in one unit; domestic brands produced in foreign nations; and operations which assemble imported components in the United States.

Government agencies have made significant progress toward achieving greater accuracy, but there appears to be a need for further standardization in classifying data, a need for quicker publication of data, and a need to publish data in a form which would specifically describe the industry.

**Electronic Industries Association data.** - The Radio Manufacturers Association, formed in 1924 to serve the needs of the radio industry, was the beginning of what is known as the Electronic Industries Association today. The Association has a staff of 95 and membership of over 300 manufacturers. Its principle divisions are Consumer Products, Distributor Products, Industrial Electronics, Government Products, Parts, Tubes, and Semi-conductor Products. It has separate committees functioning to study problems relating to all parts of the industry. Sales data furnished by members and reporting firms is published as totals in several weekly, monthly, and annual publications to members and subscribers.

Daniell L. Dailey, Director of Marketing Services, explains the Consumer Product Division and the Association's data collecting system in this manner:
While the Association regularly compiles data from over 700 U. S. manufacturers of electronic equipment and components, our policies prohibit the release of any information that might indicate the concentration, industry position, or actual volume of any specific company for any product. We are also prevented from becoming involved in any manner in the pricing or pricing practices of industry.

All except one of the manufacturers of televisions regularly report their data to EIA and we are able to estimate reliably for that firm according to the quantity, sizes, and timing of his picture tube purchases (all Tube suppliers participate in EIA programs). Similar practices are followed to permit accurate estimates for the few non-participant manufacturers of radios, phonographs and tape recorders.

Sales are reported by manufacturers to EIA by county of destination of each shipment. This does not necessarily conform to the county pattern of sales at retail and we make no effort to report the latter. Obviously, shipments to discount houses, mobile home manufacturers, hotels or motels, and others are included in shipments from the factory by county of destination.

Since all manufacturers do not report sales, the data become estimates of a sort. Manufacturers tend to become unhappy with policies followed by the Association and drop membership on occasion. Zenith, Packard-Bell, and Emerson were not members of the Association in March of 1970. It is possible that these firms may have continued to report sales. But since reporting is

33 Correspondence from Daniell L. Dailey, Director of Marketing Services, Electronic Industries Association, Washington, November 13, 1970.

voluntary, unhappiness on the part of these non-members could
delay or distort data. As a further indication of possible inaccuracy
of data, over 500,000 hi-fi instruments were marketed in 1968 by
Electronic Corporation of America, a division of Morse Electro
Products Corp. of New York, which were not reported in EIA data.
Nearly 250,000 compact stereo systems and over 300,000 consoles
were not included in 1969 EIA data. "Why? Because the company
is known primarily as an assembler rather than as a manufacturer
and is therefore missing from the ranks."35 This many units would
dramatically change industry data as it represents about ten per cent
of the domestic industry's sales. The share of market of domestic
producers would change substantially with the inclusion of these
sales.

No importers or foreign manufacturers are reporting sales to
the EIA; thus, all sales data for foreign firms would have to come
from other sources, particularly United States government sources.
There is little possibility of the EIA-USA getting together with the
EIA-Japan because the United States organization has continually
lobbied for controls on foreign imports.

35 "Assembler Finds Its Niche with a Mix for the Masses,"
Mart, XIII (September 15, 1969), 8.
Reports to the Electronic Industries Association are in units, except for production data, which are expressed in dollar amounts. Sales are reported by manufacturers to EIA by county of destination of each shipment. It should be noted that shipments are reports of wholesalers' sales to retailers where a two-step distribution process is used. In one-step distribution shipments would include the manufacturer shipments to the direct purchaser. It is not totally clear at this point whether a private brand manufacturer reports sales to the billing point (location where invoices are paid) or the shipment destination point (location where merchandise is shipped) or if sales are reported at all.

It becomes increasingly clear that manufacturers' shipments to large scale purchasers could distort market statistics considerably. For example, a retail chain with 300 stores across the United States and a single distribution center could receive all its orders at the distribution point; thus, the sales volume of the county in which the distribution point is located would be inflated by sales from 300 stores. While adjustments could be made for one such situation, it is doubtful that the sales volume for the great number of retail chain stores and large scale specialty purchasers could be adjusted under the present system to achieve any degree of measurable accuracy. Until there is a way of measuring sales
accurately at the retail level, the industry will continue to use the vague guidelines which the present system offers.

Much data are provided by the Electronic Industries Association; however, some manufacturers do not know how much inventory exists at the wholesale level, and once sales have been made to retailers, few manufacturers know the amount of inventory held at the retail level. This seemed to be the cause of problems in the television industry in 1951.

Rolling happily along at an annual production rate of 8,000,000 sets, the television industry was blissfully unaware that retailers had some 1,500,000 unsold sets on hand. Factory and wholesaler inventories brought the total to nearly 2,250,000.

Result: two out of three production lines had to be closed down and production cut back to a level of 3,000,000 sets a year.36

Industry losses were significant and resulted in the departure of over one hundred firms from the industry. Consequently, manufacturers began to make greater use of private research organizations because of their ability to collect data at the retail level. The Electronic Industries Association also placed greater emphasis on inventories, but this emphasis is still at the manufacturing and wholesale levels. It would seem that the EIA should place greater

emphasis on research of merchandise flow from the factory to consumer.

From the foregoing it would appear that, while the Electronic Industries Association has a mechanism for recording and reporting industry sales, the mechanism does not meet the needs of all industry members and the data reported are of questionable accuracy.

Private research organizations. -- Because of the discrepancies in data and the lack of data regarding specific competitive brands and individual markets, private research organizations have become important. Arthur C. Neilson, Jr. suggests:

A continuing audit which measures the consumer sales of the entire product category and that of each important brand, together with its share of the total market, is one accurate and practical way to evaluate consumer response to marketing expenditures. This procedure provides a dynamic picture of the changing market place. 37

Although the A. C. Neilson Company developed retail index services, Neilson is no longer engaged in research pertaining to consumer electronic products. Neilson's activities are presently restricted to food and drug products. Audits and Surveys, Incorporated, however, compiles retail indexes for consumer electronic products similar to those of Neilson.

Firms such as Arthur D. Little, Inc., tend to accept marketing and management assignments of a much broader nature. For example, Arthur D. Little, Inc., released a special report, "Home Electronics 1967-1973" in July of 1968 with sales projections made through 1973 for each type consumer electronics product. The projections appear to be made from Electronic Industry Association and U. S. Customs data base.\textsuperscript{38}

Trendex, Inc., famous for its television broadcast ratings, prepares buyership reports for all consumer electronic products. Data are acquired exclusively from telephone surveys from a sample of 70,000 homes four times a year. Data collected in this manner costs much less than would be the case with the personal interview methods. The type of data supplied to clients include brand share, previous brand purchased, month of purchase, region (urban v. non-urban), year of previous set purchased, and other data. Many United States manufacturers subscribe to this syndicated service.\textsuperscript{39}

Individually prepared studies are costly when personal interviews are used, and as a result cannot be performed with any degree


of frequency. Typical of the time required for an interview and accompanying charges for the services is the "Marketing Assistance Program" conducted by The Electronic Engineer. Brand awareness interviews of ten minute duration cost $8 per call; buying influence identification interviews run fifteen minutes and cost $12 per call; and market penetration and customer satisfaction interviews are for twenty minutes and cost $14 per call. High costs make it virtually impossible for representative samples of ultimate consumers to be made. Opinions of retailers and wholesalers are studied by the market, but normally not with any degree of frequency because of high costs.

Since the majority of private research organizations make use of sampling techniques in their analyses, it would be necessary to study the techniques in greater depth in order to determine the validity of their findings.

Publications. -- Sales forecasts prepared by the Market Services Department of Electronics magazine are estimates based on response from mail survey questionnaires sent to marketing managers, analysts, and planners in all segments of the electronics industry.

Electronics sales estimates are more conservative than actual sales reported by the Electronic Industries Association. Since the industry tends to overproduce, perhaps conservative sales forecasts are desirable.

On February 22nd of each year, Merchandising Week publishes a "Statistical and Marketing Report" which includes industry growth tables. Included is the retail value of manufacturers' unit sales. These retail sales are a measure of the retail price value of manufacturers' sales, which is somewhat misleading as retail sales are not always made in the same year that the products are produced. The report also indicates that value was based on manufacturers suggested retail prices and not actual selling prices. In analyzing units shipped, it was determined that Merchandising Week uses Electronic Industries Association data which includes domestic production only, with the exception of tape recorders. As a result, this does not reflect total retail sales because it excludes imports. The report is inaccurate and misleading to its many readers.

In the foregoing discussion, the consumer electronic industry problems of market penetration, market potentials, and the reporting mechanism for recording industry data were discussed. Market penetration was shown to be used as a measurement tool and as a company goal. Central among the weaknesses of market
penetration is that it must be related to other information; otherwise it shows nothing other than the firm's position relative to the sales of the entire industry. As a company objective, market penetration results in a sacrifice of profit to attain the objective.

Establishing market potentials is a prerequisite to quota assignments. The Sales Management Buying Power Index proved to be inadequate for preparing market potentials and quotas for the industry. Substantial product and market data are available to the industry, but its accuracy has been shown to be questionable.

Additional problems of concern to the industry are discussed in Chapter IV. These problems include the following: distribution, product, pricing, promotion, attitudes of the market, consumerism, channel conflict and control, and the legal environment within which the industry operates.
CHAPTER IV

THE MARKETING MIX AND OTHER INDUSTRY PROBLEMS

Other Problems of the Industry

Among the problems of the industry are those which relate to the marketing mix: distribution, product, pricing, and promotion. In addition, the consumer electronic products industry is concerned with market attitudes, consumerism, channel conflict and control, and the legal environment. Since these problems have an impact on a firm's or brand's market penetration, each will be discussed.

Distribution Problems

Contractual Agreements

The consumer electronic products industry has been previously described as generally following the traditional "two-step" distribution approach in which the goods flow from manufacturer to wholesaler to retailer to consumer. It has also been noted that a few manufacturers make use of the "one-step" system in which the goods flow from manufacturer to retailer to consumer. In either of the aforementioned systems, agreements which outline the
responsibilities of each party are generally negotiated between seller and buyer. Such contracts, whether written or verbal, will outline the geographic territory assigned to each channel member, the products and brands involved, inventory requirements, payment methods, sales quota assignments, advertising and promotion policies, sales training requirements, product warranty and service responsibilities, and method of contract termination. Contractual agreements in recent years have become very general in nature because of fear of violating anti-trust laws.

Special Users and Channel Member Conflict

Although the distribution system sounds simple, conflicts arise among channel members. A frequent source of conflict pertains to which channel member should be entitled to make sales to buyers other than household consumers. Retailers believe they should make all sales to final buyers, both commercial and household consumers. Wholesalers feel they should make all sales to commercial buyers who purchase multiple units. On the other hand, manufacturers tend to believe they should be the channel members who make the sale for all goods not destined to the household consumer. Manufacturers feel their retailers and wholesalers would be competing with manufacturers of other brands and would lose the sales as a result. Therefore, to protect the sale, the manufacturers compete
with other manufacturers by attempting to sell directly to commercial users.

Commercial or special use purchasers include hotels and motels, mobile home manufacturers, trading stamp companies, premium and incentive merchandising firms, direct mail merchandising companies, and post exchanges. These firms are frequently capable of making relatively sizeable purchases for delivery at one time or according to a scheduled delivery plan. In some instances, however, both the orders and deliveries involve small quantities.

Virtually all manufacturers sell directly to special use purchasers. In several firms, special departments or subsidiaries have been established to develop this type of business. An example of such a department is provided by recent organization changes within Philco-Ford. "Philco-Ford has set up three offices in its domestic consumer products division. One will deal with sales through company-operated distributors, one with sales through independent distributors, and one with sales through national and regional accounts."

A large size purchase made by a special user can substantially change a brand's share of market, particularly in the market area

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1 "News and Trends," Mart, XV (September 1, 1971), 8.
where the sale is recorded. The common complaint by wholesalers is that they have little control over sales made directly by manufacturers to large scale purchasers, yet they are evaluated by share of market attained.

The size of each of these special use markets is substantial. For example, the Admiral Corporation "signed an agreement with the Sheraton Corporation of America to furnish an initial 10,000 color television receivers in 1970 for hotels, motor inns, and franchise motor inns owned and operated by Sheraton." In 1971, Telesound, a subsidiary of Philco-Ford indicated they would "install more than 41,000 color TV sets, 10,000 more than in 1970." Projections by Telesound indicate sales of 46,000 units in 1972.

Cooperatives

The tremendous buying power of the large chain store organizations has resulted in retail offerings which small scale retailers find difficult to meet. Many retailers have found they can increase buying power and become more competitive by joining buying groups and forming cooperatives. Cooperatives have had some degree of success in the northeastern section of the United States.

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These groups are so much a part of the New York-New Jersey buying scene, that whether or not a store is a member the store owner must justify to himself the reasons why he is not a member, whether he should join and whether he gains anything from being a member. 4

Private Brands

The importance of private brands to the industry is increasing. A U. S. Tariff Commission study shows that private brand sets "accounted for about 20 per cent of all television sales in 1971."5 Private brands, which are sometimes called store, retailer, or controlled brands, are used by virtually every large scale retailer in the United States. Control of the brand shifts from the manufacturer to the retailer or wholesaler who owns the brand.

National Contracts

The large scale retailers, particularly the tire, battery, and accessory chains, and some mass merchandisers have negotiated national contracts with manufacturers which permit the retailer to sell the manufacturer's brand in all of the retailer's stores throughout the nation. Such contracts force the wholesaler to sell to each


of the retailer's stores located in the wholesaler's assigned territory. In this manner, the wholesaler loses control over distribution and must follow the dictates of the manufacturer. If the wholesaler refuses to cooperate, the manufacturer may elect to sell to the national chain directly.

The wholesaler has little control over the national-contract retailer, particularly with respect to pricing, inventory requirements, and advertising. In addition, the wholesaler's control over his other retail outlets is weakened. Dissatisfaction takes place among retailers because these national contracts frequently disturb exclusive distribution agreements previously granted by wholesalers to retailers. Also, national contracts may result in retailers who are located adjacent to each other selling the same brand, or the result may be an excessive number of retail outlets selling the same brand in a particular market.

**Pressure Exerted by Large Scale Retailers**

If there is doubt as to the pressure that large scale retail chains are capable of exerting, manufacturers should look to the ultimatum K Mart gave housewares manufacturers—either the manufacturers sell directly to K Mart or K Mart would not sell the line.\(^6\)

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Such situations emphasize that market power does exist among large retail chains. It is possible that K Mart had observed that the Army and Air Force Exchange Service, the third largest retailer in the country with an annual volume of an estimated $3 billion, gave notice that the Exchange Service would make its electric housewares purchases directly from the manufacturer. Since K Mart's parent company, the Kresge Company's volume exceeded $2.5 billion in 1970, K Mart probably felt justified in making the same demands on manufacturers as the Exchange Service.

Transshipping.

Transshipping tends to remove an element of distribution control from manufacturers and wholesalers who make an effort to be selective in distribution policies and attempt to stabilize retail prices. Although the suppliers exercise some element of control over their immediate purchasers, they cannot legally control the market served by the purchaser. Chain stores, for example, frequently buy in one area and redistribute to their stores located in another area. In addition, wholesalers and retailers will frequently make sales outside of their normal market area because they can

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turn dollars more quickly. Retailers will make arrangements to buy from merchants located in other areas when a manufacturer or wholesaler in their own area refuses to sell a particular brand. A secondary line of distribution exists among merchants who redistribute merchandise to anyone, any place, who can pay for the merchandise.

The foregoing distribution practices are forms of transshipping and are difficult to legally control. Furthermore, transshipping affects a firm's share of market by overstating the original seller's share and understating the brand share for the area where the goods are actually sold.

A simplified traditional "one or two-step" distribution system does not exist within the industry. Instead, there exists a rather complex multi-channel system. To make the system even more complex, "scrambled merchandising" has resulted in distribution through different kinds of wholesalers to specialty markets such as drug, hardware, housewares, and electronic parts outlets.

Product Problems

The consumer electronic products industry from its inception, has been dynamic in nature. Manufacturers unwilling to accept change have not been able to survive the competitive environment which has pervaded the industry.
Product Competition

Competition among manufacturers originates with respect to which products to market. A few of the larger domestic manufacturers have attempted to market all types of consumer electronic products while other manufacturers have specialized in one or two product types. New firms entering the industry have tended to restrict their product offerings. Firms such as Curtis-Mathes in the 1950's, Morse Electronics in the late 1960's, and many foreign manufacturers have followed this approach. But as they become successful in one part of a product line, some manufacturers expand their line and/or move into other product lines.

After a decision has been made to market certain products, the manufacturers must decide whether to make or buy the product. The trend in recent years has been toward producing in foreign nations and/or buying merchandise produced in foreign nations. This practice can be attributed to the substantially lower production costs in foreign countries, particularly Japan.

When lines have become too broad, a few manufacturers have dropped lower priced items which have been characterized by intensive price competition. Motorola has been the most recent manufacturer to withdraw from the portable and table radio, portable phonograph, and portable tape player business. These are items
that are identified as personal electronic products and are usually priced below one hundred dollars. The reason given by Motorola for discontinuing the personal products is that "multiple distribution has moved personal electronic products into a broad variety of retail outlets and this has become a business requiring specialized merchandising." Other reasons for dropping the products are lack of profit, decreasing volume, and plans to direct effort toward television and larger packaged audio products.

**Full Line Forcing**

Manufacturers generally require their wholesalers to carry an inventory of all product lines the manufacturer produces. Since it is not unusual for one or more of the product lines to be unprofitable or to require an unusual amount of time and effort to sell, both wholesalers and retailers prefer not to buy and sell such lines. Yet manufacturers frequently continue to produce the less desirable products in order to offer a full range of products to the consumer. Both wholesalers and retailers feel they are forced to continue to buy unwanted and unprofitable products. Conflict results further when the same manufacturers sell directly to special users and large scale retailers who purchase only the items they desire.

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Product Introduction

Totally new product developments occur slowly. Lee Adler, in a study of case histories of product development, found that television took fifty-five years from the time the development was known to be conceivable to the time initial marketing began. Adler suggests that underestimating the time necessary for orderly market development is the prime cause of product failure. Most new products in consumer electronics represent improvements over similar existing products. Robert C. Warren, Motorola vice-president, suggests the time span for consumer product acceptance has changed:

A few years ago it could take endless months to create product demand. With today's more knowledgeable, more affluent, more aware consumer, markets can and are being created overnight.

Model Changes

Traditionally the industry has offered annual model changes. Some industry members believe these annual changes to be unnecessary; other members believe the annual showings are the basis for organized and renewed efforts on the part of the entire industry. Frequently, annual changes are superficial because few improvements


or style changes are made. Probably a more serious charge against manufacturers is that additional models are introduced every sixty to ninety days throughout the year. The source of complaint is that these "drop-in" models represent changes in model numbers only and tend to be better values than current year regular models. As a result, the "drop-in" models tend to make current models obsolete. Special models also generally receive the greatest amount of promotional emphasis by manufacturers.

**Product Deletion**

As indicated in the foregoing discussion, some manufacturers continue to produce products which are likely to be unprofitable to themselves as well as to wholesalers and retailers. Products which are weak sellers "create a burden of hidden costs, place heavy demands on a manager's time, and tie up production on short runs,"¹

In addition, the amount of time taken by the selling organization from more profitable products represents additional losses.

In an age of dynamic product competition, product-line pruning must be considered as a problem on a par with product improvement and new-product development. Yet most managements have no systematic procedure for pruning weaker products; these products often linger in the mix until they just fade away. In the meantime, they depress

the company's overall level of profitability; they complicate the task of allocating scarce company resources; and they hold the company back from aggressively developing new opportunities.\textsuperscript{12}

When sales, profit, and price levels of a product follow a downward trend over an extended period of time, the product is a possible candidate for elimination. Before elimination, however, product changes and improvements should be considered, new uses and new markets researched, and possible ways of reducing production and/or marketing costs studied.

\textbf{Service and Warranty}

Manufacturers' service and warranty policies tend to vary as much as other aspects of manufacturers' marketing strategies, yet these policies are of importance from the standpoints of cost and merchandising. Service tends to be more directly related to the question of who is capable of repairing a product, while warranty concerns itself with who will pay for the repair.

Traditionally, the manufacturer has assumed the responsibility for training the wholesaler's service manager and/or servicemen. The wholesaler has assumed the responsibility for training retail servicemen in installation and service techniques. The retailer has assumed responsibility for repairing product failures.

With the introduction of television, manufacturers and wholesalers began establishing in metropolitan markets centralized service organizations which charged for repair services or offered contract rates to retailers and consumers. Retailers and independent service dealers generally have opposed centralized service organizations and sometimes have aligned themselves behind brands which did not offer centralized service.

Warranties by the manufacturer, prior to World War II, generally were for ninety days on parts and labor. The manufacturer replaced defective parts at no charge when the parts were returned to him freight prepaid. Labor cost for replacing the defective part was a responsibility of the retailer. The theory behind this practice was that the dealer realized enough profit margin from the sale of the product to cover normal product failures. A number of manufacturers continue to follow this practice today.

With the introduction of black and white television, warranties were extended to one year on the picture tube. Later, color picture tube warranties were extended to two, three, and even five years.

Central service organizations. - During the 1950's retailers began to discontinue selling low priced radios and phonographs because of excessive labor costs and competition from discounters. As a result, some manufacturers, such as the General Electric
Company, began establishing central service agencies for radios and phonographs, and soon included labor repair cost in the warranty. Other manufacturers were slow to follow this practice, and this provided General Electric and a few other manufacturers with an opportunity to enlarge their market for low priced radios and phonographs. It should be noted that these early central service organizations provided manufacturers and wholesalers with an opportunity to sell to discounter retailers who did not have or want to invest in service facilities, but who were capable of selling a large volume of products.

As foreign producers began selling in the domestic market, they met the domestic manufacturer competition by paying for labor repair costs or by establishing central service organizations which absorbed this cost. Later, foreign manufacturers began to offer over-the-counter replacement of products with low unit value. These competitive actions taken by foreign producers help explain why domestic manufacturers began to lose the market for low priced radios, phonographs, and tape recorders. The combination of extremely low prices coupled with actual replacement of a defective product was more than many domestic manufacturers could absorb. These competitive strategies later became a bargaining point for domestic manufacturers who were seeking lower prices from foreign sources of supply.
Effects of extended warranties. — Organized consumer movements of recent years have resulted in the use of better quality control by manufacturers plus a further extension of warranty coverage on products with higher unit prices. Led by RCA on a national basis, several manufacturers now pay the entire warranty cost and permit the customer to have any approved technician throughout the country perform the repairs. This system aids transshippers, and in turn causes the manufacturer and wholesaler to lose some control over a selective distribution system. Also, the manufacturer finds it easier to sell to special users of the product, such as premium, incentive, mail order, and leasing firms. Thus, extended warranty coverage enlarges the market opportunities available to manufacturers. A greater amount of power is shifted from the retailer and wholesaler to the manufacturer.

Future Products

Indications are that improvements in existing products help to maintain and increase sales; however, it has been indicated that the industry needs a new product occasionally to keep pace with the general economic growth of the nation. New products now emerging include home video recorders, larger screen television, and recorders, phonographs, and radios with quadraphonic sound.
Other products, such as three dimensional pictures and modular electronic rooms consisting of a complete computerized communications system, are still visions of the future from a marketing viewpoint.

**Product Standardization**

The quest for the new, the better, the different, and the more convenient has brought about a continuous flow of new products. Frequently each new product can be designed in several ways. Industry members tend to form competitive merchandising groups, each wagering on which system design the consumer will accept. The resulting new products are introduced to the market soon after development, as manufacturers are eager to be first on the market. Thus, the early consumers, as well as the producers, are losers when a new product system is not accepted by a large segment of the market and must be discontinued. Although product introduction would be slower, there is a need for greater industry cooperation in developing a single standard for products before introducing the product to the market.

**Pricing Problems**

Most of the pricing problems arise from competition among channel members, the high frequency of price changes, and the
efforts of suppliers to control retail prices. The industry is characterized by frequent price changes at all levels of distribution. Domestic manufacturers announce prices at their annual new model showing, yet discounts and special buying incentives are offered at the first showing. After all manufacturers have shown their lines, price adjustments begin to take place. Each manufacturer constantly adjusts pricing through actual price changes, special promotional allowances, or the introduction of new models.

Price Competition

A strange paradox has existed within the industry for the past twenty years. While the Consumer Price Index for all items has been increasing from a 100 per cent base in 1952, the price index for appliances, TV sets, and radios has been decreasing. Yet the industry has increased quality, utility, and performance. Elisha Gray II, Chairman of the Board of the Whirlpool Corporation, which owns a major portion of the Warwick Electronics Company, the major supplier to Sears, Roebuck and Company, explained the paradox to the Joint Economic Committee of Congress in this manner:

The root of the accomplishment has been competition—competition for a large and capricious market. With the

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increases in population, homes, gross national product and the related consumer disposable income, it is an expanding market. The size and potential of the market has fostered the competition and it is this competition that exercised a strong discipline on price, utility, performance, quality, safety, service and assurance in the form of warranties.\textsuperscript{14}

Mr. Gray went on to say:

While there have been many avenues used in achieving the performance to meet competition, there is one common to all in the industry—smaller profit margins. This is a fact of life at all levels—manufacturers, distributors and dealers.\textsuperscript{15}

Since there exists production capacity to exceed market requirements, competition has not permitted prices to increase for any extended period of time. Gray further commented, "I don't ever recall a business man reducing a price except to maintain position in a competitive market."\textsuperscript{16} Price has been, therefore, a dominant force in directing the efforts of channel members toward maintaining their share of market. Price reductions have generally meant shorter margins for the participants, but lower prices and greater value for the ultimate consumer.

**Administered Pricing.**

There are many who believe that the consumer electronic products industry utilizes administered pricing, as there is little

\textsuperscript{14}ibid. \hspace{1cm} \textsuperscript{15}ibid. \hspace{1cm} \textsuperscript{16}ibid.
stability in pricing. Manufacturers who sell directly to retailers have been more prone to administer retail prices. Those manufacturers selling through wholesalers appear to have administered cost prices and margins of profit in such a manner that retail prices are controlled within a limited range.

Price competition is extreme in the consumer electronic products industry, whereas in administered price industries, price competition has been described as being weak. The Twentieth Century Fund states that price competition exists in administered price industries "in the form of secret price cuts, varying discounts given by dealers, introduction of new models at lower prices when a firm is unwilling to cut the quotation on a given model, and other devious routes." All of these devious routes are techniques used in the consumer electronic product industry.

**Profit Margins**

Industry gross margins of profit following World War II ranged from thirty per cent to as much as fifty per cent off selling price for retailers. These margins permitted allowances for trade-in merchandise. The growth of discount stores and price cutting began during the early 1950's. List prices were soon regarded as

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inflated and fictitious, as everyone was discounting off list to some degree. The General Electric Company is credited with making the first formal move in restructuring prices. Since the industry was showing a declining interest in trade-in merchandise and discounting was becoming a common practice, the General Electric Company restructured its prices so that retail profit margins were approximately twenty-five per cent. As a result, General Electric was able to sell to discount stores, control retail pricing to some degree, and assume a position of price leadership within the industry.

The policy was one of reducing profit margins to realistic retail price levels and avoiding further price cutting. Other firms were slow to follow General Electric's restructuring of prices, but, eventually, virtually all of the industry followed its pattern.

Manufacturers who sell directly to dealers have claimed to offer higher profit margins to retailers because a middleman is by-passed. At one time this claim was possibly true; in recent years, however, competition has tended to force retail profit margins to approximately the same level on most brands. What little price advantage may exist today in the manufacturer to retailer distribution system is generally balanced by wholesalers with offerings of free floor plans, no minimum order requirements, lower transportation costs, and larger cooperative advertising allowances.
Influence of Private Brands on Prices

It should be noted that private brand merchandise influenced pricing during the 1950's since retailer owned brands did not generally accept trade-in merchandise. As a result, private brands were priced substantially below national brands. "From one standpoint, the rapid growth of the private-label share of the market is a symptom of unwise pricing on the part of the national-brand sector of the industry."¹⁸ Private brand consumer electronic product sales increased because the inflated prices of national brands provided a protective shield for the lower priced private brands for some period of time.

Robert T. Brooker, president of Marcor, the parent company of Montgomery-Ward reviews industry pricing actions as follows:

When you put your price down, your competitor will meet you. That's not a probability; it's a dead certainty. When you cut prices, you won't be there alone long... usually if you cut the price on an important item, you won't get a bigger share of the market.¹⁹

Price Leaders

The use of price leader merchandise is practically an obsession with every firm at every level of the industry. Originally a


specially priced model or two in a line was believed to be a good means of attracting patronage to a store. Today manufacturers include several price leader items in each product line. For example, rather than one price leader for a line of radios, a manufacturer will frequently have a price leader for AM portables, FM portables, AM table models, FM table models, AM clocks, FM clocks, and numerous others within each product type.

Typically, price leaders are competitively priced, short profit margin products, yet price leaders may account for a large percentage of a firm's unit sales. Excessive concentration on short margin leader models will frequently result in profit loss for the entire product line or perhaps for the entire company.

**Resale Price Maintenance**

A strange paradox exists within the industry because manufacturers and wholesalers generally attempt to use some form of resale price maintenance while operating in an environment of constant price changes. One of the reasons for this paradox is that the supplier desires to be able to manipulate retail price moves to meet competition as well as lead competition. With an element of control over retail pricing, manufacturers and wholesalers are able to make their moves quickly and, on some occasions, secretly. Suppliers also believe they must control the activities of overenthusiastic
retailers who desire to cut prices. Uncontrolled price cutting deteriorates the pricing and profit margin structure, and eventually will weaken the retail dealer structure for a brand of goods.

Fair trade laws. -- With the exception of state fair trade laws, any form of resale price maintenance policy is illegal. The courts continue to hold that once a seller has made a sale to a purchaser, the purchaser may sell the merchandise at any price he wishes and at any place he desires. Yet suppliers, for the most part, do make an effort to control retail pricing as a part of their overall marketing strategy. Manufacturers and wholesalers have exercised considerable caution recently in view of the Federal Trade Commission's charges of price fixing and control by Magnavox in 1970.

Approaches to retail price stability. -- In a study by Louis W. Stern of consumer goods manufacturers, the following approaches to achieving retail price stability were listed: (1) gentlemen's agreements, (2) limited distribution, (3) direct selling from manufacturer to retailer, (4) selective distribution which avoids sales to known discounters, (5) slow deliveries and pleading 'out of stock' to dealers who cut prices, (6) promotional allowance offerings, (7) special models which reduce profit margins to a level which prevents further discounting, (8) specifying trade-in allowances or
elimination of trade-in allowances, and (9) moral suasion. Manufacturers and wholesalers have considerable control over to whom they sell initially; however, once they sell to a buyer, special caution must be taken in refusing to sell to the buyer in the future. Refusal to sell because of failure of a dealer to maintain prices is an illegal restraint of trade; therefore, when suppliers reach the point of refusing to sell, they generally offer some reason, such as failure to provide service to consumers, or no reason at all.

All of the aforementioned approaches to resale price maintenance are utilized in the consumer electronic products industry even though any form, with the exception of fair trade laws, is legally restrictive in nature and a violation of the Sherman, Clayton, and Federal Trade Commission Acts. In practice, the willingness of retailers to permit their suppliers to control prices depends on the value and profitability of the supplier's brand to the retailer.

Price maintenance of import products. Manufacturers and distributors of major brands of imported products probably adhere more strongly to resale price maintenance policies than do manufacturers and wholesalers of domestic brands. This adherence,

combined with larger profit margins, is one of the principal reasons producers of foreign products were able to gain acceptance by department stores, drug, hardware, and specialty product chains.

With the greatly expanded number of outlets in which foreign brands are selling, price maintenance will be more difficult to control. It is likely that the distribution of major foreign brands will find themselves under the watchful eye of the Federal Trade Commission and Justice Department in the future.

Producers of lesser known foreign brands make no attempt to maintain prices. Their interest appears to be in making the sales, and the lower the price, the better.

**Special User Pricing**

Pricing within the industry is further complicated by the number of special user type purchasers in existence today. Prices to special users vary. In some instances, contracts are negotiated between the manufacturer and the special user for special prices. Also, bids are made by the manufacturer to the special user who may be planning to buy a quantity of merchandise. Furthermore, special permanent pricing is offered by manufacturers to special users. Conflict occurs when special users purchase at wholesale or even lower prices, but in very small quantities. The trading stamp, premium, and incentive firms are examples of special
users who may buy small quantities at low prices. While there are a number of extremely large firms capable of buying in large quantities, there are many more small firms who buy in quantities smaller than most retailers but receive prices that approximate wholesaler's cost. The legality of such trade discounts becomes questionable.

Promotion Problems

Promotional Activities

All levels of the consumer electronic products industry are promotionally oriented with promotional activities being implemented at each level. Manufacturers make use of all media to transmit their messages. Promotional materials in the form of outside identification, displays, point of sale material, catalogues, and sales training materials are produced by virtually all manufacturers. Such material is generally sold to wholesalers who may charge it back to cooperative advertising funds and then give or sell the materials to retailers at reduced costs.

In addition to promotional materials and cooperative advertising, strong use is made of contests, incentives, premiums, gifts, and push-money, as well as financing and professional recognition.
Manufacturers are believed to spend between 1.5 and 2.0 per cent of their total sales in advertising, as their share of cooperative advertising funds are typically around 1.5 per cent, which is generally matched by wholesalers. Wholesalers offer portions of this 3.0 per cent total to retailers who generally will pay from 25 to 50 per cent of the cost of the ads they run locally. National advertising of radio and television products through the TV medium rose from $6.2 million in 1958 to over $38 million in 1969.21

Cooperative Advertising

Cooperative advertising funds are currently a problem area for all members of the industry since the Federal Trade Commission (FTC) established guidelines for administering funds in 1969. The purpose of the guidelines was to prevent discriminatory practices in allocating funds and to be certain funds were allocated proportionately to all purchasers. Funds traditionally had been allocated by wholesalers who frequently favored large purchasers with extra allowances, one hundred per cent funds, and even permitted double billing. When retailers opened new stores, planned anniversary

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sales, or desired to erect outstanding signs and displays, funds were provided, but not always to all dealers.

Since the Supreme Court has held that the retailer is the manufacturer's customer, the manufacturer is now responsible for fair and proportionate administration of cooperative funds. Retailers, under provisions of the Robinson-Patman Act, are also responsible for knowingly receiving such funds. Any inducement to get manufacturers to deviate from their cooperative advertising policy is a violation of FTC guidelines.22

As a result of the foregoing changes, some manufacturers are doing away with cooperative advertising funds. Motorola was one of the first to eliminate retail cooperative advertising.23 Apparently the costs of administering funds in accordance with guidelines and the risks of violation are too great for some manufacturers to assume. Other manufacturers are continuing with cooperative funds as in the past, while still others are simply deducting an advertising allowance from the face of the invoice. While most domestic manufacturers have tried to comply with the guidelines,


many foreign manufacturers are still providing special funds to large purchasers.

Federal Trade Commission Guidelines were intended to help and protect the small dealer in his competitive struggle with larger retailers. "Ironically, the effect of the FTC's guides . . . may be to hurt him by killing co-op entirely."24

Attitudes of the Market

Dealer Rating of Consumer Buying Decisions

A Mart magazine survey of retailers' opinions as to which factors influenced consumers most in their purchasing decisions revealed price to be the most important factor for four of the seven different types of home entertainment equipment considered. Brand name reputation was the second most important factor considered by buyers in five product types. In addition, it was the most important factor for color television and the third most important factor for compact modular stereo.25


Why Dealers Buy Imports

In a survey of retailers across the United States, Dealerscope South determined that price was the most significant reason retailers purchased and sold foreign made goods. Styling was the second most important reason, and demand and quality tied for third. Other reasons for carrying foreign made goods were features of product, exchange policy, good service and warranty, versatility, value, and performance. Retailers were most critical about the availability of parts and service for import merchandise.

Advertising, styling, features, performance, and product reliability were factors which retailers rated high about import merchandise.

U. S. Public Attitudes Toward Imports

A Newsweek study, conducted by National Family Opinion, Inc., was made in 1970 to determine public attitudes toward Japanese products in the U. S. market. The study revealed that Japanese products were considered to have the highest quality improvements during the past ten years when compared with products produced in the United States, England, and West Germany.

In comparing the quality of individual products made by both the United States and Japan, the products made in the United States had

higher ratings for every product type. The study indicates a preference for domestic made goods, but an acceptance of Japanese made goods.  

With business and public attitudes now conditioned toward acceptance of Japanese made goods, domestic manufacturers will have to improve their product offerings and pricing in order to avoid further market loss in the future. Domestic manufacturers still have the big advantage of customer preference in the domestic market, however.

Consumerism

Objectives of Consumerism

Consumerism, like all "ism's," becomes difficult to define because as the movement grows its objectives become broader and more encompassing. What began as a small group seeking protection for buyers of certain types of products has expanded into a highly organized movement directed from the Office of the President of the United States.

Consumers are demanding more information, including more disclosures of corporate and government information. In a free

enterprise system, buyers should have a meaningful choice of products and should be provided with enough information to make a choice. The outcome would reward the better product and penalize the poorer quality product. In the buying process, the consumer should not be deceived in the decision-making process and should be protected before and after the purchase.

Most businesses would find little argument with the aforementioned generalization of consumerism and its objectives. Most would say they follow these practices, but Ralph Nader believes differently:

Unfortunately, in far too many instances, what business says is not what business does. Competition, like levitation, is not a condition that is natural to man. The large corporations dream of monopoly, but since that is not possible for most of them, they practice varieties of collusion, conscious parallelism, protective limitation or similar mimicry of the dominant firm. All these policies add up to keeping the consumer in the dark about the product or service and bringing about the corporate Valhalla of a closed market and controlled enterprise.

Peter Drucker declares consumerism to be "the shame of the total marketing concept. It is essentially a mark of the failure of the concept." Such condemnation results from the continued

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29 Ibid.
business practice of viewing the world from the seller's point of view rather than the buyer's point of view, as the marketing concept would suggest.

Legal Implications of Consumerism

The consumer electronic products industry has a choice. The industry must adjust voluntarily to the needs of buyers by providing information, avoiding deceptive practices, and assuming product responsibilities, or must accept government intervention to accomplish the same things. Industry needs only to look at the causes of such legislation as the Interstate Commerce Commission Act, Sherman Act, Clayton Act, Federal Trade Commission Act, and the Robinson-Patman Act to determine that some segment of industry was taking unfair advantage of another segment. This unfair advantage affected society as consumers.

During the 1960's alone, the consumer electronics industry has seen specific legislation relating to measurement of television screen sizes, transistor counts, deceptive advertising practices, cooperative advertising guidelines, color television radiation emissions, truth in lending, truth in packaging, and product safety. Since almost every federal government agency has established one or more consumer services departments, and since a majority of states now have a specifically designated consumer officer, members
of the electronics industry must be careful to comply with the many rules. Consumerism is now part of the legal environment within which the industry must operate.\(^3\)

Consumerism is a popular word today and receives strong coverage by the communications media. Any mention of a firm violating the principles of consumerism, whether established by law or not, can mean a sharp decline in a firm's sales and resulting share of market. Industry must plan and work to meet the needs of consumers in order to avoid additional regulation by government. Armin Allen, vice-president of consumer affairs for Philco-Ford, calls consumerism a catch-all word that:

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\text{can be defined as the increasing role of government as it attempts to regulate trade and legislate its views of what will bring about consumer satisfaction.}\(^2\)
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Although some firms have tried to fulfill the objectives of consumerism, the industry in general needs to make improvement in the areas of deceptive trade practices, deceptive advertising, product service, and fulfillment of warranty obligations.

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Consumers Union

One of the most influential consumer organizations is the Consumers Union of Mount Vernon, New York, publisher of Consumer Reports. The impact of Consumers Union on the consumer electronic products industry is believed to be considerable, as more than six test reports have been published in each of the past five years. Manufacturers have indicated that good ratings given to their products substantially increase business and poor ratings prove disastrous. 33 A problem for the industry is how to counter the effectiveness of good or poor ratings to those readers who are influenced by published reports.

Channel Conflict

Conflict in distribution may be viewed behaviorally as a form of opposition which is opponent-centered; based on incompatibility of goals, aims, or values of opposing firms; direct; and personal; in which the opponent or opposing firm controls the goal or object desired by both parties. Such conflict—behavior which thwarts, injures, or destroys an opponent—is present in all socioeconomic systems, including channels of distribution. 34


In a study by Henry Assael of nine different industries and the role of individual industry trade associations between 1947 and 1965, the characteristic causes of most distributive conflicts were determined to be the following:

First, manufacturers' requirements to maintain production and cover high fixed costs create pressures on dealers to increase sales volume. The result is friction in the area of price, retail inventory levels, and discount merchandising. Second, absorption by one part of distributive functions previously held by another has resulted in conflict over manufacturers bypassing wholesalers, sales by factory-owned retail outlets, and control over local promotions. Third, differing interpretations of the role of the wholesalers or retailer stem from differing economic objectives reflecting the trade status and financial resources of the disputants. This has led to conflicts between manufacturers and retailers concerning the franchise, representational policies, and functional discounts. It has also led to conflicts between discount and traditional retailers.35

Industries included in the study were the drug, automobile, petroleum, food, electrical products, television receivers, pesticides, liquor, and farm equipment industries. Ratings according to intensity of conflict for the television receiver industry were derived from an analysis of the frequency and intensity of conflict as documented in industry trade publications and government sources. Sources of conflicts rated as intense were bypassing

wholesalers, discounters versus traditionalists, fair trade, retail or wholesale inventory levels, and franchise cancellation. Sources of conflicts indicated as moderate included bypassing retailers, private versus national brands, too many dealers, price discrimination or discount structure, promotional allowances, service and warranty, and manufacturer involvement in store management.  

Each of the foregoing causes of conflict within the channel structure have been stressed in this study as problems of the consumer electronic products industry.

Included in Henry Assael's original publication of studies relating to the television receiver industry are these significant comments: "The manufacturer desires that a high volume, low profit marketing approach be taken by his distributors and dealers."  

"Independent distributors exercising a pricing philosophy which is alien to that desired by the manufacturer may be replaced by a factory controlled distributor." In another comment, it is suggested that "after retail outlets have been solicited and organized, manufacturers will encourage (and sometimes force) dealers to

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36 Ibid.


38 Ibid.
carry large volumes of inventory. " Each of these findings are significant to this report and to the industry, as each have strong legal implications.

In another study of small consumer electronic product retailer attitudes prepared by Dealerscope, seventy-one per cent of the respondents indicated the distributor's desire for volume to be the cause of the most difficulty for small dealers. Over one-half of all retailers did not believe that distributors have equal policies in either pricing or advertising with respect to the retailers the distributors serve. Fifty-eight per cent of the dealers agreed that manufacturers and distributors "are out to get the buck and nothing else. And volume dealers are where they are getting it."40

The underlying problem in channel conflict concerns itself with channel management. There exists an interdependence between normally independent organizations that must reflect itself in cooperation as well as conflict. "Where such interdependence is combined with an imbalance in power—as in the automobile, petroleum, and television industries—the potential for distributive conflict is high."41 Where a channel member has the ability to apply pressure successfully, the probability of friction increases.

39 Ibid.


Channel Control

Definition and Relationship to Power

Channel control is used here to denote the ability of one channel member to control the marketing activities and policies of another channel member for a given product or brand. Controlling and directing the efforts of others requires an element of power. "An individual or an organization, in order to prevail in the struggle for survival, must act in a way to promote the power to act." This is referred to as the power principle.

Source of Power

The sources of power for channel members include economic strength, political power, patents, exclusive products, influence over others, expertness in field, superior knowledge, established reputation, and superior marketing ability. Sometimes power may not be desired by channel members while at other times power may result from inefficiencies in the marketing channel, or power may be legally granted. Rewards, penalties, and coercion frequently form a base for acquiring and expressing power.

Control by Manufacturers

In many discussions of channel control, the manufacturer is cast in the role of channel commander, especially if he is large, economically sound, has good product acceptance, and makes use of selective distribution policies. "In the background lies the possibility that manufacturers' outlets may take over the wholesaling and retailing functions or that exclusive distributorships may be granted to more docile distributors."^43 "Small manufacturers may also serve as potential sources of control and direction of a vertical interorganizational structure."^44 Control is possible where a good product is known to exist even though economic power of the manufacturer may be weak.

Control by Wholesalers

Wholesalers have potential channel control when located in large markets, when economically strong, or when they have a strong selling organization. Also, in those cases where the manufacturer's product is weak, his discount structure is unattractive, or his past


reputation is poor, the wholesaler is the potential channel leader. 45

"Usually wholesalers have gone to great length to cooperate with supplying manufacturers, often when it might have been more profitable to reduce the number of competing brands carried."

**Control by Large Scale Retailers**

Large scale retailers have begun to challenge other channel members for control as a result of their growing size. In addition, retailer ownership of private brands contributes to the likelihood of retailer control. "The growth of mass retailers is increasingly challenging the manufacturer for channel leadership, as the manufacturer challenged the wholesaler in the early part of this century."

Some students of marketing see the mass retailer as the natural leader of the channel because of his closeness to the consumer and his ability to determine consumer needs.

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Control by Small Scale Retailers

The formation of retailer-owned cooperatives is one of two ways in which small scale retailers may gain channel control. The other method is the threat of appeal to government since federal, state, and local governments tend to be small business oriented. Despite its sympathy, government has been reluctant to pass restrictive legislation relating to distribution. Appeals have been made through industry trade associations with limited success because the Electronic Industries Association's membership is principally composed of manufacturers, and the National Appliance and Radio-TV Dealers Association represents only a small portion of all retailers.

Control by Foreign Firms

Control of marketing channels is not restricted to United States firms. The following quotation reflect happenings in Japan:

Distribution systems in high level, mass consumption economies have tended to evolve from product flows through a series of autonomous markets to product flows through a market dominated by a channel leader. Three trends have produced this evolution in Japan: first, the downward expansion of large manufacturers through the channel; second, the upward expansion of mass distributors into production facilities; and third, the corresponding expansion of established wholesalers into production and/or retail operations. 48

With import merchandise, particularly Japanese, continuing to show rapid growth rates, it may be wise for United States firms to note how Japanese firms have integrated their marketing channels. If growth rates of Japanese consumer electronic products slow to any appreciable degree, it is likely that greater integration by Japanese manufacturers into wholesaling and retailing will take place. Some integration into manufacturing by Japanese trading companies has, as was noted, already taken place.

Danger in Exercising Power

The exercise of power by a firm will frequently cause conflict since other firms tend to resist such attempts. "In planning strategy, the objective must be to establish relationships of mutual trust. When one of the parties involved is felt to have the upper hand, the seeds of future friction have been planted." Wroe Anderson has suggested:

The greatest risk of all for anyone exercising power is that of losing it by pushing it too far. The power principle suggests a reasonable restraint in the exercise of power, both as to the goals for which it is to be used and as to the form in which it is to be exerted.


\[50\] Anderson, p. 52.
Anderson further suggests that no system exists without risks and that "the risks associated with inaction are often more severe than the risks of action." Contrary to this view of risks, inactions frequently only reflect delays in accomplishing an objective, whereas the exertion of power may result in the loss of a customer or suppliers, or may result in the more severe charges of antitrust violations.

Legal Environment

The consumer electronic products industry operates within a strong legal environment. In the past and continuing to the present, the industry's problems have been centered, for the most part, around antitrust legislation. For many years the channel structure has been connected by relatively strong and meaningful franchise agreements. Many of the franchise agreement provisions have been declared illegal, or of questionable legality, however. As a result, franchise agreements have lost much of their strength.

Antitrust problems pertain to collusive agreements and monopolistic practices, such as price fixing, exclusive dealing, full line forcing, price discrimination, tying clauses, and others. Channel members have unknowingly violated antitrust laws in many instances.

51 Ibid.
Violations, either knowingly or unknowingly, continue to be practiced in the industry today. The participants probably feel their actions are reasonably beneficial and harmful to no one. The courts have held, however, that a degree of reasonableness does not exist in restraint of trade, and any such actions are in violation of the law. In the *United States v. Trenton Potteries Company* case the 'reasonable probability dictum' held that a firm or firms with the power to control markets, whether they exercised the power reasonably or not, was in violation of the law. The decision of the court may be summarized:

The aim and result of every price fixing agreement, if effective, is the elimination of one form of competition. The power to fix prices, whether reasonably exercised or not, involves power to control the market and to fix arbitrary and unreasonable prices, ... Agreements which create such potential power may well be held to be in themselves unreasonable or unlawful restraints, without the necessity of minute inquiry whether a particular price is reasonable or unreasonable as fixed. ... 52

**Federal Trade Commission**

A growing organized consumer movement has seen many of its desires become administrative law. The Federal Trade Commission, with increased power in recent years, has exerted

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considerable pressure on and increased its control over the industry.
The Commission has given its greatest attention to charges of price
fixing, deceptive trade practices, discriminatory advertising and
promotional allowances, and discriminatory pricing policies. De-
ceptive trade practices relate to matters such as fictitious and
comparison pricing, and false or misleading advertising claims.
Recent moves by the Federal Trade Commission reflect a more
organized approach in cooperation with other government depart-
ments toward protection of the consumer.

Robinson-Patman Act

As large scale retailers have continued to grow and increase
their buying power, they find themselves in danger of violating
provisions of the Robinson-Patman Act. When demanding and/or
willingly accepting prices of a discriminatory nature, they are in
violation of the Act.

Current Danger of Economic Concentration

Domestic industries. -- Big business and economic concentration
of domestic industries continue to be under attack by leaders of con-
sumer movements, the Federal Trade Commission and Justice
Department, and Anti-Trust Committees within Congress. The
Federal Trade Commission, in its first proposed antitrust suit
against an oligopoly, is attempting to break up the breakfast food industry. If the Commission is successful, the precedent could lead to dismemberment of industries accounting for more than one-third of the United States economy's annual sales volume. The consumer electronic products industry would be one of the one hundred industries considered to be an oligopoly and would therefore be subject to dismemberment.  

In a similar action, Senator Philip A. Hart, Chairman of the Senate Anti-Trust Committee, has announced legislation directed toward breaking up United States monopoly power. Titled the Industrial Reorganization Act, seven major industries, including the electronics industry, would be subject to reorganization plans. The bill would further outlaw monopolies. Senator Hart said the bill "is aimed not at conglomerates as such but at monopolies and oligopolies which he said inflate prices, reduce jobs and freeze out competitors."  

Foreign industries. - Foreign nations have not concerned themselves with anti-trust in the manner of the United States. Many

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53Hal Taylor, "FTC's First Oligopoly Assault is Aimed Against Cereal Giants," Home Furnishings Daily, XLIII (December 17, 1971), 1-2.

nations, particularly in Europe, have permitted cartels to exist because of the efficiencies derived from economies of scale, and the resulting ability to compete internationally. Similar situations exist in Japan, even though an American imposed form of antitrust legislation which was passed during the U.S. Occupation period following World War II remains on their statute books. Rarely do the Japanese "confuse anti-trust ideals with economic reality. . . . Industry is encouraged to 'cooperate' to prevent destructive competition." It would be easy for such potential forms of collusion to infiltrate the American marketing scene. Collusion among the giant firms of Japan could represent great power in the United States market.

**Position of Domestic Manufacturers**

Domestic manufacturers of consumer electronic products are currently confronted with the possibility of dismemberment because of violating antitrust laws, while at the same time the firms are trying to compete with foreign firms whose national governments encourage industry cooperation. Creating an industry of small firms does not appear to be the answer for competing with international cartels. It is possible that some industry-wide system of

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cooperation must be permitted in order to remain competitive in the international sector.

In the foregoing discussion, distribution, products, pricing, promotion, market attitudes, consumerism, channel conflict and control, and legal environment were discussed as problems of the consumer electronic products industry. Each of these problems were shown to have an influence on industry sales, and on a firm's or brand's market penetration. Many practices of the industry were shown to result in conflict among channel members. Also, many industry practices were shown to be questionable from a legal viewpoint.

Additional data relating to industry practices is presented in Chapter V. This chapter presents the opinions of industry participants regarding industry practices related to the purposes and hypotheses of the study. These opinions were compiled from separate questionnaires designed for and completed by manufacturers and importers, wholesalers, retailers, large scale retailers, and potential special users of the product.
Sample Size and Response

In order to gain greater insight into actual conditions and practices existing within the consumer electronic products industry and to test the hypotheses of the study, a series of five questionnaires was developed. Separate questionnaires were designed for manufacturers and importers, wholesalers, retailers, large scale retailers, and special users who were considered to be potential direct purchasers. The methods of selecting the sample have been described under Sources of Data. Interviews for the purpose of completing questionnaires were conducted with thirteen wholesalers and six retailers located in Dallas, Texas between July 1, 1971 and August 15, 1971. In addition, 669 questionnaires were mailed between November 23, 1971 and April 11, 1972.

A response was received from 273, or 39.68 per cent, of the 688 firms sampled. Of these, 104 responses were not considered usable because of the following reasons: the firm had moved or was no longer in business; the firm did not sell the consumer electronic
products being studied in this report; the firm considered the products to be an insignificant part of its business; the firm returned general information or incomplete questionnaires; or the firm considered the information requested to be confidential.

The usable response of completed questionnaires was 167, or 24.27 per cent of the total sample. Sample size and response by segment of the industry are shown in Table XVIII.

**Manufacturer Sample**

Questionnaires were mailed to 211 manufacturers and importers of consumer electronic products. Of the sixty-nine returns, thirty-two were considered usable. The usable returns consisted of twenty domestic manufacturers and twelve importers. General Electric, Magnavox, Motorola, and Teletronics were the only known domestic television manufacturers who failed to respond.

**Wholesaler Sample**

Questionnaires were directed to 306 wholesaler middlemen, cooperatives, and wholesaler salesmen. The sample consisted of 287 of the 1631 wholesalers listed in *Merchandising Week*’s "First Annual Distributor Directory," and 6 cooperatives and 13 wholesaler salesmen selected at random from industry trade publications. Included in the group of 287 wholesalers were all of the 105 distributors located in Texas (13 were personally interviewed and 92 were surveyed.
TABLE XVIII
SAMPLE SIZE AND RESPONSE BY SEGMENT OF INDUSTRY

<table>
<thead>
<tr>
<th>Industry Segment</th>
<th>Questionnaires Mailed</th>
<th>Interviews Conducted</th>
<th>Total Mailings and Interviews</th>
<th>Total Response</th>
<th>% of Total Mailings and Interviews</th>
<th>Usable Response</th>
<th>% of Total Mailings and Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesalers</td>
<td>293</td>
<td>13</td>
<td>306</td>
<td>123</td>
<td>40.19</td>
<td>83</td>
<td>27.12</td>
</tr>
<tr>
<td>Manufacturers and Importers</td>
<td>211</td>
<td>0</td>
<td>211</td>
<td>69</td>
<td>32.70</td>
<td>32</td>
<td>15.16</td>
</tr>
<tr>
<td>Retailers</td>
<td>49</td>
<td>6</td>
<td>55</td>
<td>27</td>
<td>49.09</td>
<td>25</td>
<td>45.45</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>55</td>
<td>0</td>
<td>55</td>
<td>25</td>
<td>45.45</td>
<td>12</td>
<td>21.81</td>
</tr>
<tr>
<td>Potential Direct Purchasers</td>
<td>61</td>
<td>0</td>
<td>61</td>
<td>29</td>
<td>47.54</td>
<td>15</td>
<td>24.59</td>
</tr>
<tr>
<td>Total</td>
<td>669</td>
<td>19</td>
<td>688</td>
<td>273</td>
<td>39.68</td>
<td>167</td>
<td>24.27</td>
</tr>
</tbody>
</table>
by mail). In addition, the group of 289 wholesalers included 182 wholesalers located in 13 cities where 5 or more domestic brands were being distributed. These 13 cities were selected by a stratified random sampling process in order to provide a sample of the United States market. The sample included all wholesalers located in each of the following cities: Birmingham, Alabama; Dayton, Ohio; Phoenix, Arizona; Atlanta, Georgia; Fargo, North Dakota; Indianapolis, Indiana; Omaha, Nebraska; Denver, Colorado; San Diego, California; Hartford, Connecticut; Huntington, West Virginia; Charleston, West Virginia; and New York, New York. A response was received from 123 wholesalers, of which 83 were usable.

**Retailer Sample**

Retailer questionnaires were directed to 49 of the 127 retailers of consumer electronic products listed in the October 1971 Southwest Bell Telephone Company Greater Dallas Yellow Pages directory. Six interviews with retailers for the purpose of completing questionnaires were also conducted in Dallas, making a total sample of 55 retailers. There were 27 responses of which 25 were usable. All respondents were located in Dallas County, Texas.

**Large Scale Retailer Sample**

Fifty-five questionnaires were forwarded to large scale retailers. Of these, 19 were selected from questionnaires completed
previously by Texas wholesalers who indicated these firms to have a significant influence on the Texas market. The balance of 36 questionnaires was mailed to retailers selected from department store, discount, mail order, jewelry and mass merchandising chains in the United States having sales of over $100,000,000 in 1970. The arbitrary $100,000,000 sales figure made it possible to sample all known firms meeting this qualification. Response was received from 25 of those surveyed. Twelve of the returns were usable.

Special User Sample

Sixty-one questionnaires were forwarded to special type users of consumer electronic products who were considered to be potential direct purchasers. These special purchasers included mobile home manufacturers, electronic service companies, rental firms, premium and incentive merchandising firms, large premium buyers, credit card companies, and trading stamp companies. The sample was selected at random from trade journals and trade association listings of members. A small sample was believed necessary in order to test the special user influence on the market. Twenty-nine returns were received with 15 of these being usable. The 15 usable returns consisted of 53.3 per cent premium and incentive merchandising firms, 20.0 per cent mobile home manufacturers, and 26.7 per cent large premium buyers and/or credit card companies.
Quality and Coverage of Response

Job Positions

The job positions held by respondents were principally of a management nature. Included among the wholesaler and retailer groups of respondents were a large number of owners. Large scale retailer and special user respondents were principally buyers and merchandise managers. Table XIX presents the job positions held by all persons completing questionnaires.

Types of Products Marketed

Manufacturers and importers. — Manufacturers and importers vary as to the types of product lines they market. Domestic manufacturers tend to market a greater number of product lines than importers, with the strongest concentration of products being in console stereo, color television, and monochrome television. Importers' merchandise offerings are concentrated in radio, tape recorder, phonograph, and compact stereo products. The percentage of manufacturers and importers marketing each type product is shown in Table XX.

Retailers. — More than eighty per cent of the retailers market each of the consumer electronic products included in the study.
### TABLE XIX

**JOB POSITION HELD BY PERSONS COMPLETING QUESTIONNAIRES**

<table>
<thead>
<tr>
<th>Type Respondent</th>
<th>Manufacturer</th>
<th>Wholesaler</th>
<th>Retailer</th>
<th>Large Scale Retailer</th>
<th>Special Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number Replies</td>
<td>32</td>
<td>83</td>
<td>25</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Owner</td>
<td>3.13</td>
<td>31.77</td>
<td>40.00</td>
<td></td>
<td>6.67</td>
</tr>
<tr>
<td>President</td>
<td>3.13</td>
<td>8.79</td>
<td>12.00</td>
<td></td>
<td>20.00</td>
</tr>
<tr>
<td>Vice-President</td>
<td>15.62</td>
<td>3.30</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Manager</td>
<td>30.77</td>
<td>4.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branch-Zone Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Manager</td>
<td>25.00</td>
<td>9.89</td>
<td></td>
<td>8.33</td>
<td>6.67</td>
</tr>
<tr>
<td>Controller-Credit Manager</td>
<td>6.25</td>
<td>3.30</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Manager</td>
<td>1.10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salesman</td>
<td>5.49</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Research-Planning Manager</td>
<td>15.62</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secretary</td>
<td>6.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buyer</td>
<td></td>
<td></td>
<td>8.00</td>
<td>58.33</td>
<td>26.62</td>
</tr>
<tr>
<td>Merchandise Manager</td>
<td></td>
<td></td>
<td></td>
<td>16.67</td>
<td>20.00</td>
</tr>
<tr>
<td>Credit Card Specialist</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.67</td>
</tr>
<tr>
<td>Sales Training Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.67</td>
</tr>
<tr>
<td>No Job Title Indicated</td>
<td>25.00</td>
<td>1.10</td>
<td>28.00</td>
<td>16.67</td>
<td>6.67</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>
TABLE XX

TYPES OF PRODUCTS MARKETED BY MANUFACTURERS AND IMPORTERS

<table>
<thead>
<tr>
<th>Type of Product</th>
<th>Per Cent Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio</td>
<td>67.85</td>
</tr>
<tr>
<td>Phonograph</td>
<td>71.52</td>
</tr>
<tr>
<td>Tape Recorders</td>
<td>65.85</td>
</tr>
<tr>
<td>Console Stereo</td>
<td>53.57</td>
</tr>
<tr>
<td>Compact Stereo</td>
<td>65.85</td>
</tr>
<tr>
<td>Monochrome Television</td>
<td>46.42</td>
</tr>
<tr>
<td>Color Television</td>
<td>46.42</td>
</tr>
</tbody>
</table>

Monochrome television ranked highest among the types of products marketed by retailers.

Brand Representation

Manufacturers and importers. -- A total of thirty-three domestic brands and fifteen foreign brands were reported being marketed by manufacturers and importers. The domestic brands represent more than ninety per cent of the share of market for color television and for monochrome television.

Wholesalers. -- Wholesaler middlemen reported they distributed a total of sixty-nine different brands. The number of distributors of each major domestic brand represented in the study was as follows: four were Admiral, five were Emerson, four were General Electric,
one was Magnavox, one was Morse, seven were Motorola, two were Packard-Bell, two were Philco-Ford, eight were RCA, five were Sylvania, and seven were Zenith distributors.

Retailers. -- Retailers represented in the study market twenty-four different brands of merchandise. The brand representation by type of product among retailers varied from eight brands of console stereo to fifteen brands of compact stereo.

Large scale retailers. -- A total of twenty different brands were being sold by large scale retailers. Representation was almost equally divided between domestic brands and either private or foreign brands.

Special users. -- Special users of the products had purchased twenty-seven different brands. The brands purchased ranged from thirteen different brands of color television and monochrome television to twenty-three different brands of radio.

Type of Business

Wholesalers. -- The classes of wholesaler middlemen included seventy per cent independent merchant wholesalers and thirteen per cent factory branches. Audio stores, importers and others were included in the remaining seventeen per cent of wholesaler middlemen.
Three-fourths of the respondents specialized in television and appliance products while the remainder of the respondents specialized in general merchandise, electronic, hardware, drug, furniture, air conditioning, audio, electrical, and other types of products.

Retailers. - Returns indicated that nearly two-thirds of the retailers were independent television and appliance stores. The principle nature of the business of the balance of the retailers was evenly divided among drug chains, audio stores, furniture stores, mass merchandisers, department stores, electronic service and sales stores, record and home entertainment stores, and hardware stores.

Large scale retailers. - One-half of the large scale retailers were chain stores and one-third were mass merchandisers. The remaining large scale retailers were mail order chains and department stores. Included among the respondents were J. C. Penny Company, Montgomery-Ward, F. W. Woolworth, Allied Stores Marketing Corporation, Gambles, McCrory-McCullan Stores, Peoples Drug Stores, and other similarly large firms.

Special users. - Special users included E. F. MacDonald Incentive Company, Gold Bond Stamp Company, Sperry and Hutchinson Company, Texas Gold Bond Stamp Company, and other trading stamp,
premium, and incentive merchandising companies. Lane Wood Industries, Incorporated and Open Road Industries were among the mobile home manufacturers respondents. Humble Oil Company and Shell Oil Company were among the large users and credit card merchandising firms.

Value of Study

Response from channel members surveyed indicated that three-fourths or more of the manufacturers, wholesalers, and retailers believed that answers to the questions included in the questionnaire would be of some value to the industry. Also, more than eighty-five per cent of the manufacturers, wholesalers, and retailers indicated that the type of questions included in the questionnaire would apply to the appliance industry as well as to the consumer electronic products industry.

The Significance of Market Penetration

One of the purposes of this study was to determine the significance of market penetration to manufacturers, wholesalers, and retailers. A majority of each group of respondents was in agreement that market penetration is a significant means of evaluating manufacturers, wholesalers, and retailers, with three exceptions: a majority of large scale retailers did not agree that market
penetration is a significant means of evaluating wholesalers; manufacturers were evenly divided in their opinion that market penetration is a significant means of evaluating retailers; and a majority of retailers did not agree that market penetration is a significant means of evaluating retailers. Table XXI presents the response of each group of channel members.

Goals of the Industry

Wholesalers believed that the manufacturers' objectives include profit as the number one company objective, followed by market penetration, increasing or maximizing sales, servicing the product, promoting growth of the firm, and having the number one brand in terms of sales. Profit was believed by wholesalers to be the number one objective of retailers, followed by growth of the firm and servicing customers. Wholesalers ranked their own company objectives in the following order: profit, growth of firm, share of market, maximizing sales, improving service to retailers, and increasing the number of retail outlets.

Pressure Exerted by Suppliers

On retailers, nearly ninety-five per cent of the retailers indicated they were pressured by domestic manufacturers and by wholesalers to increase market penetration. A smaller majority
### TABLE XXI

**MARKET PENETRATION AS A SIGNIFICANT MEANS OF EVALUATING MANUFACTURERS, WHOLESALERS, AND RETAILERS**

<table>
<thead>
<tr>
<th>Type Respondent</th>
<th>Number Respondents</th>
<th>Market Penetration is a Significant Means of Evaluating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Manufacturers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>23</td>
<td>86.95</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>77</td>
<td>93.51</td>
</tr>
<tr>
<td>Retailers</td>
<td>22</td>
<td>81.82</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>10</td>
<td>70.00</td>
</tr>
</tbody>
</table>
of the retailers revealed that foreign manufacturers exert pressure for increased market penetration.

On large scale retailers. -- Among the large scale retailers surveyed, only one-third indicated that pressure is exerted by domestic and foreign manufacturers for increased market penetration. However, more than forty per cent of the large scale retailers believed their wholesalers exerted pressure for increased market penetration.

On wholesalers. -- All retailers indicated a belief that their distributor is pressured by the manufacturer for increased market penetration. This suggests a reinforcement of pressure directed from the manufacturer to the wholesaler and eventually applied to the retailer.

A relationship between purchases and market penetration was shown to exist. More than forty per cent of the wholesaler respondents indicated that when market penetration data were reviewed with them by their supplier, there was an attempt to get them to purchase enough merchandise to give the wholesaler national average market penetration when these goods and existing inventory were sold.
The Reporting System for Recording
Market Penetration Data

One hypothesis of this study is that the mechanism for recording and reporting industry sales data is inaccurate. The principle industry organization for collecting, recording, and disseminating data is the Electronic Industries Association of Washington, D. C.

Causes of Inaccuracy

Manufacturers and importers. — Fewer than two-thirds of the domestic manufacturers and approximately one-fourth of the importers indicated that they are members of the Electronic Industries Association. Response from thirty-one manufacturers and importers revealed that only one-fourth report their sales by county to the EIA. Of the domestic manufacturers, only forty-two percent report sales by county, while no importers report their sales by county to the EIA.

A majority of the domestic manufacturers not reporting sales by county to the EIA also do not report their national sales to the Association. Only one of eight importers indicated that they report their national sales to the EIA.

Wholesalers. — More than one-third of all wholesalers indicated that they do not have to report their sales to their manufacturer.
Approximately the same number of wholesalers do not report sales by county to their suppliers.

Wholesalers have been known to hold sales from one time period to another in order to make their reports to manufacturers look better. Response from wholesalers revealed that twelve per cent still follow this practice. In addition, eight per cent of the wholesaler middlemen indicated they sometimes make adjustment in their county reports in order to show a better sales balance among all counties.

Large scale retailers. — Since the large scale retailers consist largely of multiple market operations, they were asked how they report sales for each product. Nine of the ten respondents indicated they report sales to no one outside the company.

When sales are reported to a county where a regional warehouse or national sales office is located, the sales of this county become inflated when the merchandise is transferred and sold in some other county. Large scale retailers were questioned on the quantity of each type of consumer electronic product purchased and shipped to distribution centers before being reshipped to retail stores or customers. The average purchases of each type of product moving into distribution centers exceeded sixty per cent. These data are presented in Table XXII.
TABLE XXII

AVERAGE PURCHASES OF LARGE SCALE RETAILERS BY
PRODUCT TYPE SHIPPED TO DISTRIBUTION CENTERS

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Per Cent Shipped to Distribution Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio</td>
<td>87.5</td>
</tr>
<tr>
<td>Phonograph</td>
<td>60.0</td>
</tr>
<tr>
<td>Tape Recorder</td>
<td>78.0</td>
</tr>
<tr>
<td>Console Stereo</td>
<td>75.0</td>
</tr>
<tr>
<td>Compact Stereo</td>
<td>69.0</td>
</tr>
<tr>
<td>Monochrome Television</td>
<td>67.2</td>
</tr>
<tr>
<td>Color Television</td>
<td>61.2</td>
</tr>
</tbody>
</table>

The significance of recording sales at a point where a distribution center is located is exemplified by the fact that the large scale retailers included in this study operated an average of 8.8 distribution centers per respondent. These 8.8 distribution centers were redistributing merchandise to an average of 1,326 retail stores per respondent. Each distribution center was therefore servicing approximately 150 retail stores.

Special users.--All special users indicated that they do not report where their sales are made to their suppliers. When manufacturers were questioned on how sales to special users were recorded, no common practice for reporting sales was determined. The ways in which manufacturers record sales to special users is presented in Table XXIII.
TABLE XXIII

THE WAYS MANUFACTURERS RECORD SALES TO SPECIAL USERS

<table>
<thead>
<tr>
<th>Ways Recorded</th>
<th>Per Cent of Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report sales to county shipped to</td>
<td>45.0</td>
</tr>
<tr>
<td>Report sales to the county billed to</td>
<td>15.0</td>
</tr>
<tr>
<td>Report sales to the county shipped from</td>
<td>5.0</td>
</tr>
<tr>
<td>Report sales to the county billed from</td>
<td>5.0</td>
</tr>
<tr>
<td>Report sales to no one</td>
<td>20.0</td>
</tr>
<tr>
<td>Do not report sales by county</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Channel Member Opinions Regarding Accuracy of the Reporting Mechanism

All channel members were questioned directly about the accuracy of the reporting mechanism for collection of consumer electronic product data. A majority of wholesalers believed the reporting mechanism to be accurate from a national viewpoint; manufacturers and retailers were divided in their opinions, and a majority of the large scale retailers did not agree that the reporting mechanism was accurate from a national standpoint. A majority of each group of channel members agreed that the reporting mechanism is inaccurate from a local standpoint. Opinions of channel members relating to accuracy of the reporting mechanism are presented in Table XXIV.
TABLE XXIV

OPINIONS OF CHANNEL MEMBERS RELATING TO ACCURACY OF THE REPORTING MECHANISM FROM A NATIONAL AND LOCAL VIEWPOINT

<table>
<thead>
<tr>
<th>Channel Member Respondent Group</th>
<th>Industry Reporting Mechanism is Accurate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From a National Viewpoint</td>
</tr>
<tr>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturers - Importers</td>
<td>51.85</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>60.60</td>
</tr>
<tr>
<td>Retailers</td>
<td>36.84</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>50.00</td>
</tr>
</tbody>
</table>

Delay in Receiving Data

Fifty per cent or more of each channel member group agreed that market penetration data are not returned to wholesalers and retailers soon enough to be of value. Response from each channel member group is included in Table XXV.

TABLE XXV

CHANNEL MEMBERS AGREEING MARKET PENETRATION DATA IS RETURNED SOON ENOUGH TO BE OF VALUE

<table>
<thead>
<tr>
<th>Channel Member</th>
<th>Per Cent Agreeing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturers - Importers</td>
<td>43.48</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>39.39</td>
</tr>
<tr>
<td>Retailers</td>
<td>27.78</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>50.00</td>
</tr>
</tbody>
</table>
Secrecy of Data

When asked if the reporting mechanism would be better if made public, a large majority of each respondent group, with the exception of retailers, replied negatively. Manufacturers and wholesalers, in particular, desire to retain the element of secrecy which currently exists in the Electronic Industry Association's system of recording and reporting data.

Significance of Dollar and Unit Sales

Quota Assignments

Manufacturers. — Manufacturers were asked what types of quotas were assigned to wholesalers. Their responses indicated that unit quotas were assigned by the largest percentage of manufacturers, followed by assignments of dollar purchase quotas for all products combined, share of market quotas, and dollar quotas for each product type. Table XXVI relates the percentage of manufacturers assigning each type quota to wholesalers.

The combined unit and share of market quotas indicate that a majority of the manufacturers place greater emphasis on unit sales than on dollar sales. No respondent made any mention of a profit quota.
**TABLE XXVI**

**TYPES OF QUOTAS ASSIGNED BY MANUFACTURERS TO WHOLESALERS**

<table>
<thead>
<tr>
<th>Type of Quota Assigned</th>
<th>Per Cent of Manufacturers Assigning Quota Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit quotas by product</td>
<td>40.00</td>
</tr>
<tr>
<td>Dollar purchase quotas for all products</td>
<td>26.67</td>
</tr>
<tr>
<td>Share of market quotas</td>
<td>20.00</td>
</tr>
<tr>
<td>Dollar quotas by product</td>
<td>13.33</td>
</tr>
</tbody>
</table>

Wholesalers—Many wholesalers indicated that they have more than one type of quota to achieve. A majority of the wholesalers indicated unit quotas by product to be the type of quota they are assigned by their suppliers. In descending order, the other types of quotas assigned to wholesalers are share of market quotas, dollar quotas by product, and dollar purchase quotas for all products combined. Table XXVII presents data relating to the types of quotas wholesalers indicate they are assigned.

**TABLE XXVII**

**TYPE QUOTAS WHOLESALERS INDICATE THEY ARE ASSIGNED BY SUPPLIERS**

<table>
<thead>
<tr>
<th>Type Quota</th>
<th>Per Cent of Wholesalers Indicating Quota Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit quota by product</td>
<td>65.71</td>
</tr>
<tr>
<td>Share of market</td>
<td>48.57</td>
</tr>
<tr>
<td>Dollar quota by product</td>
<td>28.57</td>
</tr>
<tr>
<td>Dollar quota for all products combined</td>
<td>17.14</td>
</tr>
<tr>
<td>Other types of quotas</td>
<td>17.34</td>
</tr>
</tbody>
</table>
Market Penetration Relationship to Unit Sales, Dollar Sales, and Profit

A hypothesis of this study is that the desire of United States manufacturers to maintain or increase market penetration results in greater emphasis on sales of units than on dollar sales or profit per product group.

Unit sales versus dollar sales. -- Response of channel members presented in Table XXVIII confirms that not only United States manufacturers, but also foreign manufacturers and wholesalers place greater emphasis on unit sales than on dollar sales. A substantial majority of each group of respondents, with the exception of large scale retailers, agreed with the proposition.

Unit sales versus profit. -- Table XXIX reveals that fifty percent or more of each channel member group agreed with the hypothesis that the desire of United States manufacturers to maintain or increase market penetration results in greater emphasis on unit sales than on profit. One-third or more of each group of respondents agreed with the proposition when applied to foreign manufacturers. A majority of all channel members, with exception of the manufacturer group, agreed that wholesalers place greater emphasis on unit sales than on profit as a result of the wholesaler's desire to maintain or increase market penetration.
TABLE XXVIII

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE FOR MAINTAINING OR INCREASING MARKET PENETRATION RESULTS IN GREATER EMPHASIS ON UNIT SALES THAN ON DOLLAR SALES WHEN APPLIED TO U. S. AND FOREIGN MANUFACTURERS, AND TO WHOLESALERS

<table>
<thead>
<tr>
<th>Channel Member Respondent</th>
<th>Number Respondents</th>
<th>Greater Emphasis on Unit Sales Than Dollar Sales By:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>U. S. Manufacturer</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturers-Importers</td>
<td>18</td>
<td>61.11</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>65</td>
<td>78.46</td>
</tr>
<tr>
<td>Retailers</td>
<td>20</td>
<td>90.00</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>9</td>
<td>37.50</td>
</tr>
</tbody>
</table>
TABLE XXIX

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE FOR MAINTAINING OR INCREASING MARKET PENETRATION RESULTS IN GREATER EMPHASIS ON UNIT SALES THAN ON PROFIT WHEN APPLIED TO U. S. AND FOREIGN MANUFACTurers, AND TO WHOLESALERS

<table>
<thead>
<tr>
<th>Channel Member Respondent</th>
<th>Number Respondents</th>
<th>Greater Emphasis on Unit Sales Than on Profit By:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>U. S. Manufacturer</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturer-Importers</td>
<td>18</td>
<td>50.00</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>62</td>
<td>80.65</td>
</tr>
<tr>
<td>Retailers</td>
<td>24</td>
<td>100.00</td>
</tr>
<tr>
<td>Large-Scale Retailers</td>
<td>9</td>
<td>50.00</td>
</tr>
</tbody>
</table>
Control or Dominance of the Marketing Channel

The following describes how different channel member groups strive for dominance and control of the marketing channel.

Pressure for Increased Sales

Nine percent of the wholesalers and seventeen percent of the retailers indicated that they were satisfied with their present volume of business, yet thirty-two percent of the wholesalers and forty-two percent of the retailers indicated that their suppliers pressure them to increase sales beyond the point they desire. This suggests a conflict in goals within the channel of distribution as well as a high degree of pressure being exerted on channel members by their suppliers.

Written Franchise Agreements

One-third of the manufacturers reported having a written franchise agreement with their distributors. Approximately the same percentage of foreign manufacturers offered written franchises.

Manufacturer Distribution Systems

 Manufacturers used a variety of channels of distribution. In most instances manufacturers sold through several types of customers. For example, a majority of the manufacturers and importers reported selling to each of the following: manufacturer agents or
representatives, independent distributors, national chains and large retailers, premium companies, private brands, and post exchanges.

The percentage of manufacturers and importers selling to each type of customer is shown in Table XXX.

**TABLE XXX**

PERCENTAGE OF MANUFACTURERS AND IMPORTERS SELLING TO EACH TYPE OF CUSTOMER
(29 Respondents)

<table>
<thead>
<tr>
<th>Type of Customer</th>
<th>Percentage of Manufacturers Selling to Customer Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer Agents or Representatives</td>
<td>51.72</td>
</tr>
<tr>
<td>Independent Distributors</td>
<td>79.31</td>
</tr>
<tr>
<td>Cooperative-Owned Wholesalers</td>
<td>20.69</td>
</tr>
<tr>
<td>Factory-Owned Branches</td>
<td>37.93</td>
</tr>
<tr>
<td>Direct to all Retailers</td>
<td>24.14</td>
</tr>
<tr>
<td>National Chain Stores and Large Retailers</td>
<td>65.52</td>
</tr>
<tr>
<td>Hotels, Motels, Mobile Home Manufacturers</td>
<td>13.79</td>
</tr>
<tr>
<td>Premium Companies</td>
<td>55.17</td>
</tr>
<tr>
<td>Export Agents</td>
<td>20.69</td>
</tr>
<tr>
<td>Private Brands</td>
<td>51.72</td>
</tr>
<tr>
<td>Post Exchanges</td>
<td>55.17</td>
</tr>
<tr>
<td>Direct Mail to Consumer</td>
<td>3.45</td>
</tr>
</tbody>
</table>

Over one-half of the manufacturers make use of multiple distributors, and one-fourth of the manufacturers make use of associate distributors. Little distinction in distribution policy was found between domestic manufacturers and importers.
Wholesaler Versus Manufacturer

Wholesalers compete with manufacturers for many of the same customers. A majority of the wholesalers, for example, sell to hotels, motels, apartments, post exchanges, and premium companies. Conflict between wholesaler and manufacturer comes about because more than sixty per cent of the wholesalers indicated they objected to their suppliers selling directly to special users.

Effects of Direct Sales on Market Penetration

One-third of the wholesalers indicated that direct sales by the manufacturer helped the wholesaler's market penetration. This suggests that large amounts of merchandise are being included in industry sales in a market, but manufacturers are not including these sales in the brand share for purposes of evaluating the wholesaler.

Special Users

Direct purchases. -- Special users purchase from forty-six to seventy-five per cent of their purchases, depending on the product, directly from manufacturers. The majority of the balance of their purchases were made from independent wholesalers.

Type and quantity of products purchased. -- A majority of the special users purchase national brands of merchandise as well as
regular line models of the manufacturer. More than one-fourth of
the special users, however, purchased private brands and special
models designed especially for the special user.

Total units purchased during 1970 by each of the special users
ranged from a few units to as many as 65,000 radios, 4,000 phonographs, 30,000 tape recorders, 28,000 stereophonic sets, 20,000
monochrome television sets, and 3,500 color sets. The premium,
incentive, trading stamp, and credit card merchandising firms were
the largest purchasers of products.

**Pricing to special users**. -- Special users tended to buy at more
than one price. Two-thirds of the special users indicated whole-
salers' cost from the factory as the price best describing their
purchase price. One-third of the special users indicated they pur-
chase at less than wholesalers' cost from factory. Response to the
price which best describes the purchase price of special users is
included in Table XXXI

The majority of special users indicated their purchase price
included parts warranty, labor warranty, and incoming transpor-
tation. Approximately one-fourth of the special users indicated
the purchase price included advertising and promotional allowances.
It is to be noted that labor warranty and incoming transportation
TABLE XXXI

PRICE BEST DESCRIBING PURCHASE
PRICE OF SPECIAL USERS

<table>
<thead>
<tr>
<th>Price</th>
<th>Per Cent Purchasing at Price*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesaler Price to Retailer</td>
<td>20.00</td>
</tr>
<tr>
<td>Wholesaler Cost from Factory</td>
<td>66.67</td>
</tr>
<tr>
<td>Less than Wholesaler Cost from Factory</td>
<td>33.33</td>
</tr>
<tr>
<td>Slightly above Wholesale Cost</td>
<td>6.67</td>
</tr>
</tbody>
</table>

*Exceeds 100% because some special users purchase at more than one price.

are not always included in the price which wholesalers and retailers pay for merchandise.

Order size and delivery. -- More than one practice is followed by special users in placing orders. While the majority of special users purchase in a quantity, forty per cent purchase one unit at a time. The variations in purchasing practices are shown in Table XXXII.

Special users apparently have an option as to how delivery of their purchases is made. Delivery may be made to one location, a choice of locations, or directly to the special user's customer.

Product and Production

Annual model changes. -- Many in the industry question the necessity of annual model changes. However, over forty per cent
TABLE XXXII

PURCHASING PRACTICES OF SPECIAL USERS
BY PERCENTAGE FOLLOWING PRACTICE

<table>
<thead>
<tr>
<th>Purchasing Practice</th>
<th>Percentage of Special User Following Practice*</th>
</tr>
</thead>
<tbody>
<tr>
<td>One unit at a time</td>
<td>40.00</td>
</tr>
<tr>
<td>Quantity purchase</td>
<td>60.00</td>
</tr>
<tr>
<td>Special quotation for delivery as needed</td>
<td>6.67</td>
</tr>
<tr>
<td>Labor intensive units are drop shipped from factory to recipient's home</td>
<td>6.67</td>
</tr>
<tr>
<td>Buy in quantity but some items are delivered by partial shipments</td>
<td>6.67</td>
</tr>
<tr>
<td>Special quotation with delivery as needed, e.g., F.O.B. credit card customer</td>
<td>6.67</td>
</tr>
</tbody>
</table>

*Exceeds 100% because some special users follow more than one purchasing practice.

of the wholesaler respondents believed annual model changes to be necessary and beneficial. Wholesalers interviewed were reluctant to say that the practice should be changed because of its promotional value and its ability to renew and revive enthusiasm within the industry.

Supplemental models.--One-fifth of the wholesalers and a majority of the retailers believed that manufacturers introduce new models throughout the model year as a technique of getting around price guarantees. Several persons interviewed believed manufacturers should adjust the prices of current models and promote them without producing additional models.
Special models. -- Retailers have been known to be critical of manufacturers for building special models available only to large retailers. Retailers have also been critical of suppliers who sell them merchandise and then sell the same merchandise to discount operations. As a possible solution to both problems, retailers and wholesalers were asked whether a manufacturer should build a brand for independent retailers only. In response, forty-three per cent of the retailers and twenty-three per cent of the wholesalers were in favor of such a practice.

Private brands. -- Two-thirds of all the manufacturers reported that they engage in private brand manufacturing. The majority of the respondents who manufacture private brands manufacture for chain and department stores and for other manufacturers.

Market Penetration and Dominance

A hypothesis of the study is that the desire for maintaining or increasing market penetration by United States manufacturers results in complete control or dominance by the manufacturer of the marketing channel. Fifty per cent or more of each group of channel members were in agreement with this hypothesis. A majority of the manufacturers, wholesalers, and retailers also agreed with the hypothesis when applied to foreign manufacturers. Wholesalers,
retailers, and large scale retailers agreed with the hypothesis when applied to wholesalers. Data relating to this hypothesis is included in Table XXXIII. Obviously, all members cannot control the channel but they can operate in a manner that will increase their dominance over part or all of the channel.

The Power to Control Prices

Influence of Market Penetration

Wholesalers, retailers, and large scale retailers were asked what result the pressure for market penetration had on pricing. Two-thirds of the wholesalers and over ninety per cent of the retailers agreed that market penetration pressures resulted in lower retail prices. Fewer than one-fourth of the large scale retailers followed this thinking.

A substantial majority of all respondents indicated that the pressure for market penetration resulted in an increased amount of price cutting. While a majority of wholesalers believed that the pressure for market penetration resulted in lower dealer cost prices, one-fourth or less of the retailers and large scale retailers shared this belief.
TABLE XXXIII
RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE FOR MAINTAINING OR INCREASING MARKET PENETRATION RESULTS IN DOMINANCE OF THE MARKETING CHANNEL WHEN APPLIED TO U. S. MANUFACTURERS, FOREIGN MANUFACTURERS, AND TO WHOLESALERS

<table>
<thead>
<tr>
<th>Channel Member Respondent</th>
<th>Number Respondents</th>
<th>Complete Control or Dominance of the Marketing Channel By:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>U. S. Manufacturer</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturer Importers</td>
<td>18</td>
<td>77.78</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>55</td>
<td>78.18</td>
</tr>
<tr>
<td>Retailers</td>
<td>18</td>
<td>94.44</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>6</td>
<td>50.00</td>
</tr>
</tbody>
</table>
Resale Price Maintenance

More than one-third of the manufacturers and one-half of the wholesalers make use of a resale price maintenance policy.

Fair Trade. -- Those respondents using Fair Trade pricing in Fair Trade law states included twenty-two per cent of the manufacturer respondents and thirty-seven per cent of the wholesaler respondents.

Suggested list prices. -- Suggested or manufacturer’s list prices were used by nearly three-fourths of the manufacturers and over ninety per cent of the wholesalers.

Other forms. -- Other forms of controlling resale prices reported as being used by manufacturers and wholesalers included product contracts, implied agreements, separate product designs for stores requiring a high margin of profit, prior discussion of the subject with the dealer, establishment of minimum resale prices, refusal to honor cooperative advertising, and profit discussions with dealers.

Reason for resale price maintenance. -- Seventy per cent of the wholesaler respondents indicated a resale price maintenance policy at the retail level helps to improve the share of market of a brand of goods.
Compliance by retailers. — Over one-half of the retailers indicated that they were required to maintain prices as suggested by the manufacturer. Forty-five per cent of the retailers were required to maintain prices as suggested by the wholesaler. Since all regular retailer respondents were located in Texas, and since Texas is a non-Fair Trade state, flagrant violation of state and federal law is taking place. Returns from large scale retailers indicated that thirty per cent were required to maintain prices suggested by the manufacturer, and eighteen per cent were required to maintain prices suggested by the wholesaler.

Power of Manufacturer to Control Prices

A hypothesis of the study is that the desire for maintaining or increasing market penetration by U. S. manufacturers results in the power of these manufacturers to establish and control prices at the wholesale and retail level. The response presented in Table XXXIV reveals that over forty per cent of each group of channel members agreed with the hypothesis. A similar percentage of each group of channel members agreed with the hypothesis when applied to foreign manufacturers. When these percentages of agreement with the hypothesis are combined with responses to other questions relating to the power to control prices, the hypothesis is considered to be valid.
### TABLE XXXIV

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE FOR MAINTAINING OR INCREASING MARKET PENETRATION RESULTS IN THE POWER OF THE MANUFACTURER TO ESTABLISH AND CONTROL PRICES AT THE WHOLESALE AND RETAIL LEVEL

<table>
<thead>
<tr>
<th>Channel Member Respondent</th>
<th>Number Respondents</th>
<th>Results in Power to Establish and Control Prices at the Wholesaler and Retail Level By:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>U. S. Manufacturers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Manufacturer-Importers</td>
<td>17</td>
<td>41.18</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>58</td>
<td>63.79</td>
</tr>
<tr>
<td>Retailers</td>
<td>20</td>
<td>45.00</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>10</td>
<td>50.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Foreign Manufacturers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Manufacturer-Importers</td>
<td>17</td>
<td>43.75</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>58</td>
<td>52.08</td>
</tr>
<tr>
<td>Retailers</td>
<td>20</td>
<td>61.54</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>10</td>
<td>50.00</td>
</tr>
</tbody>
</table>
Power of Wholesaler to Control Prices

Response of channel members included in Table XXXV indicates that more than forty per cent of each group of respondents agreed that the desire for maintaining or increasing market penetration by wholesalers results in the power of the wholesaler to establish and control prices at the retail level.

TABLE XXXV

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE FOR MAINTAINING OR INCREASING MARKET PENETRATION RESULTS IN THE POWER OF THE WHOLESALER TO ESTABLISH AND CONTROL PRICES AT THE RETAIL LEVEL

<table>
<thead>
<tr>
<th>Channel Member Respondents</th>
<th>Number Respondents</th>
<th>Power of Wholesaler to Control Prices at Retail Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Manufacturer-Importer</td>
<td>16</td>
<td>50.00</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>61</td>
<td>45.90</td>
</tr>
<tr>
<td>Retailer</td>
<td>21</td>
<td>47.62</td>
</tr>
<tr>
<td>Large Scale Retailer</td>
<td>10</td>
<td>40.00</td>
</tr>
</tbody>
</table>

Price Discrimination

Manufacturers were questioned regarding their billing prices to different channels of distribution. Response indicated that forty-eight per cent of the manufacturers sell to all customers at the
same price. Thus, over one-half of all responding manufacturers
have different selling prices for different customers. In addition,
over one-fifth of the respondents indicated that they sold to national
chains, large retailers, and/or special users at lower prices than
they sell to independent distributors, factory branches, and co-
operative wholesalers.

The Power to Control Marketing Activities

Power of Manufacturers

A hypothesis of the study is that the desire of United States
manufacturers to maintain or increase market penetration results
in the power of these manufacturers to control marketing activities
of their wholesale and retail organization structure. Response of
channel members presented in Table XXVI indicates that a majority
of each channel member group, with exception of large scale re-
tailers, agreed with the hypothesis. More than one-third of each
group of respondents agreed with the hypothesis when applied to
foreign manufacturers.

Power of Wholesalers

Response of channel members presented in Table XXXVII re-
veals that a majority of manufacturers, wholesalers, and retailers
agreed that the desire of wholesalers to maintain or increase
TABLE XXXVI

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE FOR MAINTAINING OR INCREASING MARKET PENETRATION RESULTS IN THE POWER OF THE MANUFACTURER TO CONTROL MARKETING ACTIVITIES OF ITS WHOLESALING AND RETAILING ORGANIZATION STRUCTURE

<table>
<thead>
<tr>
<th>Channel Member Respondent</th>
<th>Number Respondents</th>
<th>Power to Control Marketing Activities of Wholesalers and Retailers When Applied To:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>U. S. Manufacturers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturer-Importer</td>
<td>16</td>
<td>56.25</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>57</td>
<td>71.93</td>
</tr>
<tr>
<td>Retailers</td>
<td>18</td>
<td>66.67</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>8</td>
<td>37.50</td>
</tr>
</tbody>
</table>

market penetration results in the power of the wholesaler to control marketing activities of its retail organization structure.

The Power of the Supplier to Force Full Line Selling

Purchase Requirements

Manufacturers were asked if their wholesalers were expected to buy and sell all products in their line. Approximately one-third
TABLE XXXVII

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE FOR MAINTAINING OR INCREASING MARKET PENETRATION RESULTS IN THE POWER OF THE WHOLESALER TO CONTROL MARKETING ACTIVITIES OF ITS RETAIL ORGANIZATION STRUCTURE

<table>
<thead>
<tr>
<th>Channel Member Respondent</th>
<th>Number Respondents</th>
<th>Power of Wholesaler to Control Marketing Activities of its Retail Organization Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturer-Importers</td>
<td>17</td>
<td>58.82</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>60</td>
<td>51.67</td>
</tr>
<tr>
<td>Retailers</td>
<td>19</td>
<td>68.42</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>9</td>
<td>44.44</td>
</tr>
</tbody>
</table>

of both domestic manufacturers and importers responded that they expected wholesalers to buy and sell all products in their line.

More than one-half of the wholesaler respondents indicated that they were required to buy, stock, and sell all products offered by the manufacturer they represented.

One-fourth of the retailers indicated that they were required to buy all products in a line offered by a distributor. Thus, full line forcing is practiced by some wholesalers as well as manufacturers.
Market Penetration and Power to Force Full Line Selling

A hypothesis of the study is that the desire of United States manufacturers to maintain or increase market penetration results in the power of these manufacturers to force full line selling, even on products which are unprofitable to its channel members. The response of channel members presented in Table XXXVIII reveals that fifty per cent or more of each group of channel members, with the exception of large scale retailers, agreed with the hypothesis. When applied to foreign manufacturers, a majority of the wholesalers and retailers agreed with the hypothesis. When applied to wholesalers, a majority of the manufacturers, wholesalers, and large scale retailers agreed with the hypothesis.

Profit Relationships

Product Profit Rating

Each group of channel members was asked to rate each type product in terms of net profit after all product, promotion, and distribution costs have been deducted. A rating of good, marginal, or poor profit was used for each product. Profit rating by product as each group of channel members responded is included in Table XXXIX.
### TABLE XXXVIII

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE FOR MAINTAINING OR INCREASING MARKET PENETRATION RESULTS IN THE POWER OF THE SUPPLIER TO FORCE FULL LINE SELLING, EVEN ON PRODUCTS WHICH ARE UNPROFITABLE, WHEN APPLIED TO U. S. MANUFACTURERS, FOREIGN MANUFACTURERS, AND TO WHOLESALERS

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Respondents</th>
<th>Power to Force Full Line Selling By:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>U. S. Manufacturers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturer-Importers</td>
<td>18</td>
<td>50.00</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>58</td>
<td>72.41</td>
</tr>
<tr>
<td>Retailers</td>
<td>22</td>
<td>63.64</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>9</td>
<td>22.22</td>
</tr>
</tbody>
</table>
### TABLE XXXIX
PROFIT RATING BY PRODUCT AS APPLIED BY CHANNEL MEMBER GROUP

<table>
<thead>
<tr>
<th>Product</th>
<th>Channel Member Respondent Group</th>
<th>Number Respondents</th>
<th>Per Cent of Respondents Rating Product Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Good</td>
</tr>
<tr>
<td>Radio</td>
<td>Manufacturers</td>
<td>19</td>
<td>31.58</td>
</tr>
<tr>
<td></td>
<td>Wholesalers</td>
<td>71</td>
<td>25.35</td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>21</td>
<td>4.76</td>
</tr>
<tr>
<td></td>
<td>Large Scale</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>10</td>
<td>80.00</td>
</tr>
<tr>
<td>Phonograph</td>
<td>Manufacturers</td>
<td>18</td>
<td>44.44</td>
</tr>
<tr>
<td></td>
<td>Wholesalers</td>
<td>64</td>
<td>32.81</td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>20</td>
<td>25.00</td>
</tr>
<tr>
<td></td>
<td>Large Scale</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>9</td>
<td>33.33</td>
</tr>
<tr>
<td>Tape Recorder</td>
<td>Manufacturers</td>
<td>20</td>
<td>75.00</td>
</tr>
<tr>
<td></td>
<td>Wholesalers</td>
<td>67</td>
<td>46.27</td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>21</td>
<td>33.33</td>
</tr>
<tr>
<td></td>
<td>Large Scale</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>10</td>
<td>60.00</td>
</tr>
<tr>
<td>Console Stereo</td>
<td>Manufacturers</td>
<td>19</td>
<td>68.42</td>
</tr>
<tr>
<td></td>
<td>Wholesalers</td>
<td>64</td>
<td>65.63</td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>20</td>
<td>50.00</td>
</tr>
<tr>
<td></td>
<td>Large Scale</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>7</td>
<td>71.43</td>
</tr>
<tr>
<td>Product</td>
<td>Channel Member Respondent Group</td>
<td>Number Respondents</td>
<td>Per Cent of Respondents Rating Product Profit</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------------------------</td>
<td>--------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Good</td>
</tr>
<tr>
<td>Compact Stereo</td>
<td>Manufacturers</td>
<td>18</td>
<td>72.22</td>
</tr>
<tr>
<td></td>
<td>Wholesalers</td>
<td>71</td>
<td>59.15</td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>21</td>
<td>42.86</td>
</tr>
<tr>
<td></td>
<td>Large Scale Retailers</td>
<td>9</td>
<td>100.00</td>
</tr>
<tr>
<td>Monochrome TV</td>
<td>Manufacturers</td>
<td>13</td>
<td>23.08</td>
</tr>
<tr>
<td></td>
<td>Wholesalers</td>
<td>68</td>
<td>61.76</td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>25</td>
<td>34.62</td>
</tr>
<tr>
<td></td>
<td>Large Scale Retailers</td>
<td>8</td>
<td>62.50</td>
</tr>
<tr>
<td>Color TV</td>
<td>Manufacturers</td>
<td>13</td>
<td>53.85</td>
</tr>
<tr>
<td></td>
<td>Wholesalers</td>
<td>70</td>
<td>78.57</td>
</tr>
<tr>
<td></td>
<td>Retailers</td>
<td>25</td>
<td>61.54</td>
</tr>
<tr>
<td></td>
<td>Large Scale Retailers</td>
<td>7</td>
<td>71.43</td>
</tr>
</tbody>
</table>
The products which fifty percent or more of a respondent group rated as good profit products were: radios by large scale retailers; tape recorders by manufacturers and large scale retailers; console stereo by all groups; compact stereo by manufacturers, wholesalers, and large scale retailers; and monochrome TV by all groups of respondents. Phonographs were the only product whose profit was not rated as good by a majority of any group of respondents. The balance of the products were rated by each responding group as being unprofitable or producing marginal profit.

**Reasons for Maintaining Marginal or Unprofitable Products**

**Manufacturers.** --- Manufacturers were asked to write in reasons why they continued to maintain products in their line which the manufacturer had indicated to be marginal or unprofitable. Their reasons included the following: investment plus other interaction factors, entry into market, to secure new dealers, to offer a complete one-stop source to a dealer, absorption of administrative and engineering costs over more than one product line, trend improvement, to offer a full line, planning to discontinue, and ego satisfaction.

**Other channel members.** --- Wholesalers, retailers, and large scale retailers were asked to check the reasons why they continued
to maintain products in their line which were unprofitable or of marginal profit to them. Their response is included in Table XL.

To offer a full line was the reason provided by the largest number of respondents in each group.

**TABLE XL**

**REASONS INDICATED BY CHANNEL MEMBERS FOR CONTINUING TO CARRY MARGINAL PROFIT AND UNPROFITABLE PRODUCTS**

<table>
<thead>
<tr>
<th>Reason for Carrying Marginal and Unprofitable Products:</th>
<th>Channel Member Group</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wholesaler</td>
<td>Retailer</td>
<td>Large Scale Retailer</td>
</tr>
<tr>
<td>Number Respondents</td>
<td>69 %*</td>
<td>20 %*</td>
<td>6 %*</td>
</tr>
<tr>
<td>Supplier Requirements</td>
<td>14.49</td>
<td>30.00</td>
<td>16.67</td>
</tr>
<tr>
<td>To Offer a Full Line</td>
<td>76.81</td>
<td>40.00</td>
<td>66.67</td>
</tr>
<tr>
<td>Anticipate Product to Become Profitable</td>
<td>17.39</td>
<td>25.00</td>
<td>16.67</td>
</tr>
<tr>
<td>To Use as Price Leader</td>
<td>15.99</td>
<td>30.00</td>
<td>16.67</td>
</tr>
<tr>
<td>Demand of Market</td>
<td>20.29</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>To Promote the Brand Name</td>
<td>39.13</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Other Reasons</td>
<td>15.99</td>
<td>15.00</td>
<td>33.33</td>
</tr>
</tbody>
</table>

*Total per cent exceeds 100% because respondents checked more than one reason.*
Market Penetration and Profit

Pressure for market penetration. -- Fifty-five per cent of the wholesalers indicated they were selling marginal or unprofitable products because their suppliers desired to increase or maintain a certain percentage of share of market. A majority of wholesalers also believed that profit opportunities would improve if distributors were not under pressure for market penetration. Over three-fourths of the retailers indicated that retailer profit opportunities would improve if distributors were not under pressure for market penetration.

Price cutting. -- Nearly forty per cent of the wholesalers indicated that cutting the price is generally the ultimate weapon for increasing market penetration.

Reduced profits. -- A hypothesis of the study is that the desire of United States manufacturers to maintain or increase market penetration results in reduced profits for the wholesaler and retailer from what they otherwise would be. Response of channel members presented in Table XLI reveals that a majority of each group of channel members agreed with the hypothesis. When applied to foreign manufacturers, a majority of each group of channel
TABLE XLI

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER
THE DESIRE OF MANUFACTURERS TO MAINTAIN OR
INCREASE MARKET PENETRATION RESULTS IN
REDUCED PROFITS FOR THE WHOLESALER
AND RETAILER FROM WHAT THEY
OTHERWISE WOULD BE

<table>
<thead>
<tr>
<th>Channel Member Respondent</th>
<th>Number Respondents</th>
<th>Reduced Profits for Wholesalers and Retailers When Applied To:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>U. S. Manufacturers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturer-Importers</td>
<td>15</td>
<td>64.29</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>58</td>
<td>70.69</td>
</tr>
<tr>
<td>Retailers</td>
<td>19</td>
<td>78.95</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>8</td>
<td>62.50</td>
</tr>
</tbody>
</table>

members, with the exception of the manufacturer-importer group, agreed with the hypothesis.

Response of channel members included in Table XLI indicates that nearly one-half or more of each group of channel members agreed that the desire of wholesalers to maintain or increase market penetration results in reduced profits for the retailer from what they otherwise would be.
TABLE XLII

RESPONSE OF CHANNEL MEMBERS REGARDING WHETHER THE DESIRE OF WHOLESALERS TO MAINTAIN OR INCREASE MARKET PENETRATION RESULTS IN REDUCED PROFITS FOR THE RETAILER FROM WHAT THEY OTHERWISE WOULD BE

<table>
<thead>
<tr>
<th>Channel Member Respondent</th>
<th>Number Respondents</th>
<th>Reduced Profits for the Retailer From What They Otherwise Would Be</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Yes %</td>
</tr>
<tr>
<td>Manufacturer-Importers</td>
<td>15</td>
<td>53.33</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>60</td>
<td>48.33</td>
</tr>
<tr>
<td>Retailers</td>
<td>18</td>
<td>83.33</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>8</td>
<td>50.00</td>
</tr>
</tbody>
</table>

Other Problems of the Industry

Other industry problems which have an effect on sales and market penetration include transshipping, insurance, and consumer testing organizations. Opinions of channel members relating to these industry problems are presented in the following paragraphs.

Transshipping

The movement of merchandise outside the normally assigned channels of distribution of a supplier is referred to as transshipping.
Transshipping becomes a problem because sources of supply tend to lose an element of control over distribution and prices. When asked whether transshipping is increasing, two-thirds of the wholesalers and more than one-half of the manufacturers indicated that it is.

**Insurance**

A question was directed to wholesalers and retailers to determine the effects of the rising cost of insurance. Response to the question is included in Table XLIII. Forty-five per cent of the retailers and thirty-seven per cent of the wholesalers were purchasing in smaller quantities, and forty-five per cent of both retailers and wholesalers had reduced warehouse inventories.

**TABLE XLIII**

PERCENTAGE OF RETAILERS AND WHOLESALERS INDICATING THE EFFECTS OF THE RISING COST OF INSURANCE

<table>
<thead>
<tr>
<th>Effect of Rising Cost of Insurance</th>
<th>Retailers %</th>
<th>Wholesalers %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing in Smaller Quantities</td>
<td>45.83</td>
<td>37.14</td>
</tr>
<tr>
<td>No Change in Purchasing Habits</td>
<td>50.00</td>
<td>35.71</td>
</tr>
<tr>
<td>Reduced Floor Display</td>
<td>8.33</td>
<td>11.43</td>
</tr>
<tr>
<td>Reduced Warehouse Inventory</td>
<td>45.83</td>
<td>45.71</td>
</tr>
<tr>
<td>Reduced Small Item Inventory</td>
<td>16.67</td>
<td>30.00</td>
</tr>
</tbody>
</table>

When retailers and wholesalers were asked if an insurance plan, similar to floor plan financing, to cover fire and theft would
induce them to purchase in greater quantities, only one-third of the retailers and fewer than one-fifth of the wholesalers agreed that it would.

**Consumer Testing Organizations**

All channel members were surveyed as to what effects (considerable, very little, or none) published reports of private testing organizations such as Consumer Reports have on sales of a product which they have tested and evaluated. One-half or more of each respondent group rated the effects as considerable. Less than ten percent of the manufacturers and wholesalers rated the effects as none. Response to the question is presented in Table XLIV.

**TABLE XLIV**

PERCENTAGE OF CHANNEL MEMBERS RATING THE EFFECTS OF PUBLISHED REPORTS OF PRIVATE TESTING ORGANIZATIONS

<table>
<thead>
<tr>
<th>Effects of Published Reports</th>
<th>Channel Member</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturer-Importers</td>
</tr>
<tr>
<td>Considerable</td>
<td>50.00</td>
</tr>
<tr>
<td>Very Little</td>
<td>42.31</td>
</tr>
<tr>
<td>None</td>
<td>7.69</td>
</tr>
</tbody>
</table>
Channel members were asked if they believe private testing organizations such as Consumer Reports provide a fair test of a product. Response of channel members is presented in Table XLV.

TABLE XLV

RESPONSE OF CHANNEL MEMBERS AGREEING THAT CONSUMER TESTING ORGANIZATIONS PROVIDE A FAIR TEST OF A PRODUCT

<table>
<thead>
<tr>
<th>Channel Member Group</th>
<th>Percentage of Group Agreeing That a Fair Test is Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer-Importers</td>
<td>46.15</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>16.22</td>
</tr>
<tr>
<td>Retailers</td>
<td>13.04</td>
</tr>
<tr>
<td>Large Scale Retailers</td>
<td>66.67</td>
</tr>
</tbody>
</table>

Ways to Increase Market Penetration

**Retailer Response**

Retailers indicated by write-in answers how they helped their sources of supply to increase their share of market. The ways included good product presentation and demonstrations, carrying one brand exclusively, carrying a good inventory of the brands sold, good reputation with customer, consistent and timely advertising, good product display, buying their deals, in-store promotion, and "selling what they load us with."
Wholesaler Response

Wholesalers were asked the most effective ways for a wholesaler to increase his share of market. The answers most frequently provided included the following: sales training to retailer, service to retailer, extensive promotion, heavy advertising, carrying adequate inventory, pricing competitively, analyzing competition and taking action, providing incentives for salesmen, providing good territory coverage by salesmen, increasing outlets, maintaining good parts supply, work, developing dealer loyalty, price stability and maintenance, management training and profit analysis, opening his own retail stores, and promoting through existing dealers.

Manufacturer Response

Manufacturers indicated that wholesalers could most effectively increase their market penetration in the following ways: buying in volume, extensive promotion, planning sales meetings for dealers, advertising extensively, offering low competitive prices, offering protected territories to dealers, carrying adequate inventory, providing service to dealers, employing an expert sales force, having good retailer representation, offering a return privilege to retailer, and carrying the full line.

This chapter included a presentation of the opinions of industry members relating to the purposes and hypotheses of the study.
These opinions were drawn from a series of five questionnaires completed by manufacturers and importers, wholesalers, retailers, and special users of consumer electronic products. Based on the data presented in this and previous chapters, a summary of the study, conclusions, and recommendations are presented in the following chapter.
CHAPTER VI

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

This study has concerned itself with determining the significance of market penetration to the consumer electronic products industry. The problems of greatest current significance relating to market penetration were selected for individual study. These problems included:

1. An analysis of the size, growth, and structure of the consumer electronic products industry.
2. The importance of imports to the industry.
3. The nature of competition within the industry.
5. Market and sales potentials.
6. An analysis of the reporting mechanism for recording industry data.
7. Distribution.
8. Products.
10. Promotion.
11. Attitudes of the market.

12. Consumerism.

13. Channel conflict and control.

14. The legal environment.

Each of the foregoing problems was described and analyzed, using secondary data to present the problem effectively. These analyses were followed by a presentation of the opinions of manufacturers and importers, wholesalers, retailers, large scale retailers, and special users as determined by questionnaires completed by each of these five groups. These opinions related to market penetration and to industry problems and practices.

Conclusions

**Market Penetration**

Significance of market penetration. -- From the analysis of industry problems and from questionnaires completed by members of the industry, it is concluded that market penetration is of considerable significance to the industry, particularly as a means of evaluating manufacturers and wholesalers. Market penetration is a valuable measurement tool, but only when accurate data are available.
When market penetration is used as a company goal it frequently conflicts with other goals of the firm, particularly that of profit. As a company objective, market penetration results in a sacrifice of profit to attain the objective; therefore, it is determined that market penetration should not be used as a company objective.

**Market penetration hypothesis.** It is concluded that the desire for maintaining or increasing market penetration by United States manufacturers results in greater emphasis on unit sales than on dollar sales per product group, greater emphasis on unit sales than on profit per product group, complete control or dominance by the manufacturer of the marketing channels, the power of the manufacturer to establish and control prices at the wholesale and retail level, the power of the manufacturer to force full line selling, the power of the manufacturer to control the marketing activities of its wholesaling and retailing organization structure, and reduced profits for the wholesaler and retailer from what profits otherwise would be.

It was determined that in general the desire to maintain or increase market penetration has the same results for both domestic and foreign manufacturers. It is the desire for market penetration which causes firms to establish policies which lead to the aforementioned results. Many of these results conflict with goals
of other channel members. In addition, the results may be illegal.

Pressure for market penetration. -- It is determined that great pressure is exerted by domestic manufacturers, foreign manufacturers, and by wholesalers to each of their customers to increase market penetration. In some instances, pressure is applied by suppliers to their customers to increase sales beyond the point these customers desire. Pressure is also reflected in the manufacturer's extensive use of unit quotas by product and in share of market quotas.

Secrecy of data. -- Manufacturers and wholesalers indicated a desire to retain secrecy of market penetration data while retailers favored public information. It is concluded that the disadvantages outweigh the advantages of maintaining secrecy; therefore, market penetration data should become public information.

The Mechanism for Recording and Reporting Industry Data

Government. -- It is concluded that government data is frequently inconsistent among governmental departments. In addition, inaccuracies occur because allocation of sales are made to broad group classifications rather than to the consumer electronics industry
specifically. Furthermore, the delay between compiling and publishing government data diminishes its usefulness. The U. S. Customs Department has data relating to imports, but it does not publish the data by brand or by company producing the product.

Electronic Industries Association. -- The Electronic Industries Association's system of collecting data is concluded to be inaccurate from both a local and national standpoint. A large percentage of manufacturers and importers do not report sales, either in total or by county, to the association. In addition, many wholesalers do not report their sales to their manufacturer, either in total or by county. Confusion exists as to how special users and chain stores dealing in private brands report their sales. Virtually all large scale retailers report sales to no one outside their firm. In addition, no data are recorded as to what is taking place at the retail level, which is the most important measurement point.

Influence of Imports

It is concluded that foreign produced goods, particularly Japanese, have had a significant influence on the domestic industry and market. Business and public attitudes are conditioned toward acceptance of Japanese made goods. Unit sales of imported products dominate domestic sales of all consumer electronic products
with the exception of television products. Domestic manufacturers have been forced to establish production facilities in foreign nations in order to remain competitive with foreign producers.

The high degree of manufacturer concentration in the United States has not prevented foreign producers from entering the market. In addition, competition may intensify with the possible formation of cartels in Japan.

**Distribution Problems**

**Domestic manufacturers.**—It is determined that domestic manufacturers have the greatest amount of control over the marketing channel for consumer electronic products. This control, or dominance, is exercised in distribution policies, in using many channels of distribution, in selling to special users, in controlling what is produced and when it is produced, and in engaging in private label manufacturing. The control of domestic manufacturers is being challenged by foreign manufacturers and large scale retailers.

**Foreign manufacturers.**—Japanese manufacturers have traditionally moved toward integrating or controlling every level in the distribution structure in their home market. Trends indicate that this same policy will be followed in the United States.
Supplemental distribution centers. — A trend exists among domestic and foreign manufacturers to establish supplemental distribution centers at several locations throughout the country. It is determined that this could result in independent wholesalers becoming selling organizations only, in manufacturers using their own selling organizations and eliminating independent wholesalers, or in wholesalers merging into regional wholesalers and taking over the manufacturers' distribution centers.

Wholesalers. — It is concluded that the wholesaler can command a large share of the market over which he has control, but his performance is diluted by direct sales of the manufacturer to special users located in the wholesaler's market.

Independently owned wholesalers fear being replaced by factory branches although no lasting trend could be detected. A cycle of factory branches increasing when general economic conditions are good seemed to exist. As the general economy slows down, branches are replaced by independents.

Large scale retailers. — It is concluded that the growth of large scale retail chain store operations have become a threat to other channel members. The large size of these organizations makes it possible for them to find manufacturers who will sell to
them direct. This results in a loss of sales to wholesalers. Also, small retailers lack buying power to purchase in quantity for lower prices which are necessary to compete with the large scale retailers.

Special users. -- Special users are purchasing a majority of their requirements direct from the manufacturer. Generally, these purchases are of substantial size, although in many instances the purchase is one unit at a time. Purchase price is generally wholesalers' cost although many special users purchase at a price less than wholesalers' cost. It is concluded that manufacturers are performing specialized services for special users, such as one at a time shipments direct to ultimate consumers, at prices which are lower than those offered to their other customers.

Transshipping. -- Transshipping of merchandise has the effect of overstating the original sellers' share of market and understating the brand share in the area where the merchandise is actually sold. It is concluded that an element of control over distribution and pricing is lost by manufacturers and wholesalers when transshipping takes place in their market. Although manufacturers and wholesalers believe transshipping to be increasing, there is little that can be done legally to prevent transshipping.
Product Problems

**Profit.** - Consumer demand has forced manufacturers to produce broad lines of merchandise. It is determined that often some of these lines produce marginal profit or are unprofitable for the manufacturer and his channel members. The principle reason for continuing to carry these products is to offer a full line. A majority of wholesalers are selling these marginal profit or unprofitable products because their supplier desires to maintain a certain percentage share of market. Both wholesaler and retailer profit opportunities would improve if it were not for the pressure of suppliers for market penetration.

**Model changes.** - It is concluded that annual changes and the introduction of "drop-in" models to a product line are unnecessary when little change in product improvement or style is made. Annual model changes, otherwise, are beneficial to the industry only in that the industry reorganizes and renew its sales efforts in a concentrated manner. Retailers agree that the introduction of new models throughout the year is a technique used by manufacturers to get around price guarantees. Many retailers and wholesalers, however, believed that the manufacturer should build a brand of merchandise for independent retailers only.
Service and warranty. --- Centralized service organizations have enabled manufacturers and wholesalers to expand their markets. It is concluded that central service organizations and extended warranties aid transhippers and permit manufacturers to sell direct more easily to special users of the product.

Pricing Problems

Price leaders. --- Excessive concentration on price leaders by the entire industry is concluded to result in reduced profits for the industry.

Effect of market penetration. --- It is concluded that the pressure for market penetration results in lower retail prices. These pressures also result in an increased amount of price cutting.

Resale price maintenance. --- Resale price maintenance policies, frequently illegal, are relatively common among manufacturers and wholesalers. A large number of retailers also indicated that they are required to maintain prices established by their suppliers. It is concluded that many manufacturers and wholesalers are involved in price fixing.

Price discrimination. --- A majority of manufacturers offer different prices to different customers. Many manufacturers sell
to special users and large scale retailers at lower prices than they sell to independent distributors and factory branches. It is concluded that manufacturers practice discriminatory pricing.

**Promotion Problems**

**Discriminatory allowances.**—It is concluded that discriminatory practices in the form of promotional allowances and services are also common in the industry. Major foreign manufacturers and importers, in particular, are involved in these discriminatory practices. Large scale retailers become involved in these illegal practices by accepting such prices and allowances.

**Cooperative advertising.**—It is concluded that cooperative advertising funds are being discontinued by some manufacturers. The reason for discontinuing such funds is that it is difficult for the manufacturer to comply with Federal Trade Commission guidelines for administering funds. Discontinuance of cooperative funds may be detrimental to the small retailer.

**Other Industry Problems**

**Insurance.**—The rising costs of insurance are concluded to result in wholesalers and retailers purchasing smaller quantities
and reducing their warehouse inventory. A plan is needed to counter the trend toward smaller order and inventory size.

**Consumerism.** -- It is concluded that the industry must adjust to the needs of consumers by providing information, avoiding deceptive practices, and assuming product responsibilities. Should the industry not adjust to the needs of consumers, government intervention can be expected.

**Consumer testing organization.** -- The results of the tests of consumer electronic products published in *Consumer Reports* are concluded to increase the sales of a particular brand when the report is favorable and to decrease the brand's sales when the report is unfavorable. There is some doubt that a fair test of the product is being provided by these organizations since only a single sample of each product is tested.

**Channel Conflict and Control**

**Channel conflict and control.** -- It is concluded that conflict in distribution results from the incompatibility of goals, aims, or values of channel members. Each channel member has some means of acquiring power to control the channel of distribution,
Legal Problems

Anti-trust. -- It is concluded that violations of anti-trust laws are common in the industry. Typical among violations are collusive agreements and monopolistic practices such as price fixing, exclusive dealing, full line forcing, and others. Since the courts have held that a degree of reasonableness does not exist in restraint of trade, all such actions are in violation of the law. Furthermore, a firm with the power to control markets, whether it exercises the power reasonably or not, is in violation of the law.

Dismemberment. -- The Federal Trade Commission and the Senate Anti-Trust Committee are making efforts to break up oligopolies, which would include the consumer electronic products industry. Therefore, it is concluded that domestic manufacturers are currently caught in the position of facing dismemberment because of violating anti-trust laws while at the same time they are trying to compete internationally with firms whose national governments encourage industry cooperation.

Recommendations

Market Penetration

Deemphasis. -- It is recommended that the use of market penetration be de-emphasized. It should not be used as a company goal
because the desire for maintaining or increasing market penetration results in many possible illegal practices, and conflicts with other goals of the firm and goals of other channel members. Market penetration should be used as a measurement tool only when the data is known to be accurate.

Public information. -- Market penetration data should be made public information. Complete, accurate public information, with restrictions against its use in advertising, would benefit individual firms and considerably reduce the cost of securing data.

Evaluation procedures. -- It is recommended that manufacturers evaluate wholesalers only on that portion of the market over which the wholesaler has control. Manufacturers' direct sales to special users and others should be separated from total sales in order to permit evaluation of wholesalers on actual potential available to them. Further study should be made of redistribution of products by large scale retailers and of transshipments in order to develop a system of recording sales at the point of ultimate consumption.

The Reporting System for Recording Industry Data

Government. -- It is recommended that the government collect and publish separate data for consumer electronic products. This
is particularly needed in the publication of data for wholesale and retail sales. Such data should be published soon after compilation in order to be useful to the industry.

The United States Customs Department should publish import data by brand or by the company producing the product. This would enable domestic manufacturers to be more aware of the activities and sales of foreign brands.

**Electronic Industries Association.** -- Every effort should be made by the Electronic Industries Association to get those brands not reporting sales to do so. When reporting data, the Association should note what percentage of sales are estimates, and which firms or brands report and do not report sales. It is recommended that the EIA establish a system of measuring sales by brand at the retail level.

**Distribution**

Manufacturers. -- It is recommended that manufacturers route through wholesalers and/or retailers those sales to special users who are not capable of buying or accepting delivery in large quantities.

**Supplemental distribution centers.** -- Manufacturers should establish an optimum number of supplemental distribution centers.
to serve the nation. Separate distributor inventories should be eliminated to reduce costs of operation. It is recommended that wholesalers be integrated into these distribution centers and be permitted to sell to all customers to whom the manufacturer now sells on a direct basis. This would eliminate competition for the same sale between separate organizations which market the same brands.

Wholesalers. — It is recommended that neighboring wholesalers which sell the same brands merge to form regional wholesaling organizations. In this manner they could integrate themselves into the manufacturer's distribution center or establish their own regional distribution center.

Small retailers. — Small retailers should consider forming cooperatives in order to increase their buying power. These retailers should initiate further study of cooperatives in the consumer electronic products industry before joining them.

Product Deletion. — Manufacturers should establish a system for eliminating products which are unprofitable to themselves and/or their channel members.
Model changes. — Annual model changes should continue, but it is recommended that they be limited to products in which significant improvement or style change is made. Many leader models and specialized furniture styles should remain in the line on an annual basis. The practice of "drop-in" models should be discontinued in favor of promotion of regular line merchandise with price protection to wholesalers and retailers.

Manufacturers should consider building lines of goods to be sold through small independent retailers only. Short lines with limited model changes from year to year would prove beneficial to all.

Standardization. — It is recommended that the industry standardize new product systems before introducing them to the market. This could be administered through the Electronic Industries Association and could possible avoid intervention by the government.

Pricing and Promotion

Resale price maintenance. — It is recommended that manufacturers and wholesalers discontinue resale price maintenance practices in order to avoid charges of price fixing.

Discriminatory pricing and promotional allowances. — Manufacturers should review their pricing policies in an effort to
determine whether they are discriminating against any channel members. Such practices should be eliminated, as should discriminatory services and promotional allowances. Large scale retailers should avoid accepting special pricing and promotional allowances which are not offered to everyone on an equally proportionate basis.

**Profit margins.** --It is recommended that domestic manufacturers improve their profit margins to channel members to avoid losing additional sales to foreign brands.

**Cooperative advertising.** --It is recommended that the Federal Trade Commission review its guidelines for administering cooperative advertising funds. The difficulty in following these guidelines is causing some manufacturers to discontinue cooperative advertising funds. This may prove to be detrimental to small retailers rather than helpful to them, which was the original purpose of the guidelines.

**Consumerism**

**Principles.** --It is recommended that the industry adhere to the principles of consumerism by providing adequate information, avoiding deceptive practices, and assuming product responsibilities. Unless it does so government intervention can be expected.
Private testing organizations. -- In order to counter the publication of private tests conducted by such organizations as Consumer Reports, it is recommended that manufacturers publish results of their own tests at the time of annual model changes. This data could be made available to the Electronics Industries Association for publication.

Insurance

Suppliers should consider offering an insurance plan to cover fire, theft, and robbery in order to prevent further reduction in sizes of purchases and warehouse stock levels of retailers and wholesalers.

The Legal Environment

Domestic manufacturers. -- It is recommended that the government not pursue its efforts to break up manufacturers into smaller units. This would further prevent the industry from being competitive with its international rivals. Although a high degree of concentration exists among manufacturers, this has not prevented new domestic manufacturers from successfully entering the business, nor has it prevented a virtual take-over by foreign produced merchandise. The government should permit domestically owned producers to combine their foreign production and technological and marketing abilities when competing for sales in other countries.
Foreign manufacturers.--It is recommended that the Federal Trade Commission investigate the activities of foreign manufacturers for possible violation of anti-trust laws and deceptive practices in the same manner as they investigate domestic manufacturers.
APPENDIX A

WHOLESALE DISSERTATION RESEARCH QUESTIONNAIRE

Check the nature of your business:
   a. Independent wholesaler
   b. Factory branch
   c. Factory representative or agent
   d. Wholesaler cooperative
   e. Retailer cooperative
   f. Audio store
   g. Importer
   h. Other

Check your job position:
   a. Owner
   b. General manager
   c. Sales manager
   d. Salesman
   e. Other

Check the type of merchandise you generally specialize in:
   a. Television and appliances
   b. General merchandise wholesaler
   c. Electronic parts wholesaler
   d. Hardware wholesaler
   e. Drug wholesaler
   f. Grocery wholesaler
   g. Dry goods wholesaler
   h. Other

How many years have you or your firm been in business? ________

What brand names of the following products do you sell?

Radio
Phonograph
Tape recorder
Console stereo
Compact stereo
B & W TV
Color TV

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In terms of total dollar and unit sales of all products, how do you rank each of the following for your organization? (Please circle)

<table>
<thead>
<tr>
<th>Product</th>
<th>Rank in Dollar Sales</th>
<th>Rank in Unit Sales</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
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</tr>
<tr>
<td>Color TV</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
</tbody>
</table>

Is the subject "market penetration" (brand share of market) one of considerable significance to the consumer electronic products industry? yes ___ no ___

Do you feel market penetration to be a significant means of evaluating the following:

yes ___ no ___ a. manufacturers
yes ___ no ___ b. wholesalers
yes ___ no ___ c. retailers

Is your supplier a member of the Electronic Industries Association? yes ___ no ___

Do you report your sales, by county, to your supplier? yes ___ no ___

If no, to what organization do you report sales?

Do you feel the reporting mechanism for collection of consumer electronic product data:

yes ___ no ___ a. is accurate from a national standpoint.
yes ___ no ___ b. is accurate from a local standpoint.
yes ___ no ___ c. would be more accurate if measured at the point of sale from retailer to consumer.
yes ___ no ___ d. is feedback to wholesalers and retailers soon enough to be of value.
yes ___ no ___ e. should continue to be handled in a confidential secretive manner.
yes ___ no ___ f. would be better if made public.
Are you required to buy stock, and sell all product lines offered by the manufacturer you represent?  yes  no

Do you feel your suppliers press you to increase your sales beyond the point you desire?  yes  no

Rank the following in order of importance (1, 2, 3, etc.) as being your current company objectives. Leave blank those not considered current objectives.

1. Profit
2. Growth of firm
3. Maximize sales
4. Improve service to dealer
5. Increase number of outlets
6. Improve share of market

What do you believe your suppliers objectives to be? Rank in order:
1. 
2. 
3. 

What do you believe your retail dealer objectives to be? Rank in order:
1. 
2. 
3. 

In terms of net profit (after all product, promotion, and distribution costs have been deducted) how do you rate each of the following products? (Please check)

<table>
<thead>
<tr>
<th>Product</th>
<th>Good</th>
<th>Marginal</th>
<th>Unprofitable</th>
</tr>
</thead>
<tbody>
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<td></td>
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<tr>
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<td></td>
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<tr>
<td>B &amp; W TV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Color TV</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
If indicated as marginal or unprofitable, why do you continue to maintain any of the aforementioned products in your line?

____ to offer a full line
____ demand of market
____ anticipate product to become unprofitable
____ to promote brand name
____ use as price leader
____ other ______________________

Do you feel you are selling marginal or unprofitable products because your supplier desires to increase or maintain a certain percentage share of market.  yes  no  ____

Do you have a written franchise agreement with your source of supply?  yes  no  ____

Are you required to report sales to dealers back to the manufacturers?  yes  no  ____

Do you ever hold sales from one time period to another in order to make your reports to the manufacturer look better?  yes  no  ____

Do you ever make adjustments between counties when reporting sales in order to show better balance?  yes  no  ____

Check the types of quotas wholesalers are assigned:

____ a. unit quote by product
____ b. dollar quote by product
____ c. dollar purchase quote for all products
____ d. share of market quote
____ e. other types ______________________

When can distributors order for stock (not special orders)?

____ a. daily  ____ d. quarterly
____ b. weekly  ____ e. other ______________________
____ c. monthly  ____ f. only when requested to order

Do you feel your retailers tend to be satisfied with their present volume of business?  yes  no  ____
Are you satisfied with your present volume of business?  
yes _____ no _____

Check which of the following effects will result from the 10% surcharge tax:  
_____ a. no effects on the rate of import goods in the U. S.  
_____ b. import goods will become less competitive  
_____ c. import goods will continue to increase in importance  
_____ d. other effects _______________________________________

Is the introduction of new models during the model year a technique used to get around price guarantees?  
yes _____ no _____

Are annual model changes necessary?  
yes _____ no _____

Should a manufacturer build a brand for independent retailers only?  
(A reverse approach to building special models for large dealers.)  
yes _____ no _____

Would an insurance plan (similar to floor plan) to cover fire and theft induce you to purchase in greater quantities?  
yes _____ no _____

Check if the current rising cost of insurance protection results in any of the following by retailers:  
_____ a. purchasing in smaller quantities  
_____ b. no change in purchasing habits  
_____ c. reduce display  
_____ d. reduce warehouse inventory  
_____ e. reduce small item inventory  
_____ f. other _______________________________________

Is cutting the price generally the ultimate weapon for increasing market penetration?  
yes _____ no _____

Do you feel profit opportunities would improve if distributors were not under pressure for market penetration?  
yes _____ no _____

Check if you feel the pressure for market penetration results in any of the following:  
_____ a. lower dealer cost prices  
_____ b. lower retail prices  
_____ c. an increased amount of price cutting  
_____ d. a decreased amount of price cutting  
_____ e. larger inventories
Do you believe a resale price maintenance policy at the retail level helps to improve the share of market of a brand of goods?  
yes _ ___ no _ ___  

Do you make use of the following:  
yes _ ___ no _ ___ a. resale price maintenance policy  
yes _ ___ no _ ___ b. suggested or manufacturers list prices  
yes _ ___ no _ ___ c. Fair Trade in Fair Trade law states  
yes _ ___ no _ ___ d. other ____________________________  

Check the following ways you feel retailers help their sources of supply increase their share of markets:  
___ a. consistant advertising of brand name  
___ b. promotion of loss leaders  
___ c. displaying and selling the full line  
___ d. purchasing deals  
___ e. selling one line exclusively  
___ f. sacrificing profit for volume  
___ g. providing service after the sale  
___ h. other ____________________________  

When market penetration data is reviewed by your supplier, is there any attempt to get you to purchase enough goods that when added to existing inventory and if all sold would give you national average market penetration?  yes _ ___ no _ ___  

Which of the following do you sell on a direct basis?  
___ a. hotels, motels, apartments  
___ b. builders  
___ c. mobile home manufacturers  
___ d. post exchanges  
___ e. premium companies  

Does your source of supply sell to these direct buyers also?  yes _ ___ no _ ___  

Do these direct sales by the manufacturer help your market penetration in any way?  yes _ ___ no _ ___  

Do you object to your supplier making direct sales?  yes _ ___ no _ ___
Would you list the names of large purchasers (such as builders, premium companies, chain stores, and mobile home manufacturers in your area whose purchases are possibly included in your market area, but whose sale may be made in some other area, thus, could be affecting your true share of market?

<table>
<thead>
<tr>
<th>Name</th>
<th>City</th>
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<tbody>
<tr>
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</tbody>
</table>

Is transshipping across distributors' assigned areas increasing?

yes ___ no ___

What are the three most effective ways for a wholesaler to increase his share of market?

1. 
2. 
3. 

What effects do published reports of private testing organizations (such as Consumer Reports) have on sales of a product which they have tested and evaluated? (Check one)

___ Considerable  ___ Very little  ___ None

Do you believe private testing organizations such as Consumer Reports provide a fair test of a product?  yes ___ no ___

Do you feel the desire for maintaining or increasing market penetration (share of market) by the following sources of supply result in:

a. greater emphasis on sales of units than on dollar sales
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers
   yes ___ no ___ 3. by wholesalers

b. greater emphasis on sales of units than on profit per product group.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers
   yes ___ no ___ 3. by wholesalers
c. dominance by the supplier of the marketing channels.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers
   yes ___ no ___ 3. by wholesalers

d. the power of the manufacturer to establish and control prices at the wholesale and retail level.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers

e. the power of the wholesaler to establish and control prices at the retail level.
   yes ___ no ___

f. lower retail prices for consumers.
   yes ___ no ___

g. the power of the supplier to force full line selling, even on products which are unprofitable for its channel members.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers
   yes ___ no ___ 3. by wholesalers

h. the power of the manufacturer to control marketing activities of its wholesaling and retailing organization structure.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers

j. reduced profits for the wholesaler and retailer from what they otherwise would be.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers

k. reduced profits for the retailer from what they otherwise would be.
   yes ___ no ___ by wholesalers

Check which of the following products which you feel private brands are dominating or will dominate industry sales in the future:

<table>
<thead>
<tr>
<th>Presently Dominate</th>
<th>Will Dominate in 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td></td>
</tr>
<tr>
<td>phonograph</td>
<td></td>
</tr>
</tbody>
</table>
Presently Dominate | Will Dominate in 5 Years
---|---
tape recorder | 
console stereo | 
compact stereo | 
B & W TV | 
color TV | 

Would you include total industry sales for the year 1970 for your home office county for each of the following products as reported back to you by your supplier?

radio | units
phonograph | units
tape recorder | units
console stereo | units
compact stereo | units
B & W TV | units
color TV | units

Name of home office county: ________________________________

Would you permit a personal interview with yourself, or someone within your organization or order that the subject can be explored in greater depth or complete a more extensive questionnaire taking approximately 25 minutes. yes no

____ Check here if you would desire a summary of the findings of this study.

Your name ___________________________ Title ___________________________

Company name ________________________________

Street address ________________________________

City ___________________________ State _____________ Zip _________

Would the answers to such questions as shown above be of value or benefit to the industry in any way? yes no

Do the questions above relate to the appliance industry as well as the consumer electronics industry? yes no

Would you forward a copy of any market penetration reports for the year 1970 including competitors? All reports are confidential and any reference would be disguised if used in any manner.____ Reports attached.
Check the principle nature of your business:
____ a. manufacturer ____ b. importer ____ c. other ________

Check which of the following products you manufacture or import?
List brand names.

<table>
<thead>
<tr>
<th>Product</th>
<th>Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td>___________________________</td>
</tr>
<tr>
<td>phonograph</td>
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<td>___________________________</td>
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<td>tape recorder</td>
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In terms of total dollar and unit sales of all products, how do you rank each of the following for your organization? (Please circle)

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Do you feel market penetration to be a significant means of evaluating the following:
yes ____ no ____ a. manufacturers
yes ____ no ____ b. wholesalers
yes ____ no ____ c. retailers

Are you a member of the Electronic Industries Association?
yes ____ no ____
Do you report your sales, by county, to the EIA? yes  no

If no, to what organization do you report sales? ____________________________

Do you feel the reporting mechanism for collection of consumer electronic product data:

yes  no  a. is accurate from a national standpoint.

yes  no  b. is accurate from a local standpoint.

yes  no  c. would be more accurate if measured at the point of sale from retailer to consumer.

yes  no  d. is fed back to wholesalers and retailers soon enough to be of value.

yes  no  e. should continue to be handled in a confidential secretive manner.

yes  no  f. would be better if made public.

In terms of net profit (after all product, promotion, and distribution costs have been deducted) how do you rate each of the following products. (Please circle)

<table>
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<td>_____</td>
<td>_____</td>
<td>_____</td>
</tr>
</tbody>
</table>

If indicated as marginal or unprofitable, why do you continue to maintain any of the aforementioned products in your line?

________________________________________________________

Do you have a written franchise agreement with each distributor? yes  no

Check the types of quotas wholesalers are assigned:

a. unit quota by product
b. dollar quota by product
c. dollar purchase quota for all products
d. share of market quota
e. other types ____________________________
Do you make use of the following:
yes no a. resale price maintenance policy
yes no b. suggested or manufacturers list prices
yes no c. Fair Trade in Fair Trade law states
yes no d. other ____________________________

Check the following means you make use of in securing market sales data of competition.
___ a. competition furnishes
___ b. E.I.A. furnishes
___ c. industrial spying
___ d. marketing research agencies
___ e. licensing and patents
___ f. wholesalers provide
___ g. advertising agency
___ h. other ____________________________

Are your wholesalers expected to buy and sell all products in your line? yes no ___

What are the three most effective ways for a wholesaler to increase his share of market?
1. ______________________________________________________________________
2. ______________________________________________________________________
3. ______________________________________________________________________

What effects do published reports of private testing organizations (such as Consumer Reports) have on sales of a product which they have tested and evaluated? (Check one)
___ Considerable ___ Very little ___ None

Do you believe private testing organizations such as Consumer Reports provide a fair test of a product? yes no ___

Check the following channels of distribution which your firm sells to:
___ a. manufacturer agent or representative
___ b. independent distributors
___ c. cooperative-owned wholesalers
___ d. factory-owned branch
___ e. direct to all retailers
___ f. national chain stores and large retailers
___ g. hotels, motels, mobile home manufacturers
How are sales reported for channels number f-k in the foregoing:

a. to the county where shipped to
b. to the county where billed to
c. to the county where shipped from
d. to the county where billed from

Is the price you bill the purchaser the same for all the aforementioned channels of distribution?  yes  no

Do channels number f-k in the foregoing buy at prices less than channel b, c, and d?  yes  no

Do you manufacture private brands?  yes  no

If yes, check the following:

a. for yourself  Name of Private Brand
b. for other manufacturers  
c. for your wholesalers  
d. for chain and department stores  
e. for small scale retailers  
f. for export firms  
g. other  

Do you make use of multiple distributors?  yes  no

Do you make use of associate distributors?  yes  no

How do chain stores dealing in private brands report their sales?

a. by county where each unit is sold,
b. into county where zone office is located,
c. into county where national office is located,
d. into county where regional warehouse is located,
e. into county where private label manufacturer is located,
f. other  

Are import sales of foreign manufacturers included in total industry sales by county?  yes  no
What organization records sales of foreign manufacturers in the United States?

Is transshipping across distributor assigned areas increasing?
yes ___ no ___

Check which of the following effects will result from the 10% import surcharge tax:
___ a. no effects on the sale of import goods.
___ b. import goods will become less effective.
___ c. import goods will continue to increase in importance.
___ d. other effects

Do you feel the desire for maintaining of increasing market penetration (share of market) by the following sources of supply result in:

a. Greater emphasis on sales of units than on dollar sales.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers
   yes ___ no ___ 3. by wholesalers

b. Greater emphasis on sales of units than on profit per product group.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers
   yes ___ no ___ 3. by wholesalers

c. Dominance by the supplier of the marketing channels.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers

d. The power of the manufacturer to establish and control prices at the wholesale and retail level.
   yes ___ no ___ 1. by U. S. manufacturers
   yes ___ no ___ 2. by foreign manufacturers

e. The power of the wholesaler to establish and control prices at the retail level. yes ___ no ___

f. Lower retail prices for consumers. yes ___ no ___
g. The power of the supplier to force full line selling, even on products which are unprofitable for its channel members.
yes ___ no ___ 1. by U. S. manufacturers
yes ___ no ___ 2. by foreign manufacturers
yes ___ no ___ 3. by wholesalers

h. The power of the manufacturer to control marketing activities of its wholesaling and retailing organization structure.
yes ___ no ___ 1. by U. S. manufacturers
yes ___ no ___ 2. by foreign manufacturers

i. The power of the wholesaler to control marketing activities of its retail organization structure.
yes ___ no ___

j. Reduced profits for the wholesaler and retailer from what they otherwise would be.
yes ___ no ___ 1. by U. S. manufacturers
yes ___ no ___ 2. by foreign manufacturers

k. Reduced profits for the retailer from what they otherwise would be.
yes ___ no ___ by wholesalers

Check what new products you feel the industry will be selling in some appreciable quantity five years from now:

<table>
<thead>
<tr>
<th>Video tape recorders</th>
<th>Modular electronic rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video telephones</td>
<td>Other</td>
</tr>
<tr>
<td>Home computer</td>
<td>Other</td>
</tr>
</tbody>
</table>

Would you permit a personal interview with yourself or someone within your organization or be willing to answer a more extensive 30 minute questionnaire in order that the subject can be explored in greater depth. yes ___ no ___

Check here if you would desire a summary of the findings of this study.

Your name ___________________________ Title ___________________________
Company name _______________________________________________________
Street Address _______________________________________________________
City _______________________ State ____________ Zip _______
Would the answers to such questions as shown above be of value or benefit to the industry in any way?  yes ___ no ___

Do the questions above relate to the appliance industry as well as the consumer electronics industry?  yes ___ no ___
APPENDIX C

RETAILER DISSERTATION RESEARCH

Check the type of retail business which most closely resembles your operation:

a. independent television and appliance dealer
b. chain store

c. audio store
d. furniture store
e. mass merchandiser
f. department store
g. service dealer
h. other

How many years have you been in business? __________

Counting yourself, how many persons do you employ? __________

What brand names of the following products do you sell?

radio
phonograph
tape recorder
console stereo
compact stereo
B & W TV
color TV

In terms of total sales of all products, how do you rank each of the following for your organization? (Please circle)

<table>
<thead>
<tr>
<th>Product</th>
<th>Rank in Dollar Sales</th>
<th>Rank in Unit Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
<tr>
<td>phonograph</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
<tr>
<td>tape recorder</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
<tr>
<td>console stereo</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
<tr>
<td>compact stereo</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
<tr>
<td>B &amp; W TV</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
<tr>
<td>color TV</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
</tbody>
</table>
In terms of net profit (after all product, promotion, and distribution costs have been deducted), how do you rate each of the following products? (Please check)

<table>
<thead>
<tr>
<th>Product</th>
<th>Good</th>
<th>Marginal</th>
<th>Unprofitable</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>phonograph</td>
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<td></td>
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<tr>
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<td></td>
</tr>
<tr>
<td>color TV</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If any of the aforementioned products are unprofitable why do you continue to stock and sell these products? (Check the following)

- supplier requirements
- to offer a full line
- anticipate product to become profitable
- use as price leader (or draw traffic)
- please list other reasons

Do you feel the reporting mechanism for collection of consumer electronic product data:

- yes no a. is accurate from a national standpoint
- yes no b. is accurate from a local standpoint
- yes no c. would be more accurate if measured at the point of sale from retailer to consumer:
- yes no d. is feedback to wholesalers and retailers soon enough to be of value
- yes no e. should continue to be handled in a confidential secretive manner
- yes no f. would be better if made public

Do you feel market penetration (brand share of market) to be a significant means of evaluating the following:

- yes no a. manufacturers
- yes no b. wholesalers
- yes no c. retailers

Do you feel the distributor is pressured by the factory for increased market penetration? yes no

Do you feel profit opportunities would improve if distributors were not under pressure for market penetration? yes no
Check if you feel the pressure for market penetration results in any of the following:

- a. lower dealer cost prices
- b. lower retail prices
- c. an increased amount of price cutting
- d. a decreased amount of price cutting
- e. larger inventories

Do you feel you are pressured to increase market penetration by the following:

- yes no a. by U.S. manufacturers
- yes no b. by foreign manufacturers
- yes no c. by wholesalers

Do you feel the desire for maintaining or increasing market penetration (share of market) by the following sources of supply result in:

a. Greater emphasis on sales of units than on dollar sales.
   - yes no a. by U.S. manufacturers
   - yes no b. by foreign manufacturers
   - yes no c. by wholesalers

b. Greater emphasis on sales of units than on profit per product group.
   - yes no a. by U.S. manufacturers
   - yes no b. by foreign manufacturers
   - yes no c. by wholesalers

c. Dominance by the supplier of the marketing channels.
   - yes no a. by U.S. manufacturers
   - yes no b. by foreign manufacturers
   - yes no c. by wholesalers

d. The power of the manufacturer to establish and control prices at the wholesale and retail level.
   - yes no a. by U.S. manufacturers
   - yes no b. by foreign manufacturers

e. The power of the wholesaler to establish and control prices at the retail level.
   - yes no

i. The power of the supplier to force full line selling, even on products which are unprofitable for its channel members.
   yes no a. by U. S. manufacturers
   yes no b. by foreign manufacturers
   yes no c. by wholesalers

j. The power of the manufacturer to control marketing activities of its wholesaling and retailing organization structure.
   yes no a. by U. S. manufacturers
   yes no b. by foreign manufacturers

h. The power of the wholesaler to control marketing activities of its retail organization structure. yes no

i. Reduced profits for the wholesaler and retailer from what they otherwise would be.
   yes no a. by U. S. manufacturers
   yes no b. by foreign manufacturers

j. Reduced profits for the retailer from what they otherwise would be.
   yes no by wholesalers.

Are you required to buy all products within a product line offered by a distributor? yes no

Are you required to maintain prices?
   yes no as suggested by the manufacturer
   yes no as suggested by the wholesaler

Is the introduction of new models during the model year a technique used to get around price guarantees? yes no

Are annual model changes necessary, beneficial? yes no

Should a manufacturer build a brand for independent retailers only? (A reverse approach to building special models for large dealers.)
   yes no

Would an insurance plan (similar to floor plan) to cover fire and theft induce you to purchase in greater quantities?
   yes no
Check if the increasing current rising cost of insurance protection results in any of the following:

a. purchasing in smaller quantities
b. no change in purchasing habits
c. reduce display
d. reduce warehouse inventory
e. reduce small item inventory
f. other

From the standpoint of unit sales (not dollars) in your store check the following products as to which are greater, imports or domestically produced lines:

<table>
<thead>
<tr>
<th>Product</th>
<th>Imports</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>phonograph</td>
<td></td>
<td></td>
</tr>
<tr>
<td>tape recorder</td>
<td></td>
<td></td>
</tr>
<tr>
<td>console stereo</td>
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<td></td>
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<tr>
<td>compact stereo</td>
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<td></td>
</tr>
<tr>
<td>B &amp; W TV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>color TV</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check the following products as to whether imports or domestically produced products produce a greater total contribution to profits of your firm.

<table>
<thead>
<tr>
<th>Product</th>
<th>Imports</th>
<th>Domestic</th>
<th>No Profit on Either</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>phonograph</td>
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</tbody>
</table>

If a consumer buys a particular brand of one product, is he likely to later buy the same brand of another product? (Example: If a person buys X brand radio, will he be influenced to buy X brand TV?) yes ___ no ___

Do you find there to be a direct correlation between newspaper lineage run by a particular brand and the share of market for that brand in a given market? (Example: If brand X be number one or two in sales in that market?) yes ___ no ___
What effects do published reports of private listing organizations (such as Consumer Reports) have on sales of a product which they have tested and evaluated? (Check one)

_____ considerable  _____ very little  _____ none

Do you believe private testing organizations, such as Consumer Reports, provide a fair test of a product?  yes  no

Are you satisfied with your present volume of business?

yes  no

Do you feel that your suppliers press you to increase your sales beyond the volume of business you desire?  yes  no

Check your approximate cost of doing business as a percentage of total product sales:

_____ a. less than 10%  _____ e. from 26-30%
_____ b. from 11-15%  _____ f. from 31-35%
_____ c. from 16-20%  _____ g. from 36-40%
_____ d. from 21-25%  _____ h. above 40%

If your source of supply would offer you a good price protection plan, check the following things you would be willing to provide him:

_____ a. mail warranty cards daily as sets are sold
_____ b. mail a weekly sales report by model
_____ c. mail a monthly inventory report of sets in stock
_____ d. other

Which of the following retail outlets do you feel will move the greatest amount of video tape recording and playback equipment in the future?

_____ a. tape centers
_____ b. photographic departments
_____ c. audio stores
_____ d. television and appliance stores
_____ e. department and discount stores
_____ f. other

Check which of the following effects on consumer electronic products will result from a 10% import surcharge tax:

_____ a. no effects on the sale of import goods
_____ b. import goods will become less competitive
c. import goods will continue to increase in importance

d. other effects

List ways you feel you help your sources of supply to increase their share of market:

Check here if you would desire a summary of the findings of this study. 

Your name __________________________ Title __________________________

Company name __________________________

Street address __________________________

City __________________________ State ____________ Zip _________

Would the answers to such questions as shown above be of value, or benefit to the industry in any way? yes ____ no ____

Do the questions above relate to the appliance industry as well as the consumer electronics industry? yes ____ no ____

Please return questionnaire to:
SAM HOUSTON STATE UNIVERSITY
ATTN: NELSON L. THORNTON
DEPARTMENT OF BUSINESS ADMINISTRATION
HUNTSVILLE, TEXAS 77340
Check the type of retail business which most closely resembles your operation:

- a. mail order
- b. chain store
- c. mass merchandiser
- d. other

What brand names of the following products do you sell:

- radio
- phonograph
- tape recorder
- console stereo
- compact stereo
- B & W TV
- color TV

Who manufactures these brands:

What per cent of your purchases of consumer electronic products are made direct:

- % a. from domestic manufacturers?
- % b. from foreign manufacturers?
- % c. from wholesalers?

Do you report sales for each product by county to any of the following: (Please check)

- a. the Electronic Industries Association
- b. the manufacturer who supplied the products
- c. to no one outside the company
- d. other

Approximately how many distribution centers (warehouses) do you have to service the above mentioned retail outlets in the United States?        In Texas?        

264
Approximately how many retail stores do you operate (or service) in the United States? ____________  in Texas? ____________

What percentage of each of the following products which you purchase are shipped into one of your distribution centers before being reshipped to one of your retail stores or customers?

<table>
<thead>
<tr>
<th>Product</th>
<th>% to Distribution Centers</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td></td>
</tr>
<tr>
<td>phonograph</td>
<td></td>
</tr>
<tr>
<td>tape recorder</td>
<td></td>
</tr>
<tr>
<td>console stereo</td>
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<td>B &amp; W TV</td>
<td></td>
</tr>
<tr>
<td>color TV</td>
<td></td>
</tr>
</tbody>
</table>

Do you feel market penetration (brand share of market) to be a significant means of evaluating the following:

yes ____ no ____ a. manufacturers
yes ____ no ____ b. wholesalers
yes ____ no ____ c. retailers

Do you feel the reporting mechanism for collection of consumer electronic product data:

yes ____ no ____ a. is accurate from a national standpoint
yes ____ no ____ b. is accurate from a local standpoint
yes ____ no ____ c. would be more accurate if measured at the point of sale from retailer to consumer
yes ____ no ____ d. is feedback to wholesalers and retailers soon enough to be of value
yes ____ no ____ e. should continue to be handled in a confidential, secretive manner
yes ____ no ____ f. would be better if made public

What percentage of the national market unit sales do you feel you are selling in each of the following products (or how many units did you sell last year in each of the following products)?

<table>
<thead>
<tr>
<th>Product</th>
<th>% of Market</th>
<th>1971 Unit Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>phonograph</td>
<td></td>
<td></td>
</tr>
<tr>
<td>tape recorder</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>color TV</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Check if you feel the pressure for market penetration results in any of the following:

___ a. lower dealer cost prices
___ b. lower retail prices
___ c. an increased amount of price cutting
___ d. a decreased amount of price cutting
___ e. larger inventories

Do you feel the pressure for market penetration results in any of the following:

yes ___ no ___ a. by U.S. manufacturers
yes ___ no ___ b. by foreign manufacturers
yes ___ no ___ c. by wholesalers
yes ___ no ___ d. by your firm

Do you feel the desire for maintaining or increasing market penetration (share of market) by the following sources of supply result in:

a. Greater emphasis on sales of units than on dollar sales.
   yes ___ no ___ a. by U.S. manufacturers
   yes ___ no ___ b. by foreign manufacturers
   yes ___ no ___ c. by wholesalers

b. Greater emphasis on sales of units than on profit per product group.
   yes ___ no ___ a. by U.S. manufacturers
   yes ___ no ___ b. by foreign manufacturers
   yes ___ no ___ c. by wholesalers

c. Dominance by the supplier of the marketing channels.
   yes ___ no ___ a. by U.S. manufacturers
   yes ___ no ___ b. by foreign manufacturers
   yes ___ no ___ c. by wholesalers

d. The power of the manufacturer to establish and control prices at the wholesale and retail level.
   yes ___ no ___ a. by U.S. manufacturers
   yes ___ no ___ b. by foreign manufacturers

e. The power of the wholesaler to establish and control prices at the retail level. yes ___ no ___
f. The power of the supplier to force full line selling, even on products which are unprofitable for its channel members:
   yes ___ no ___ a. by U. S. Manufacturers
   yes ___ no ___ b. by foreign manufacturers
   yes ___ no ___ c. by wholesalers

g. The power of the manufacturer to control marketing activities of its wholesaling and retailing organization structures:
   yes ___ no ___ a. by U. S. manufacturers
   yes ___ no ___ b. by foreign manufacturers

h. The power of the wholesaler to control marketing activities of its retail organization structure: yes ___ no ___

i. Reduced profits for the wholesaler and retailer from what they otherwise would be:
   yes ___ no ___ a. by U. S. manufacturers
   yes ___ no ___ b. by foreign manufacturers

j. Reduced profits for the retailer from what they otherwise would be:
   yes ___ no ___ by wholesalers

Are you required to maintain prices:
   yes ___ no ___ a. as suggested by the manufacturer
   yes ___ no ___ b. as suggested by the wholesaler

What effects do published reports of private testing organizations (such as Consumer Reports) have on sales of a product which they have tested and evaluated: (Check one)
   ____ considerable  ____ very little  ____ none

Do you believe private testing organizations, such as Consumer Reports, provide a fair test of a product? yes ___ no ___

In terms of total sales of all products, how do you rank each of the following for your organization? (Check one)

<table>
<thead>
<tr>
<th>Product</th>
<th>Rank in Dollar Sales</th>
<th>Rank in Unit Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td>1 2 3 4 5 6</td>
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<td>tape recorder</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
<tr>
<td>console stereo</td>
<td>1 2 3 4 5 6</td>
<td>1 2 3 4 5 6</td>
</tr>
</tbody>
</table>
In terms of net profit (after all product, promotion, and distribution costs have been deducted) how do you rate each of the following products: (Please check)

<table>
<thead>
<tr>
<th>Product</th>
<th>Good</th>
<th>Marginal</th>
<th>Unprofitable</th>
</tr>
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</tr>
</tbody>
</table>

If any of the aforementioned products are unprofitable, why do you continue to stock and sell these products? (Check the following)

1. supplier requirements
2. to offer a full line
3. anticipate product to become profitable
4. use as price leader (or draw traffic)
5. please list other reasons

From the standpoint of unit sales (not dollars) in your stores, check the following products as to which are greater, imports or domestically produced lines.

<table>
<thead>
<tr>
<th>Product</th>
<th>Imports</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
</tbody>
</table>

Check the following products as to whether imports or domestically produced products produce a greater total contribution to profits of your firm.

<table>
<thead>
<tr>
<th>Product</th>
<th>Imports</th>
<th>Domestic</th>
<th>No Profit on Either</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
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</tr>
<tr>
<td>Product</td>
<td>Imports</td>
<td>Domestic</td>
<td>No Profit on Either</td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
<td>----------</td>
<td>---------------------</td>
</tr>
<tr>
<td>tape recorder</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>console stereo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>compact stereo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B &amp; W TV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>color TV</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Check here if you would desire a summary of the findings of this study.

Your name ___________________________ Title ___________________________

Company name _______________________________________________________

Street address ______________________________________________________

City ___________________________ State ___________________________ Zip ___________________________

Please return questionnaire to:

SAM HOUSTON STATE UNIVERSITY
ATTN: NELSON L. THORNTON
DEPARTMENT OF BUSINESS ADMINISTRATION
HUNTSVILLE, TEXAS 77340
APPENDIX E

DISSERTATION RESEARCH QUESTIONNAIRE

Check the nature of your business:

1. hotel-motel
2. apartment buildings
3. builder
4. service company
5. premium-promotion firm
6. mobile home manufacturer
7. other
8. other

From which of the following do you purchase the listed products:

<table>
<thead>
<tr>
<th>Product</th>
<th>Direct from manufacturer</th>
<th>Retailer</th>
<th>Independent wholesalers</th>
<th>Factory branch</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>radio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>phonograph</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>tape recorder</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>stereo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B &amp; W TV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>color TV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

List the brands you generally purchase in each of the following products:

radio
phonograph
tape recorder
stereo
B & W TV
color TV

Check the following types of products which make up your purchases:

1. products are regular line models of manufacturer
2. products are built to your specifications
3. products are special models for your type business
4. products are national brands
5. products are private brands
6. other
Approximately how many units in each of the following product lines did you purchase during 1970?

- radio
- phonograph
- tape recorder
- stereo
- B & W TV
- color TV

Check which of the following best describes your purchase price:

1. retail price
2. greater than retail price
3. wholesaler's price to retailers
4. wholesaler's cost from factory
5. less than wholesaler's cost from factory
6. other

Check how purchases are made:

1. one at a time
2. in a quantity (dozen, 100, carload)
3. special quotation given for quantity for delivery at one time
4. special quotation given for quantity for delivery as needed
5. other

Check how delivery of your purchases are made:

1. to one location
2. to choice of several locations
3. direct to customer

Check the following included in the price you pay:

1. parts warranty
2. labor warranty
3. incoming transportation
4. an advertising or promotion allowance

Do you have to report to your supplier where sales are made (other than the normal warranty card)? yes ___ no ___

Do you make sales to customers outside the normal nature of your business? yes ___ no ___

Do you make sales to regular retail dealers? yes ___ no ___
Firm name

Street address __________________________ City ____________

Your name ______________________________ Title __________________

NOTE: Should you have an extra set of price lists, or copy, please include it when you return this survey.

All information is confidential and will be reviewed as totals.

________ Check here if you would desire a summary of the completed report.

Return forms to:
SAM HOUSTON STATE UNIVERSITY
ATTN: NELSON L. THORNTON
DEPARTMENT OF BUSINESS ADMINISTRATION
HUNTSVILLE, TEXAS 77340
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