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Faculty Working Papers

The Foundation of Marketing Thought

**Fred H. Jones
University of Illinois**

**College of Commerce and Business Administration
University of Illinois at Urbana-Champaign**



FACULTY WORKING PAPERS

College of Commerce and Business Administration

University of Illinois at Urbana-Champaign

October 28, 1971

The Foundation of Marketing Thought

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No. 32

1. Report of the Industrial Commission on the Distribution of Farm Products, prepared by Fred H. Jones, University of Illinois, Urbana-Champaign, 1934. 100 pp. This volume was prepared under the direction of John Franklin Crowell, the former of which is dated January 22, 1934.

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by

Fred M. Jones

There have been concepts of marketing since the recognition of private property as a desirable institution, but modern marketing thought can be identified as beginning about the opening of the twentieth century. In the first two decades the framework for the thought that was to come later was constructed.

The Meaning of Marketing

At the opening of the twentieth century the United States was emerging as a modern industrial nation, but yet about three of every eight workers were employed in agriculture. Many in other occupations were recently from the farms and were interested in or sympathetic to the problems of the farmer. There was considerable question about the justification of the middleman. The farmers were aware of the prices they received in the local market as well as farther along the trade the trade channel and they were greatly concerned about the difference. Many consumers were also keenly aware of the difference between what they paid in a retail store and the price that was paid to the farmer. All this concern was sufficient to have the marketing of farm products included in the trust investigation that was made at the opening of the century.

The Report on the Distribution of Farm Products appeared in 1901 as the sixth volume of the Industrial Commission's report and the back edge of the volume bears the title Distribution and Marketing of Farm Products. The

1. Report of the Industrial Commission on the Distribution of Farm Products. Volume VI of the Commission's Reports. Washington, D. C.: Government Printing Office, 1901. 508 pp. This volume was prepared under the direction of John Franklin Crowell. His letter of submittal is dated January 11, 1901.

early university teachers of marketing familiarized themselves with this volume and those who wrote on the marketing of agricultural products included it in their bibliographies. This report, however, was not the first publication to use the word "marketing" to indicate its contents. Frederick Bartlett Coddard, formerly editor of the New York Market Journal, published in 1887 a 64 page booklet that contained the word "marketing" in its title, but the word was not used in its modern context. The booklet was intended to aid the housekeeper in her purchase of meats and vegetables. This was the common connotation of the term "marketing" at that time, a connotation that the term retained for the layman far into the twentieth century.

The object of the Report of the Industrial Commission was twofold: "first, to describe the distributive system by which these products are handled from producers to consumers; and, secondly, to determine as far as practicable the share of the consumer's price which goes respectively to producers and distributors, at any given time and place, in marketing any particular species of farm product."² With respect to the first objective, the Report made an important contribution since no comprehensive volume had previously appeared that described the marketing of farm products. With respect to the second objective, the Report presented in a workmanlike way what was subsequently done in similar reports dealing with the subject.

The Report defines neither "marketing" nor "distribution," but it does define "commerce" to mean "two main movements. First, the distribution of the raw materials of rural industry from producer to consumer. The other division of commercial activity concerns itself with carrying manufactured goods back to the producer of farm products, in which case the farm household becomes the consuming institution."³ It was further stated that the word

2. Ibid., p. 5.

3. Ibid., p. 24.

commerce is being defined "for our purpose" and that "this inquiry is concerned with that part of the process which is taken up with the disposal of the surplus products of the farm. . . ."

The next volume to deal with the marketing of agricultural products appeared in 1915. This book was Agricultural Commerce by Grover G. Huebner and it was especially prepared to serve as a textbook for courses in colleges and universities. Huebner could easily have given his book the title "The Marketing of Agricultural Products" or some similar title, but since he used the word "commerce" as a principal word in the title, he had a problem with terms. He was aware of the terms "distribution," "commercial distribution," and "marketing," but he settled on commerce and borrowed his definition from a colleague, Emory R. Johnson. This borrowed definition was, "Commerce consists of the exchange of commodities between separated localities--it is the agency by which the consumer and the producer are brought together. The process involves the sale and purchase of goods, their transportation from the seller to the buyer, and the settlement of business accounts." Johnson's definition of commerce had appeared in his American Railway Transportation in 1908.

While Huebner was working on his book L. D. H. Weld was preparing one that he gave the title of The Marketing of Farm Products. Although Weld was not hesitant in using the word "marketing" in the title, he was circumspect in defining marketing, and does not formally define the term. He said that the purpose of his book was "to set forth the fundamental principles of market distribution as applied to the marketing of agricultural products." At another point he said that "marketing implies both selling and buying," but nowhere does he give a formal definition of marketing. He

4. Grover G. Huebner, Agricultural Commerce. New York: D. Appleton and Company, 1915, p. 2.

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said, "Because of the various meanings of the word 'distribution,' it might be better to avoid the use of the term altogether in referring to the subject with which this book deals." ⁵ The reason that Weld wished to avoid the term "distribution" was because economic theorists were using the term with reference to the division of income among the factors of production and confusion resulted when the term was used in marketing.

In 1910, Ralph Starr Butler was given the responsibility for developing courses in business in the Extension Division of the University of Wisconsin. In the first assignment of a course with the title of "Sales, Purchase and Shipping Methods," Butler said, "It is the purpose of this and succeeding assignments to outline the selling field and suggest plans for the organization and management of the interests devoted to marketing." ⁶ The material in these lessons was expanded and appeared as Part II, "Selling and Buying," in Volume 2 of Modern Business, published by the Alexander Hamilton Institute in 1911. The editor of the series, Joseph French Johnson, said, "The three separate treatises in this volume discuss three phases of one subject, the subject of marketing. . . . It is hoped that this volume will play its part in clarifying and making more generally known the laws, or principles, which underlie successful marketing." ⁷ Apparently, Johnson understood the word marketing to have a broad meaning and he was using it in a general sense without an agricultural connotation. Butler also used the word in his text, but he does not offer a definition of marketing and entitles his first chapter "Factors in Distribution."

In 1914, Butler's material appeared as Part I, "Marketing Methods," in Volume 3 of Modern Business. In this volume he was presenting the campaign

5. L. D. H. Weld, The Marketing of Farm Products. New York: The Macmillan Company, 1916, p. 4. The preface is dated November, 1915.

6. Ralph Starr Butler, Sales, Purchase and Shipping Methods. Instruction papers for home study. Commercial education series. Course 153. University Extension Division. University of Wisconsin, Madison, 1911. Microfilm copy (negative) of typescript made by the University of Illinois Library in 1952. Collation of the original. 208 pp.

7. Op. cit., pp. v, vi.

concept and said:

There is no name in general use to indicate those activities that are included in the complete campaign. The word "selling" properly includes everything that is done by the man who has anything to dispose of in a commercial way. In general practice, however, this word is quite frequently restricted in its meaning so that it applies only to personal salesmanship. In its stead the word "marketing" is gradually coming into popular use to apply generally to the distributing campaign. It is the word that we shall usually employ. Marketing methods, in a sense, are inclusive of everything that is done to influence sales.

Six years later, when Cherington published The Elements of Marketing, uncertainty as to what term to use still existed. Cherington said that there was no really good word for designating the process of distributing goods. He rejected the terms "selling, buying, and merchandise distribution," and he found the term "marketing" not wholly satisfactory because of its unfortunate connotation of provisioning a household.

The same year, 1920, that Cherington's book appeared a book by Carson Samuel Duncan was published with the one word title of Marketing. Duncan divided his book into two major parts the first of which dealt with the marketing of raw materials and the second with manufactured products. He attempted thus to meet the problem of handling the marketing of agricultural products and manufactured products in the same book.

Duncan, like Cherington, was not entirely satisfied with the word "marketing." He said that business organization is the general term for the entire system of production and distribution and that industrial organization deals with the manufacturing process while commercial organization had to do with the buying and selling process. The terms "marketing" and "merchandising" were most nearly synonymous with commercial organization, but the term "marketing" had a local and provincial meaning and merchandising, as he saw it, was synonymous with salesmanship. A study of commercial organization, therefore, was a study

8. Op. cit., p. 2.

9. Paul F. Cherington, The Elements of Marketing. New York: The Macmillan Company, 1920, p. 1.

of marketing problems and methods.

Business practice at the time was in support of Duncan's preference for the term "commercial organization" because it was common to refer to the department that was responsible for the distribution of the product as the commercial department. In 1918 he had published a book under the title Commercial Research which is easily recognized as a book on market research.

The Marketing Functions

After concern with the meaning of marketing a major problem for the early writers was the marketing functions. A. W. Shaw in 1912 was the first to deal with the problem. Shaw believed that production had outstripped the existing system of distribution. He viewed methods of distribution in historical stages where the producer in the medieval period sells directly to the consumers. As the market widens, a division of labor is necessary, and the handierftsman no longer concerns himself with selling but becomes in many cases practically an employee of a merchant-retailer. This concept was the basis for analyzing the functions performed by middlemen which, as Shaw saw them, were:

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|------------------------------|---|----|
| 1. Sharing the risk. | 4. Selling (communication of ideas | |
| 2. Transporting the goods. | about the goods). | 11 |
| 3. Financing the operations. | 5. Assembling, assorting, and reshipping. | |

Shaw does not offer his functions as marketing functions. He identifies activities that are performed by middlemen which producers in the earliest stages of economic development perform for themselves. He understood that the activities which he labeled functions of middlemen were performed by

10. Carson Samuel Duncan, Marketing. New York: D. Appleton and Company, 1920, pp. 1-2.

11. A. W. Shaw, "Some Problems in Market Distribution." Quarterly Journal of Economics, Vol. XXVI (November, 1911--August, 1912), p. 731.

both producers and middlemen, but being influenced by a question of the day, namely, the elimination of the middleman, the activities are called functions of middlemen rather than marketing functions. In 1915, Shaw classified business activities into production, distribution, and facilitating activities. The facilitating activities aided and supplemented the production and distribution activities and included financing, credits and collections, purchasing, employment, accounting and auditing, records and statistics, and office management.¹²

Weld knew of Shaw's article, since he included it in his bibliography, and he made use of the concept of functions in discussing middlemen with particular reference to the wholesale produce trade.¹³ Weld did not simply restate Shaw's functions but summarized functions on the basis of his observation of activities in the produce trade. He saw eight functions being performed by wholesale middlemen which were:

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| 1. Establishing business connections with country shippers, often through personal solicitation. | 5. Deliver. |
| 2. Storing. | 6. Finance. |
| 3. Sorting and repacking. | 7. Regulate flow of commodities among markets. |
| 4. Study needs of retail trade and establish business connections through personal solicitation. | 8. Accounting. |

Weld did not specifically name risking as one of the functions performed by wholesale middlemen, but he did say that risk of gain or loss through price fluctuations or through other unforeseen circumstances is always present in every business.¹⁴ Weld did agree with Shaw on financing,

12. A. W. Shaw, Some Problems In Market Distribution. Cambridge, Mass.: Harvard University Press, 1915, pp. 7-23. This was a reprint of his 1912 article with the addition of an introductory chapter on the "Nature and Relation of Business Activities." This publication was reprinted in 1951.

13. Weld, Marketing of Farm Products, pp. 61-62.

14. Ibid., p. 337.

but Weld does not specifically name selling as a function as does Shaw. Weld did name the three bases on which a sale could be made and these had been discussed by Shaw. ¹⁵ These were on the basis of the goods themselves, by sample, and by description.

In 1917, Weld addressed himself specifically to the subject of marketing functions in an article in the American Economic Review. He had considered Shaw's discussion of functions and noted that "the services that must be performed in getting commodities from producer to consumer are usually called the 'function of middlemen'" but he would refer to them as marketing functions since these services were not performed exclusively by middlemen. ¹⁶ They were also performed by producers and consumers. The services performed in the marketing process were assembling, storing, assumption of risks, financing, rearrangement, selling, and transportation. Every item in the detailed expense account of a merchant or the selling organization of a manufacturer could be classified under one of the seven functions except accounting and office management which Shaw had called facilitating functions. These, however, were purely incidental to the seven primary functions and were assignable to or incurred in connection with the seven primary functions.

According to Shaw, assembling, assorting, and re-shipping of goods was done by middlemen to make the goods physically available to consumers so that an aroused demand could be gratified. He did not say that these were physical acts. He did say that "these functions render the goods physically available to consumers." ¹⁷ Shaw might have meant both the making of decisions

15. Ibid., p. 42; Shaw, Q. J. E., Vol. XXVI, pp. 721-722.

16. L. D. H. Weld, "Marketing Functions and Mercantile Organization." American Economic Review, Vol. VII (June, 1917), p. 306.

17. Shaw (1916), p. 83.

and the performance of physical acts. Weld was specific and said, "The term 'assembling,' as used here, does not mean the actual physical transportation of commodities from one place to another, but rather the seeking out of sources, the making of business connections whereby commodities may be bought, and the study of market conditions so that they may be bought at the lowest price possible. Assembling therefore involves all the services connected with buying."¹⁸ Rearrangement of commodities involved sorting, grading, breaking up large quantities into small lots, packing, and the like.

Thus, essentially what Weld added to his concept of functions, as performed by wholesalers in the produce trade, was his concept of assembling. He also pointed out that the "services" were marketing functions and that their performance was not confined to middlemen. His functions were what he had observed in agricultural marketing and he was now attempting to generalize them and apply them to manufactured goods as well.

Duncan, as did Shaw, took a historical view in setting forth his concept of functions. As the market widened, there was a tendency to specialize. In simpler times, a business man combined the capacities of manufacturer, financier, carrier, warehouseman, wholesaler, retailer, and risk taker, but with the growth of the market there had developed functionalized middlemen such as railroad men, insurance men, wholesalers, retailers, and bankers who specialized in a phase of business. There were economic activities for certain well-defined economic ends called functions and one could speak of the functions of a wholesaler, of a retailer, and of a credit manager.¹⁹ The functions of a wholesaler were:

¹⁸. Weld, A. E. R., Vol. VII, p. 307.

¹⁹. C. S. Duncan, Marketing, pp. 6-7.

1. Concentration of goods.
2. Sorting.
3. Grading.
4. Combining goods into lots
5. Financing.

At a later point he turns to the discussion of functions by Westerfield and deduces from that discussion the functions of transportation, warehousing, speculation, communication, buying, and selling. He then takes up Weld's 1917 discussion and objects to Weld's concepts of assembling and re-arrangement. Assembling "does not at once convey to the mind the fact that it 'involves all the services connected with buying.' Nor does the significance of 'rearrangement' make itself immediately intelligible. As a matter of fact it 'involves sorting, grading, breaking up large quantities into small units, packing, etc.'" He proposes to define the most important types of middlemen and to describe their functions. Immediately he begins a discussion of the transportation function, organized exchanges, the warehousing industry, commercial grading and inspection of commodities, market news, market price, and financing. He specifically states that market news and market price are functions and he leaves no doubt that he considers the the other topics to be "functions."

Although Duncan does not accept Weld's concept of assembling and does not directly discuss a concept of assembling, he does point out that it is a function of the wholesaler "to collect goods in relatively small quantities from a great variety of sources." This, however, he calls the process of concentration and farther along said, "The primary market is a concentration point, where commodities are assembled in small lots, for carload or boatload shipment." The use of the word "assembled" in this statement called for

20. Ibid., p. 63; Ray Bert Westerfield, Middlemen in English Business. New Haven: Yale University Press, 1915, p. 349.

21. Duncan, Marketing, p. 64.

22. Ibid., pp. 7, 44.

an explanation of how concentration differed from assembling, but no such explanation was given.

Duncan was familiar with the writings of P. T. Cherington, especially his book on the wool industry, but apparently Cherington's The Elements of Marketing came out too late in 1920 for Duncan to take note of Cherington's concept of functions. Cherington's The Wool Industry had appeared in 1916, but much of his material on the wool merchant had appeared in 1911 in an article in the Quarterly Journal of Economics. In this article Cherington names purchasing, assembling, grading, storing, and financing as functions of the eastern wool merchant. ²³ When Cherington's The Elements of Marketing appeared he had published two volumes of readings on advertising and he showed his appreciation of the selling function in his new book. The essential activity of the whole marketing process was to bring buyers and sellers together in a trading mood. The establishment of this contact was the indispensable activity of the marketing process. All the other activities, whatever they might be, were supplementary to this. ²⁴ Functions could be classified into merchandise, auxiliary, and sales functions. The merchandise functions were assembling, grading, storing, and moving while the auxiliary functions were financing and the assumption of risk.

Assembling meant to Cherington the converse of disbursement and its purpose was "to adjust the lack of balance which occurs in regard to the quantity of merchandise offered for sale and sought for purchase." It was important because the unit of economical production and convenient consumption

23. Paul T. Cherington, "Some Aspects of the Wool Trade of the United States." Quarterly Journal of Economics, Vol. XXV (November, 1910--August, 1911), pp. 347-348.

24. Cherington, Elements of Marketing, p. 9.

were seldom the same and neither of these were necessarily suitable as units for transportation. It was also important because it brought together diverse kinds of merchandise for easy and profitable purchase and sale. Assembling was closely allied with the functions of grading, storing, and moving. As Cherington saw it, assembling was a function of physical supply. It was not a synonym for buying.

Cherington saw differences in marketing different kinds of commodities and he classified them into three major classes on the basis of the character of the final sale. These classes were raw material, productive equipment, and goods for household consumption. He then presented an outline of the field of marketing in which he incorporated his commodity classification, functions, and different kinds of contact, namely, direct, indirect, and artificial contact. He had reservations, however, about his presentation and said

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"this schedule is defective" and many of its features "must remain obscure."

Cherington could have advanced his concept if he had given more consideration to the thought he expressed when he said, "The increased complexity of modern marketing methods is not due to any change in the inherent nature of the elemental task of marketing, namely, effecting a change in the ownership of merchandise." ²⁶ If it was essential to marketing that a change in ownership be effected, then certain elemental actions that would bring about this change must be performed. Cherington did not say what these elemental actions were that must be performed. This could have led him to consider that some of the "supplementary tasks not necessary until recently" were new techniques for performing ancient and universal acts.

25. *Ibid.*, pp. 27, 28.

26. *Ibid.*, pp. 5, 6.

The Selling Process

Either by direct statement or by implication the early writers included selling in their concept of marketing. There is, of course, no buying without selling and there is no marketing without buying and selling. In the 1880's, when more products were appearing that required greater efficiency in selling, study of the selling process was stimulated. An early attempt at improving the efficiency of salesmen was made in 1878 by W. C. King.²⁷ In the training of salesmen King planned the sales presentation "on the three cardinal principles: Approach, Interest, Decision." In 1889, Frederick Bartlett Goddard believed "that the purpose of any selling agency was to attract attention, interest customers, convince them, and so awaken their desire for goods."²⁸ In 1898, E. St. Elmo Lewis was teaching a course in advertising in Philadelphia and he believed that an advertisement should "attract attention, maintain interest, and create desire." Later he added "get action" as the final stage.²⁹ He credited the psychology of William James for being the source of his concept.

At the turn of the century psychologists were giving increased attention to the selling process. In 1900, Harlow Gale began conducting experiments for the purpose of determining the power of advertisements to attract attention and persuade to buy.³⁰ He reported what content and physical characteristics of advertisements attracted attention most and what least as well as what features seemed to be the strongest and weakest in inducing people to buy, taking into consideration differences in sex. Walter Dill Scott, Director of the Psychological

27. James Samuel Knox, The Science and Art of Selling. Cleveland: Knox Business-Book Company, 1921, p. 321.

28. Stanley Le Pevre Krebs, Retail Salesmanship. Second Course of the Institute of Mercantile Art. Copyright by the author, 1911. No place given. Vol. III. The Five Mental States, p. 29.

29. E. K. Strong, Jr., The Psychology of Selling and Advertising. New York: The Macmillan Company, 1925, p. 9.

30. Harlow Gale, Psychological Studies. Published by the author. Minneapolis, Minnesota, 1900, p. 39.

Laboratory of Northwestern University, was conducting experiments on the power of advertisements to attract attention at about the same time as was Gale. Scott's The Theory of Advertising was published in October, 1903, but most of the chapters had appeared between April, 1902 and March, 1903 in Mahin's Magazine under the title of "The Psychology of Advertising." ³¹ Neither Scott nor Gale, however, set forth the selling process by steps although both were concerned with how advertisements could bring about action.

Others continued to develop the step concept of the selling process. A. F. Sheldon in the period 1902 to 1907 was dividing the selling process into the five steps of favorable attention, interest, desire, action, and permanent ³² satisfaction. Krebs (1911) had the five steps of attention, interest, ³³ confidence, desire, and decision. These constituted his universal law of sale. Samuel Roland Hall (1909) saw the steps in the selling process as the functions of an advertisement. These functions were attract favorable attention and awaken interest, create desire, carry conviction, inspire confidence, and ³⁴ influence the reader to buy. The creation of desire could be accomplished by appealing to the five senses as well as to the emotions of the reader. He and other writers on the selling process were familiar with the contemporary literature of psychology and were using the various theories of that area as the basis for their concepts of the selling process. One of these other writers was Harold Whitehead who in his Principles of Salesmanship discussed the motives ³⁵ behind buying before he discussed attention, interest, desire, and action.

31. Walter Bill Scott, The Theory Advertising. Boston: Small, Maynard & Company, 1903, p. vii.

32. Krebs, op. cit., p. 30; Strong, op. cit., p. 9; Arthur Frederick Sheldon, The Art of Selling. Libertyville, Ill.: The Sheldon University Press, 1911, p. 28.

33. Krebs, op. cit., pp. 21-25.

34. International Library of Technology. Scranton, Pa.: International Textbook Company, 1909. Vol. I, p. 23.

35. Harold Whitehead, Principles of Salesmanship. New York: The Ronald Press Company, 1917, Chs. II, V.

Summary and Evaluation

The early modern writers on marketing were uncertain as to what term to apply to their area. The word "distribution" was sometimes used, but those writers who had studied economic theory preferred to avoid the word because economic theorists used it in discussing the division of income among the factors of production. The word "commerce" was used by only one writer, but another seems to have been tempted. The terms "selling" and "buying" were used by still another writer, but later abandoned. The term "marketing" was objected to because of its agricultural and provincial connotation, but it was used.

A problem that concerned Weld and Butler was the place of marketing in contemporary economic theory. Weld saw production as the creation of form, time, place, and possession utilities, and marketing created all but form utility.³⁶ Possession utility was created when goods were exchanged, but Weld offered no explanation of just how possession utility came into being. In 1917, when Butler's Marketing Methods first appeared as a separate volume,³⁷ he identified elementary, form, time, and place utility. Middlemen created place and time utility when they brought things from the place where they were produced to the place where they were needed and put them at the disposal of consumers at the time when they were needed. He does not name possession utility

The passing of title to and the making of payment are fundamental to the marketing process and to the institution of private property. These legal concepts are established by society as a whole, and they must be complied with or no market ever exists. The marketing process would not occur without

36. Weld, Marketing of Farm Products, pp. 5-6.

37. Ralph Starr Butler, Marketing Methods. New York: Alexander Hamilton Institute, 1917, pp. 19-20.

these acts being performed in some manner, but of themselves they do not create utility. They are necessary for the transfer of utilities so that more utilities can be created, or so that consumption can occur with the approval of society.

A useful concept in explaining marketing was the concept of functions. This concept apparently came to Shaw, Cherington, and Duncan as a result of their study of the history of marketing and there was some agreement among them as to what were these functions. The approach of these men was empirical rather than by the route of penetrating analysis subjected to rigorous logic. Shaw was first a businessman as was Cherington and consequently their concepts reflected their experience. Duncan apparently considered the function concept of some importance but not fundamental to his discussion. Shaw, , and Duncan were concerned with the functions performed by middlemen. Thus, they were reflecting an ancient question, the question of the justification of the middleman. Cherington, as did Weld in 1917, understood functions to have a wider application and the titles of several chapters in his Elements of Marketing contain the name of a functions or the word function.

None of the early writers, however, applied the concept of functions to the marketing of services. None even discussed the marketing of services. Marketing to them meant the marketing of manufactured or farm commodities. They saw different functions being performed by different functionaries, but apparently it did not occur to them that some of the functionaries such as banks, insurance companies, and advertising agencies were marketing services. Their analyses did not carry them to the point where they raised the question of the universality of the functions. It does not seem to have

occurred to them that what they were identifying as a different function as performed by different kinds of functionaries in the marketing of different kinds of commodities could have been a different way of performing some elemental or basic function.

During the period 1900 to 1920 much writing was done by those actively engaged in advertising or in personal selling, or by those who had been so engaged and had taken a position on the faculties of newly formed colleges of commerce, or in departments recently formed to offer a business curriculum. Those engaged in business were interested in describing how it was done which was what their students wanted to know. Prospective employers were interested in what the college graduate could do immediately or what they could do with a minimum of training on the part of the employer. Consequently, the writings of the faculty members were descriptive and highly flavored with how-to-do-it.

There were those who were interested in developing a theory of the selling process and since the process is something that occurs partially in the mind of the buyer, it was logical to look to contemporary psychological theory for aid. The psychologists, with the exception of Gale and Scott, however, gave the writers no direct help. It was up to the business writers to apply the psychological theories to selling. This they did by developing a concept of the selling process that in its complete statement had the five steps of attention, interest, desire, confidence, and action. To explain how to activate the process, the business writers drew on the psychologists' theories of instincts and motives.

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