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Factors Which Caused Changes in the Marketing Practices of the Sutherland Paper Company in the Period 1950-1960

Leslie C. Eaton

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FACTORS WHICH CAUSED CHANGES
IN THE MARKETING PRACTICES OF THE
SUTHERLAND PAPER COMPANY
IN THE PERIOD
1950-1960

by

Leslie C. Eaton

A thesis presented to the
Faculty of the School of Graduate
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of the
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INTRODUCTION

The purpose of this paper is to examine and discuss changes in the marketing practices of the Sutherland Paper Company during the period from 1950 to 1960.

In order to examine and discuss the changes which have taken place it is necessary to examine the history of the Boxboard Industry and the Company to set the scene in its proper perspective.

Folding cartons have become very much a part of our lives, our culture, so that they are quite taken for granted much as we take our use of electricity or running water for granted.¹

In their daily lives most Americans come in contact with cartons made of paperboard yet most of them do not pause to wonder how it all came about. If we could stand to one side and observe our daily lives we would probably be quite astonished at our dependence on the folding carton. From our breakfast cereal in the morning to the ice cream for dessert after dinner Americans have their hands on folding cartons of one sort

¹Folding Paper Box Association of America, The Folding Carton, (Chicago: Folding Paper Box Association, 1950), p. 1.

or another. This is the result of the constantly changing facets of our marketing oriented economy.

Let us examine the reasons for the constantly increasing use of the folding carton. The increasing use of the folding carton denotes its overwhelming acceptance by business and the consumer.

First of all, the folding carton protects and assures the uniform quality of the product it carries. When a producer puts his brand name on a carton he knows he must maintain a high standard of quality in order to maintain or increase the market for his product.²

Not only does the folding carton protect its product, it also guards the consumer against substitutes.

In addition, the folding carton assures an honest measure. The package is a testimonial of cleanliness whenever that attribute is important to keep the product in a sanitary condition.³

Finally, the folding carton is convenient and, above all, inexpensive.⁴

²Ibid.

³Ibid.

⁴Ibid.

CHAPTER I

HISTORICAL DEVELOPMENT

History of the Folding Box Industry

All of the early history of paperboard, in development of its widespread use for containers, is not known. The first boards appear to have been used in Rome in the late fifteenth century and consisted of sheets of scrap paper pasted together in printing plants to form book boards. In the late eighteenth century paperboards were made by hand, using pulped rag stock and forming the boards by pouring the pulp in hand molds; the sheet was then drawn from the mold and dried in the sunshine.

Rags formed the basis of paperboard and paper manufacture until 1827 when William Magaw, of Meadville, Pennsylvania, developed the first successful method of pulping straw.¹

There were four methods discovered for pulping wood.² The first of these was groundwood pulping developed in 1840 by Friedrich Gottlob Keller, a German. Soda Pulp-

¹Walter Stearn, The Package Engineering Handbook, (Chicago: Board Products Publishing Co., 1952), p. 108.

²Ibid.

ing was patented in 1852 by Hugh Burgess in England. Sulphite pulping was patented in 1856 by Richard Tilghman of Manayunk, Pennsylvania. Last but not least of the pulping processes, Sulphate pulping, was developed in 1883 by D. F. Dahl of Danzig.

Mechanical paperboard production started in 1831, when George A. Shryock started to produce strawboard on a single cylinder board machine near Chambersburg, Pennsylvania. This company also installed the first multi-cylinder machine for paperboard in 1870.³ The Fourdrinier machine, patented in 1799 by Nicholas-Louis Robert, a Frenchman, for making paper, was first used on chipboard in 1904 by the Schmidt & Ault Paper Co., York, Pennsylvania. However, the most important employment of the Fourdrinier in board production did not occur until 1927, when the Brown Paper Mill Co. established the first Fourdrinier Kraft board mill at Monroe, La.⁴

The development of board grades followed development of raw materials and machines, progressing from the rag stock, hand-made boards to Fourdrinier Krafted liners in 1927.

Handmade boxes of the set-up type first appeared in

³Ibid.

⁴Ibid., p. 109.

England and the eastern United States in the late 18th Century.⁵ These early boxes were for confectionary, jewelry, hats, and for holding ladies' beadwork. These early boxes were formed by hand over wood blocks, which later acted as patterns for the desired shape of the box. Seams were ordinarily sewn together. The boxes were then covered with fancy papers, generally French wallpapers.

Commercial development of the set-up box, the granddaddy of all paperboard boxes, started in 1839 (following the development of machine made board), when Aaron L. Dennison a jeweler and a brother of the founder of the present Dennison Manufacturing Co., made set-up boxes in his jeweler's shop at Boston.

A jeweler's shop was a logical place to begin the packaging of goods. The set-up box, when compared to the product, was relatively inexpensive. In fact the cost was negligible in the packaging of jewelry. The concept that the package should not be more than a small fraction of the final cost of the product is a basic tenet of the Folding Carton Industry. In the early 1800's only the well to do could afford to buy jewelry. The package made it easy to display and to transport the pro-

⁵Ibid.

duct and was probably a mark of status in that it was known that jewelry was packaged in such a unique way. Also the package furnished protection for the product while it was on the shelf or in the showcase.

Another consideration in the jeweler's packaging of his product was the fact that the jeweler had the skill and the time to hand make the package. The package thus became an advertisement proclaiming the skill of the jeweler and the quality of his products. The same marketing purposes are met by the most modern packages.

The father of Mr. Dennison invented the first corner-cutter and scorer for set-up boxes. Most of the other equipment for set-up boxes (shear, strippers, single and double scorers, enders, covering machines, and single and quad stayers) were developed in the period from 1845 to about 1908. In the meantime, the styles developed, resulting in the wide line of boxes available today.⁶

From 1850 to 1879 many companies entered the production field of folding boxes for retail shops, florists, milliners and clothing stores in the East, including Robert Gair at New York City.⁷ This surge in the folding carton industry was brought about by the Industrial Revolution and the attendant migration of a burgeoning

⁶Ibid.

⁷Ibid.

population. This migration took many people away from the large centers of manufacturing along the Eastern seaboard thereby requiring the manufactured goods to be transported to the consumer instead of his picking them up at the place of manufacture. Boxes furnished protection, easy handling, and identification for the product within. With increased production of consumer goods as a result of the Industrial Revolution the entire process of distribution was altered by the very significant contribution of the folding box to mass marketing.

Mass production of folding cartons was accidental.⁸ In the small New York factory which a Scotsman, Robert Gair, had established for making paper products, a machinist allowed a metal rule on his printing press to stand up a little too high. It cut neat but ruinous slits through several thousand paper seed bags before the mistake was discovered. Instead of discharging the man in a rage, Robert Gair deliberately, experimentally raised a whole pattern of metal strips to high and saw his press cut out the perfect pattern of a folding carton.⁹

The mistake so imaginatively exploited put an end to the old methods of making folding cartons. A device combining high metal strips, some sharpened for cutting, some dulled merely to crease the paper, reduced two

⁸Robert Gair Company, Inc., Gair Today, (New York: Robert Gair Company, Inc., 1953) p. 5.

⁹Ibid.

basic jobs in the making of folding cartons to a single operation and pointed the way to mass mechanical manufacture. On that day in 1879, a great change began in the buying habits of Americans.

The mechanical cutting of cartons was but the first step in the revolution in packaging. The second step was the invention of the automatic gluer by Mr. Elie W. Labombarde of Nashua, New Hampshire. The first gluer was tested in the plant of Munson and Company, New Haven, Connecticut and produced as many cartons in one hour as the girls produced in ten hours.

Mr. Munson declared, "Mr. Labombarde your invention is too good. One machine will make all the folding cartons used in the country."

"With my machine, you can cut prices in half and still make a good profit. If you reduce your prices more people will use your cartons to package more products," Mr. Labombarde replied.¹⁰

By 1951 the American people were using more than 300,000,000 paperboard containers of one sort or another every day, for packaging and protecting a tremendous variety of goods and products.¹¹ This came about because

¹⁰ Fifty Years of Progress: The First Half Century of Growth of the International Paper Box Machine Co., (Nashua, New Hampshire: International Paper Box Machine Company, 1953), p. 17.

¹¹ Ibid.

people became familiar with packaging during World War II. Paperboard Cartons were used under many varied and difficult conditions and proved their worth.

People became familiar with packaging for everything from "C" Rations to ammunition and came to trust the protective qualities of paperboard cartons. When the war was over many manufacturers who had equipped their plants with packaging machinery for the war effort did what was natural and began packaging peacetime products in cartons. An astonishing variety of articles formerly packed in tin and wood or crated in lumber now travel with paperboard protection. The feasibility of transporting everything from food to spare parts in paperboard cartons was proved during World War II.

Not only did the carton protect the contents it did so at a great saving in weight in relation to wood or other packaging material. In wartime a saving in weight means more material can be carried in a ship and in peacetime more goods can be carried via truck, train, or ship at the same cost. This saving in costs of transportation, which can be considerable, enables the civilian economy to market goods at a lower price thus benefiting the consumer through lower prices.

One other effect of packaging during the war was the fact that people came to trust the labeling on the pack-

age. This trust carried over after the war and the development of the supermarket was an outgrowth of the consumer's faith in the labeling as to contents as well as the protection afforded the contents.

During the war people became accustomed to the convenience of the paperboard carton and demanded it for more and more of the goods they purchased. The supermarket was a development based on the growth of the consumer's faith in packaging. Packaging foods in cartons made it easy for the store owners to display products in smaller areas for the same amount of food as before. This ability of cartons to move greater amounts of food-stuffs from the same floor area cut the cost of operation. The cutting of the costs of transportation and handling at the supermarket level enabled the store owners to offer food at considerable savings over previous methods of distribution.

New marketing techniques were developed to promote consumer interest in economical and safe packaging. Samples of products were given away in miniature cartons to introduce new products or promote familiar products that had changed to paperboard packaging. Cereal cartons, especially, were printed so that they could be used as toys after the product was used. Some manufacturers enclosed premiums in their packages, others offered special deals such as two for the price of one, or cents

off deals, to invite the consumer's purchase. Where it was feasible some manufacturers gave out samples of their products at the point of purchase to generate interest in their products and to attract sales of those same products.

Manufacturers also engaged in co-operative advertising with retailers, supplied and set up large promotional displays in stores, and conducted direct mail advertising campaigns in selected marketing areas, as well as nationwide, with coupon offerings. Various contests for large cash or merchandise prizes were conducted frequently.

All of the ingenuity of the printing processes were enlisted to make the packages more appealing thus promoting impulse buying by the casual shopper. The consumer became the chief target of the Sociologist, the Psychologist, and the Market Researcher who were trying to find out what made the consumer buy as he did.

The reasons for all of this activity by the manufacturer and the distributors were that the consumer was demanding greater convenience in buying and using the products offered for sale on the market shelves. The consumer wasn't always sure about what he wanted but he was sure it had to be safe from contamination, convenient to use and to store on pantry shelves, and not be too expensive. The paper box did all these things very well indeed.

History of the Sutherland Paper Co.

In 1916 the Kalamazoo Carton Company was organized to produce waxed butter cartons and parchment paper for wrappers. The company was organized with a capitalization of \$10,000.00. During the first year stockholdings were increased to provide for future growth. In 1918 the company was succeeded by the Sutherland Paper Co. Mr. L. W. Sutherland and his brother Fred were the originators of the Kalamazoo Carton Co. and the major stockholders. L. W. Sutherland Sr. was President and Fred became Secretary-Treasurer of the new company. In 1920 capitalization was increased to \$500,000.00. In 1921 a new paperboard mill was placed in operation to supply the constantly increasing requirements of the converting mills.¹²

During the next six and one half years the company expanded its operations by selling its equipment for making parchment paper to the Kalamazoo Vegetable Parchment Co.¹³ This made 30,000 square feet of manufacturing space available for manufacture of butter cartons at the rate of 1½ million daily or 450 million yearly.¹⁴ Butter cartons became, at this time, the only product of the company.

¹²Kalamazoo Public Library. History of the Paper Industry in Kalamazoo. (Scrap Books), II, 17.

¹³Ibid.

¹⁴Ibid.

The concentration on serving the expanding dairy industry was brought about by the new packaging needs of this growing industry. The passage of laws requiring pasteurization of dairy products to protect the public health and laws governing weights and measures made it necessary for dairies to purchase expensive equipment to comply with the laws. In order to continue the protection given to butter by pasteurization a package was now necessary and with it packaging machinery.

Financing new equipment required the expansion of markets and in this expansion the less efficient small producer lost out to the larger creameries who could bring all the benefits of economy of scale to bear in the marketplace.

The new printed carton not only protected the product but also made it easier to handle in the manufacturing process as well as in the retail outlet. In addition to protection and easier handling, which means lower costs, the carton showed the weight and name of the producer. By showing the name or brand of the producer the carton helped to gain repeat business for the product and if the product was not satisfactory it led to loss of business for the branded product. In this manner the consumer was protected, not only in his health but also in his pocketbook.

Additional space was added to existing facilities to handle the increasing requirements of the business.¹⁵ The first floor front was used as office space and on the second floor a welfare hall was installed. In this hall hot lunches were served, motion pictures were programmed three times weekly, and a victrola was secured to furnish music for dancing.

Land to the south of the plant, and adjoining, was acquired to be used as a park by employees and nearby residents.¹⁶

The Company's second period began with the merger of the Standard Paper Co. and the Sutherland Paper Co. One share of Sutherland stock was traded for one share of Standard stock. At the same time authorization was given for an increase in capital to \$3,000,000.00. The merged companies employed a total of 750 persons. Prior to the merger Standard had made dry cartons (untreated) and Sutherland made waxed cartons.¹⁷

From a marketing standpoint the merger was logical in that their products complemented each other. Also, each company realized that it had to diversify its efforts from manufacturing and marketing standpoints.

With diversification the new company could meet changing business conditions in any of its marketing

¹⁵ Ibid., p. 18.

¹⁶ Ibid., p. 21.

¹⁷ Ibid.

areas. One marketing organization would be better able to market the products manufactured and with less expense thereby making a substantial contribution to the profits of the new company. Of course, this meant that the sales force had to learn about new products and markets. This was necessary in order for the sales force to be better able to represent the company in new markets. Territories were realigned so that each salesman had a smaller geographical area but one with a larger potential market for cartons. Some regional sales managers reverted to selling and some left the company when their responsibilities were combined. One General Sales Manager took over the duties for the new company where two had formerly functioned before the merger.

In 1930 two board mills and two carton plants were being operated producing and converting 270 tons of paper-board daily. These facilities were running at close to 100% of capacity. There were over 900 persons employed at this time.¹⁸

In 1932 the company showed a net loss on sales of \$4,003,841.00. This was brought about by the company absorbing the sum of \$233,762.00 in depreciation accounts which at the time exceeded two million dollars. The net loss was \$7,948.00. However, a \$0.10 dividend was declared by the company.¹⁹

¹⁸ Ibid., III, 14.

¹⁹ Ibid.

In 1933 the company went to a 40 hour week with a twenty percent wage increase for the employees. There were 1,100 employees at the beginning of 1934 and by the end of the year this figure had climbed to 1,200.²⁰

In September of 1934 a building of 50,000 square feet was purchased from the receivers of the American Signs Corp. In December of this same year a \$60,000.00 addition was made to the south of existing facilities, on the park area. This addition added 65,000 square feet of manufacturing space to what is now known as Division 5.

During the year 1934 the company became better known through exhibits at conventions of major users of paper packaging products.

In 1935 the assets of the Wisconsin National Fibre Can Co., of Cudahy, Wisconsin, were purchased for \$60,000.00. The equipment was moved to Kalamazoo, Michigan in March 1935 and gave employment to an additional 100 persons. This equipment occupied the old Sign Co. building.²¹

The Can Company was purchased for several reasons: (1) to add to the product mix, (2) it enabled the company to use more of the board from its own mills, (3) it enabled the company to compete more effectively by offering a more complete line of packaging to a wider market.

²⁰ Ibid., p. 17.

²¹ Ibid., IV, 1.

The company could now offer packages for dry products, dairy products (except milk), and for liquids.

In 1936 Sutherland bought the D'Arcy Spring Works property for \$25,000.00 so the 72,000 square feet of space could be utilized as additional warehouse space. In later years this property was converted into what is now the Administrative offices of the company.²²

In November of 1936 the company announced a cash bonus for the employees to be paid on December 23. For each employee with more than one year's service the bonus was \$25.00, for those with less than one year of service but with more than six months a bonus of \$10.00, and for those employees with less than six months of service \$5.00. At this time there were over 1300 persons employed.²³

In August 1937, to finance further expansion, 28,700 shares of stock were offered on the market at \$22.00 per share for a total of \$63,400.00. With this offer went an option to purchase 1/10th of a share at a future date. Present authorized total shares is 500,000 with only 287,000 shares outstanding. There were no preferred stocks or bonds outstanding at this time. Common stock was the sole security outstanding.²⁴

²²Ibid., p. 4.

²³Ibid.

²⁴Ibid., p. 7.

In 1939, as a result of long research, the company perfected and marketed a paper plate, trademarked "BAKE-A-PIE", for baking pies.²⁵

This development opened up the commercial bakers and consumers market for the company products and enabled commercial bakers to eliminate the use of metal pie tins and the attendant sanitation problems. For the consumer it was pointed out that the convenience of the "BAKE-A-PIE" plate was greater than the small cost of the plate. The plate was not marketed on convenience alone because it had been proved that pies baked 10-15% faster thus saving fuel and time, both of which are big factors in baking costs.²⁶

This development also broadened the company market for cartons in that the bakers who used the pie plate could then market them via the grocery shelves. The protective carton assured the consumer that the product was not contaminated and that he was getting the product of the same baker each time he purchased a pie with that baker's brand name on the carton.

The baker's market was broadened at the same time for now he was not restricted to those customers who could come to his shop. He could now reach out as far as economically possible for new customers

²⁵ Ibid., p. 10.

²⁶ Ibid.

The marketing implication for the grocer was the fact that he could sell more pie from less shelf space because he could stack pies in cartons instead of one pie per shelf space. This meant that the grocer's income from that space increased in proportion to the number of pies stacked on it. It also increased the space available to other products thereby generating additional sales and profits.

This product is still one of the big sellers of the Sutherland line.

In April of 1940 a new converting plant was placed in operation and twenty-three salesmen were added to the sales force. The addition of the new salesmen was for the purpose of expanding the company's sales effort over a larger geographical area. It was felt that the marketing effort was spread too thin and this addition to the sales force would also be able to take advantage of the increasing market potential by increasing the sales effort west of the Mississippi. The marketing area now consisted of the United States east of the Rocky Mountains from Canada to the Gulf of Mexico.²⁷

At the same time the company began marketing a new product which was combination of company products and purchased paper products. This product was known as the "PARTY-PAK" and included paper plates, paper cups, nap-

²⁷Ibid., p. 11.

kins of paper, paper table cover, and paperboard coasters. There were two factors governing the introduction of this product to the market at this time. The first factor was to utilize the capacity of the new converting plant and the second factor was to explore a new market. This need for paper utensils was brought about by the increased leisure time made available to people by the eight hour day for labor and the increased use of the automobile to carry people out of the cities in quest of recreation of various kinds. The light weight and disposability of paper utensils quickly made them popular with the housewife.

During this same year, 1940, the company purchased $4\frac{1}{2}$ acres of land immediately to the north of the D'Arcy building to be used for further expansion. Immediately after this purchase they announced a \$250,000.00 building program to be spread over the following eighteen months.²⁸

In September of 1940 the purchase of paper milk bottle manufacturing equipment from Purity Paper Vessels Co. of Baltimore, Maryland was announced.²⁹ It was also announced that the equipment would be moved to Kalamazoo, Michigan in the near future.

At the beginning of 1940 there had been 1347 persons

²⁸Ibid.

²⁹Ibid.

on the payroll and stockholders had increased to 2107 from 340 in 1928.³⁰

At years end it was announced that the previously purchased bottle making equipment would be installed in January 1941 and begin production to fulfill an order for twenty carloads of paper bottles for a Chicago, Illinois firm. It was also announced that a dividend of \$0.40 per share was paid in November.³¹

The bottle making equipment was purchased because the company felt it would be cheaper to purchase a going concern that had fifteen years experience in the field rather than going to the expense of development of its own product.

The long range purpose of the company was satisfied in that company officials anticipated a greater demand in the future for paper milk bottles.³² This demand, it was felt, would be generated by the fact that paper bottles were less expensive, easier to handle, there would be no breakage, and no sanitation problem with returned empties. Again, as in marketing of other paper products, single use and easy disposability of the product with the attendant convenience gradually gained it a place in the market.

The consumer demand for paper milk bottles was not

³⁰ Ibid., p. 13.

³¹ Ibid., p. 14.

³² Ibid.

great at first. However, by marketing milk in these containers at a lower price than milk in glass bottles and stressing the convenience and lower cost, the consumer demand grew until almost all milk was packaged in paper containers.

The foresighted purchase of the paper bottle making equipment enabled the company to furnish containers for products formerly packaged in steel, tin, or other strategic materials when war was declared against Germany, Japan, and Italy. The company won awards for paper containers made in the early years of the war.³³

During the war years the company machine shops were used to make war materials. Labor was short and office personnel worked partial shifts to help fill the gap.

In 1942 Mr. L. W. Sutherland Sr. resigned as President after twenty-five years as head of the company. He was immediately elected to the newly created position of Chairman of the Board. At this time the company was one of the three largest of its kind in the United States.³⁴

In 1942 the company's business consisted of 85% food containers, 7% for cigarettes and hygienic products, and the balance for miscellaneous dry products.³⁵

During the year 1941 the company had spent, for

³³Ibid., p. 15.

³⁴Ibid., V, 4.

³⁵Ibid.

plant improvements, \$667,000.00. Of this total \$182,000.00 was spent for land and buildings with the rest spent for machinery and equipment.³⁶

In 1942 capacity for making paperboard was increased to over 400 tons daily. Even with this increased capacity the company purchased paperboard from other mills. The purchased paperboard consisted chiefly of Fourdrinier board which was used in some types of food packages.³⁷

In 1943 there were 2,645 persons employed which was 115% of the 1942 payroll. It was also announced at this time that the company had paid out in the past twenty years the amount of \$6,000,000.00 in dividends and over \$5,000,000.00 had been expended on expansion and improvements. It was also announced that serial debentures exceeding \$200,000.00 had been paid in advance of maturity.³⁸

Management also noted at this time that the company's products were mainly peacetime products and that it was looking toward a most advantageous position for continuance and expansion of its business when the peace should be declared. It could be said that this was a long range forecast of the company's marketing prospects and intentions to expand on its former markets.

³⁶ Kalamazoo Public Library. History of the Paper Industry in Kalamazoo, Michigan. (Scrap Books), V, 4

³⁷ Ibid., p. 8.

³⁸ Ibid., p. 20.

With the second major phase of its existence having passed the company, in 1946, was in a good position to maintain its leadership in the industry. It became the first company to introduce the carton with a window so the product could be seen without opening the package.

The cake carton with a window enabled bakers to place their product on grocery shelves in full view yet protected from contamination. This carton helped to generate impulse sales thereby expanding the baker's market.

In 1946 Mr. L. W. Sutherland Sr. was made President of the company again. Construction of a new building of 127,000 square feet was announced.³⁹ The new building was to house an integrated converting plant from printing with the latest printing presses to the latest in cutting presses and gluing machines. Machines for making paper cups and having a capacity of one million cups per day were to be installed to meet the rising demand for Sutherland "Handi-Handle" cups.

There were 2300 persons employed at this time. They were kept busy making and converting the 450 tons of paperboard produced daily by the board mills.

In order to meet the stiffening competition from

³⁹Ibid., VI, 7.

other paperboard manufacturers and converters the company began making its own specialized equipment to produce specialized items. A new converting plant of 95,000 square feet was started in 1946 next to the company's first mill on the east side of town. In the next few years the company was busy consolidating its position in the paper industry. Development of new products was carried on and better ways of producing older products were explored.⁴⁰

During June 1950 a new converting plant was started at Santa Clara, California to enable the company to better service accounts in the western part of the country. This plant was to make paper cups, paper napkins, paper plates, paper table covers, plastic forks, and plastic spoons. The company invested \$500,000.00 in the plant and site with an additional \$500,000.00 expended on equipment. It was planned to start production by the end of the year and employ 150 people.⁴¹

The production of this plant was to be marketed through jobbers and wholesalers who had already established extensive sales organizations throughout the seven western states. In this way the company avoided the expense of setting up a large sales force but still received extensive coverage of the territory for its products.

⁴⁰Ibid., p. 7.

⁴¹Ibid., p. 9.

By Having this plant in Californis the company could compete with other converters in the area. Previously the company was at a disadvantage, in this market, because of high freight rates from the east and slow delivery.

In 1953 a new converting plant, involving an expenditure of \$2,750,000.00, was begun and completed in 1954. This plant was for manufacture of specialty items and would free space at the north-side plant for other purposes. The new plant would employ approximately 850 persons.⁴² It would consist of a raw materials space with a direct flow to the manufacturing spaces and out the other side to the warehouse and loading platforms. Two railroad tracks were inside the building where twenty freight cars could be accommodated at the same time. Beyond the tracks was placed the paper bottle making equipment and operations. This plant contained 450,000 square feet (11 acres) under one roof.

In 1955 the company purchased the Reish Products Company of South Bend, Indiana and moved the equipment to Kalamazoo, Michigan. Mr. Reish was employed as the Sales Manager of this new Formed Foil Packaging Division.⁴³ Mr. Reish was hired because the company wanted to have

⁴²Ibid., p. 12.

⁴³Ibid., VII, 4.

as Sales Manager of this Division a man who had successfully lived in the market it intended to serve.

Reish Products Company was purchased for the purpose of adding formed foil packaging to the product mix. Management's philosophy, at this time, was that the company should offer as complete a line of packaging as it possibly could. The addition of the new product did not require any change in marketing channels. This addition to the product line could be marketed through existing channels of distribution utilizing the same sales force and marketing staff thus incurring little additional costs.

Management planned to penetrate the market for the packaging of heat and serve frozen foods. The company was, at this time, supplying the outer protective carton for these products so it could sell the foil package without any added sales expense because the salesmen could sell both at the same time.

However, after moving the equipment to Kalamazoo the company found that it was in poor condition and most of it would have to be replaced. Coupled with this discovery was the realization that the company would be buying foil from the people it intended to compete with. From a marketing standpoint the company was starting out in a

tough competitive environment with all of the advantage on the side of the competition.

After re-evaluating the situation the company sold that equipment which was salable and junked the rest recouping most of its investment and taking a tax loss on the rest.

In November of 1955 the Fort Orange Paper Company, Castleton-on-Hudson, New York became a wholly owned subsidiary of Sutherland Paper Co. This facility gave the company a better position in the eastern part of the nation for servicing its eastern customers. It also placed the company in a better competitive position in relation to paper converters in the eastern marketing area. By being closer to its eastern markets the company could be competitive in services and prices in the market. A big factor in being closer to the market was the lower transfer costs and these were reflected in lower prices to customers.⁴⁴

In 1958, June, a new plant was planned for Albany, Georgia.⁴⁵ This new plant was to cost \$1,500,000.00 and encompass an area of 175,000 square feet. The primary reason for locating the new plant in this area was to enable the company to compete more effectively in prices

⁴⁴ Ibid., p. 7.

⁴⁵ Ibid., p. 10.

and services in the south-eastern marketing area. Competition was becoming increasingly difficult because of the new plants built in the area by competitors. These new plants were supplied paperboard of southern pine pulp made in the new board mills built in the area by competitors.

Market potential was also a compelling reason for building the plant in this area. This potential consisted of a rapidly growing permanent population, an ever increasing tourist business, and year around weather conducive to recreation and the use of the company's products.

By having this plant close to its customers the company felt that while developing the market potential of the area it could offer better service to customers at lower prices because of the savings in transfer costs.

In September of 1958, in exchange for 60,000 shares of Sutherland Paper Co. stock and some cash and notes, the company acquired the Superior Match Co. of Chicago, Illinois and the Monarch Match Co. of San Jose, California. These companies were acquired to give the company an outlet for the excess production of the board mills which is a basic raw material for book matches.⁴⁶ In the board mills when making roll stock the trim, if it is the right caliper (thickness), can be used by the match

⁴⁶Ibid., p. 14.

companies instead of going back to the beaters as waste stock. In this way the company made money it otherwise would not have made and the match companies had the benefit of lower board costs.

On January 4, 1960 the Sutherland Paper Company and the KVP Company of Kalamazoo, Michigan merged to become the KVP Sutherland Paper Co.

The operations of each company complemented the other inasmuch as each was in a different segment of the paper industry and not in direct competition.

CHAPTER II

THE PLACE OF THE MARKETING ORGANIZATION WITHIN THE COMPANY

DEFINITION AND PURPOSE

There are many definitions of the Marketing phase of business activity. However, the writer will offer only three which appear to define the activity adequately:

- (1) "The modern concept of Marketing is one which starts with an interpretation of consumers needs and desires, both qualitatively and quantitatively, follows through with all the business activities involved in the flow of goods and services from producers to consumers, and ends with those services necessary to aid the consumer in getting the expected utility from the product he has purchased."¹
- (2) "Marketing consists of the motions applied to materials designed for consumption that would not be necessary if the goods were consumed by the producer."²
- (3) "Marketing consists of the performance of business activities that direct the flow of goods and services from producer to consumer or user."³

As can be seen above definitions can be as different as the Marketing Organization formed to implement them.

¹D. Maynard Phelps and J. Howard Westing, Marketing Management (Homewood, Ill.: Richard D. Irwin, Inc., Rev. 1960), p. 2.

²Weldon J. Taylor and Roy T. Shaw, Marketing - An Integrated Analytical Approach (Cincinnati, Ohio: South-Western Publishing Co., 1961), p. 5.

³William J. Shultz, American Marketing (San Francisco, California: Wadsworth Publishing Co., Inc., 1961), p. 5.

Each business organization must define its own marketing objectives and organize to achieve those objectives.

THE MARKETING ORGANIZATION

The purpose of this section of this paper is to show the reader how the marketing organization was divided into specialized groups.

The position of Vice-President of Marketing is a line position within the company. The various departments in the Marketing Organization are in a staff relationship to that position.

The Vice-President of Marketing reports to and is responsible to the President of the Company (Appendix 1).

In order to secure a lower cost of marketing effort the sales group has been broken into specialist groups by product (Appendix 2).

In 1956, on the recommendation of the Management Consulting Firm of Booze, Allen, and Hamilton, the marketing effort was divided and the current Sales Divisions, or market fragmentation, organization was the result. This division of sales responsibility was recommended because the one over-all sales group was actually performing in four different markets. It was believed that one individual could not be as effective in a general marketing situation as he could if he specialized in a fragment of that market.

The Consulting Firm also believed that with so many different grades of paperboard being made and sold in the market (approximately 600) one salesman could not be expected to know the function of more than a fraction of them. However, by specializing in Food Packaging, for example, the salesman could maximize his knowledge about paperboard used for this purpose. The salesman could also become quite familiar with the conditions under which it would be utilised, and being familiar with paperboard used for food packaging, could advise his customers as to a suitable package for their purpose.

The theory behind the change to specialization in the market was that in the long run it would be less costly. However, not having adequate records to prove this theory by the time Sutherland Paper Co. merged with the KVP Company, proof must wait until the new company can develop adequate reporting and record keeping methods.

Reporting to the Vice-President of Marketing are the various heads of the Sales Divisions, the Graphic Arts Director, and the Claims Department (Appendix 1).

SALES PLANNING

The Sales Planning Director has a large staff organization reporting and responsible to him (Appendix 4).

Sales - Staff Sections

Advertising Department

This department planned, developed, and co-ordinated the advertising campaign which was necessary to reach the market the Sales Planning Director wanted to influence. This department also selected the appropriate media or combinations of media to be used in the advertising campaign. Advertising was placed, principally, in trade magazines such as Modern Packaging, Food Field Reporter, Business Week, Time, and others. Direct mail advertising and personal selling were used to a great extent for the company's own PURITY* brand paperware from the Specialties Division as well as for the other items sold by that division.

Mechanical Packaging Department

This department designed plant layouts for customers who wished to change to automatic or semi-automatic packaging lines. This department also assisted the field salesmen in making presentations to customers. This was done by showing the savings and increased efficiency available by changing to mechanical packaging utilising the company designed cartons. To do this a proposal was made to the customer showing him the costs and operating speeds of various kinds of packaging machinery which could do the job for him. Mechanical packaging engineers

*Trade-mark

assisted at the installation and testing of equipment if requested. These same engineers were also available, at any time, to help solve problems which arose from the malfunction of company supplied cartons in the machinery. To make sure that the cartons supplied by the company performed satisfactorily the Mechanical Packaging Department had to stamp their approval on the carton to be used as a sample by the production departments. This approval had to be obtained each time an order for the carton was entered for production.

Graphic Arts Department

This department created designs for customers who requested such service as well as designing for the company's own PURITY line of paperware.

This department also did design work for presentations by salesmen to potential customers. Quite often this service was influential in getting and keeping a customer. However, many customers had their own packaging design staffs and this department supervised the faithful reproduction of their designs.

All new designs and any changes to other designs had to receive the approval of the department head.

In its design work the Art Department had to keep in mind the market for the product (local or national) including social or economic groups, cost of the finished carton, the type of design (functional or suggesting luxury), and the impulse buyer.

Claim Department

This department was responsible for processing claims from the customer and the issuing of credit memorandums for the amounts for which the claims were settled.

The Claim Department was notified of a claim by the sales division concerned. If there was merchandise to be returned this department directed the customer as to which manufacturing division was to receive it, how it was to be returned, and how it was to be labeled. Then the division which was to receive the material was notified as to the quantity being returned, why it was being returned, and the nature of the defect (cracked scores, warped cartons, or other defects).

Carton Development Department

This department was responsible for the structural design of cartons whether designed for company or customer products. Before a carton design was begun the designer had to understand the job expected of the carton. He also had to be aware of the nature of the product and the market for which it was intended. The carton design finally decided upon and produced satisfactorily had to still meet the demands of the consumer. It had to protect the product from producer to consumer under all reasonable marketing conditions, as inexpensively and conveniently as possible. If these conditions were met then everyone from the carton supplier, to the producer, to the consumer

benefited by a better, cheaper finished product and greater consumer satisfaction.

This department worked closely with the Graphic Arts Department in designing unique cartons for new products and for old products that needed a new packaging approach. It also worked closely with the Mechanical Packaging Dept.

Public Relations Director

The Public Relations Director was consulted when news releases about the company or its products were to be issued to the press. He also represented the company to Trade Association meetings and to any other groups he was requested to address. Primarily he promoted the company image locally and nationally to both customers and potential customers and to consumer groups.

Product Development Department

This department received all suggestions from industrial users of cartons, field salesmen, and consumers as to new products, cartons, or improvements in cartons.

A series of consultations were held with the Sales Division concerned and with the Sales Staff Departments as to the feasibility of the proposed carton or product. If it was found that there was a need in the market for the proposed carton or product work was begun to fully develop it. Tentative specifications were drawn up and turned over to the responsible departments for evaluation and comment. Many factors had to be considered.

Did the carton have to be greaseproof, have a moisture barrier, have a long shelf life, be sift proof, and how much protection was necessary for the product? The market in which a new product would sell as well as its cost and design had to be considered quite carefully in the light of need for it in the market.

Assisting the Sales Planning Director, in the area of planning only, were the four departments of the Sales Planning Division (Appendix 4), Advertising, Market Research, Public Relations Director, and Field Services Manager.

Sales - Planning Division

Advertising Department

This department, in addition to its duties previously noted on page 34, planned and designed display booths for various trade shows as part of its planning duties. For penetration of a new market this department advised the Sales Planning Director as to the type and cost of any proposed advertising and the media to be used. This department was very important to the marketing organization for if its efforts had been too little, directed to the wrong market, or ill-conceived in any way the whole marketing effort could have been seriously harmed.

Market Research Department

This department maintained records of sales performance in relation to the forecast of sales for each year. It also maintained a file of statistics published by the various agencies of the government, trade associations,

industry, and the company. All of the resources of the department were available to the Sales Planning Director.

One example of the work of this department was the projection of packaging requirements for shell eggs five years ahead. To make the projection this department used historical data pertaining to previous packaging requirements for shell eggs, population trends, trends in population age groups, trends in the packaging industry, and trends in the marketing of shell eggs. After all of this data was organized it was extrapolated and an educated guess, as to future marketing requirements, was added to arrive at a figure representing the future marketing requirements for shell eggs. Historical data concerning trends in disposable income was also used.

This department also projected the potential of various market segments such as tobacco, frozen foods, and products not then packaged in cartons.

In addition the future requirements for egg packaging and the marketing requirements of other products made by the company were projected for five years. The Market Research Department also made projections for the potential of new products entering the marketplace for which the company might want to compete in supplying the required packaging.

Public Relations Department

The Public Relations Manager advised the Sales Planning Director of the probable effects of marketing de-

cisions on public relations at the local level with government agencies, nationally, and within the industry.

Field Services Department

The Field Services Administrator supervised sales expenses, provided administrative co-ordination of the field salesmen, and maintained statistics on costs of sales and their relationship per dollar of sales. Using these statistics he advised the Sales Planning Director on potential sales costs involved in any particular course of action.

Sales Divisions

Each of the Sales Divisions, by the nature of their specialization, had a different organization which was basically aimed at serving its own peculiar market.

The highly competitive Folding Box Industry dictated specialization in the marketplace. Not only was the industry highly competitive within itself it also had to compete against alternatives such as the fast growing plastics industry, glass, wood, and metal.

This specialization led to grouping the marketing effort in four divisions (Dry Carton, Food Packaging, Specialties, and Paperboard Sales) (Appendix 10). These divisions are further divided as shown in appendixes 5-8 inclusive.

Each group directed its efforts at a different market and when necessary directed inquiries from other markets to the proper sales division.

Dry Carton Division

This sales division exerted its efforts principally in the non-food market, with a few exceptions. The designation of the division denotes that it specialized principally in packages to contain dry items, ie; not requiring specially treated paperboard, such as toys, candy, soap and other granulated products, and items which may be bagged before being placed in a carton which is placed on the store shelves.

The Marketing Manager in the department worked with the Sales Manager of this department and directed his efforts into various markets where dry carton use was feasible such as tobacco, hardware, cereals, toys and games, cut-out and coloring books, rolled foils and plastics, and other products not requiring a carton with special properties (Appendix 5).

Food Packaging Division

This sales division directed its efforts into the food packaging market. This market was a source of a large sales volume for the company. The market served by this division was one which required a package that would contain thick liquids, such as ice cream, as well as a package for frozen fresh and prepared foods, and for bakery products. This division specialized in paraffined cartons for liquid and cartons laminated with grease and oil resistant paper for use in the baking industry.

The Product Promotion Managers of this division were specialists with the specialist's expert knowledge of the

particular segment of the Food Market he was assigned to serve (Appendix 6).

Paperboard Sales Division

In this sales division the marketing effort was directed to the selling of paperboard to converters who did not make their own paperboard and to completely integrated companies. Sales of laminated (greaseproof, polycoated, and foil) paperboard were made to completely integrated companies who did not have laminating capacities as well as to the small converters who did not make their own paperboard. Sometimes it was possible to sell to converting mills of competitors at a lower price than the parent company would or could sell to them. Usually this was possible because of proximity to the Sutherland Paper Company and transfer costs were lower. Paperboard was also sold to large firms who convert the paperboard for their own uses. One example of this is the Kellogg Cereal Co., Battle Creek, Michigan who print, cut, and finish their own packages.

In this manner disposal of paperboard in excess of company converting needs was accomplished (Appendix 7).

Specialties Sales Division

This division was responsible for sales of many products and is the most complex of the sales divisions (Appendix 8).

Sales of products under the company trade-mark PURITY was only one of its marketing efforts. The items under the PURITY label were paper plates and cups which were large in

sales volume. The outlets for these products were supermarkets and variety stores and were sold through wholesalers and jobbers. Large volume users were solicited through personal selling.

This division also sold to the prepackaging market which was primarily the fresh fruit, fresh vegetable, and meat prepackaging wholesalers and large grocery chain store operations.

The Single Service group of this division was primarily interested in the sale of popcorn cartons and carry-out trays for drive-in restaurant operations. These products were marketed through jobbers and wholesalers and were responsible for a large sales volume. However, though the market for the products of this group was national in scope it was, for the most part, seasonal.

The Stock Products group sold standardized cartons for laundries, home frozen foods, and fresh vegetables such as mushrooms and brussels sprouts whose seasons alternated on the market.

Vice-President of Marketing

He was responsible for company future planning on a yearly basis and for long range planning up to five years. For this planning he relied upon the Sales Planning Division of the Marketing Organization (Appendix 4).

Planning was not restricted to the Planning Division nor was it so formalized that other groups were excluded. There were no specified times for committee meetings. When

it was felt that there was something to consider a meeting was called. It may have been that the Product Development group had something it wanted the Marketing Organization to evaluate or it may have been for the purpose of evaluating a suggestion that had been made about a package to fit an apparent need in the market.

The Sales Planning Director, with the assistance of his staff, made plans to market new products as well as for the marketing of old products. In making plans for marketing new or old products the Sales Planning Director assessed the reports, furnished to him by each of his staff departments, as to the potential of the market, competition in the market, type and volume of advertising required and its cost, and reports furnished by the Field Services Manager. After evaluating these reports he met with the Sales Manager, the Product Managers, and Marketing Managers concerned to hear any final suggestions or comments.

The Sales Planning Director, after making a tentative decision, consulted with the Vice-President of Marketing to make a final preparation of the planned course of action to be presented to the President of the Company.

Planning was directed towards certain large segments of a market or markets with all groups of the Sales Divisions having taken part in the planning. Others who may have been called upon for information or advice were the Graphic Arts Specialist, Mechanical Packaging personnel, the Production Manager and his printing, cutting, and finishing foremen,

Production Services Manager, Carton Development Manager, Production Planning Manager, Plate Procurement Manager, and technical representatives from the Research and Engineering Department.

In making plans to expand in a market already penetrated a similar procedure to that above took place. Target accounts were selected and the amount of time, effort, and expense to be budgeted for this effort were decided upon. Usually from one to two years were planned for the effort. Any extension of the time limit had to be evaluated in relation to the progress being made.

In planning meetings past performance of a product was reviewed, especially if sales had been lagging, future prospects were evaluated with contribution to profits being one of the criteria. Also, a tentative decision to drop an item from the product mix could be made at such a meeting.

The Market Research Staff, though not large, was of great help in all planning because of its research, projections, and conclusions concerning the industry, company, and the company's position in the industry. Market Research also concerned itself with possible future markets and the company's ability to penetrate them. This staff maintained many records/statistics of the industry and the nation, especially those which may have had an effect on the company's operations then or in the future. This staff also maintained a marketing control for each sales division by the month ac-

cumulative for each year as compared to sales forecasts.

The Marketing Vice-President, with the advice of the heads of departments of the Marketing Organization, selected the marketing channels to be used for the company's products. A major change in direction required the approval of the Company President. Great care had to be used in the selection of marketing channels because these channels were another aspect of competition and could have had serious effects on profit maximization.

The Marketing Organization, therefore, held a most important position in the company. Without constant forward planning for marketing based on accurate research, feedback from the field force, and specialized knowledge gained from experience in the industry the most modern equipment was of little worth.

The Production Planning Department was responsible for keeping Sales informed as to progress of orders in process and was required to respond, in so far as was possible, to changes in schedules which may have been required by the Sales Divisions.

It will be noted that the writer has not shown any connecting link between the Marketing Group and the Finance Group. There were only two areas where the two groups had much contact: (1) the Cost Department compared sales performance against sales forecasts and assigned variances either to the Marketing Group or to the manufacturing

divisions, (2) the Credit Department approved or disapproved all customer orders for credit. These were the only areas wherein the two groups had contact.

The dollar volume of sales was approximately equal between the Specialties, Food Packaging, and Dry Carton Sales Divisions. Each contributed approximately 30% of the dollar volume with Paperboard Sales contributing the remaining percentage to the dollar volume of sales.

CHAPTER III

FACTORS WHICH CAUSED CHANGES IN MARKETING PRACTICES

Competition

Competition was a major factor in causing a change in the marketing practices of the company during the period 1950-1960.

The major change in marketing practices was briefly mentioned in Chapter II. This change was brought about through a suggestion by the Management Consulting Firm of Booze, Allen, and Hamilton which had been consulted with a view towards reorganizing and strengthening middle and top management functions. Though the firm had not been engaged to examine or reorganize the marketing structure the company thought it was an excellent idea.

The consultants felt that each salesman was trying to function in several markets and could not do a complete selling job in any specific market. He was not able to give concentrated coverage to his assigned market.

As indicated in Chapter II, the market was fragmentized and salesmen became specialists in a particular area of the marketplace. This fragmentation of the market also brought about a reorientation of the marketing practices. In the past the company had grown large by serving many small customers. However, many of these customers had grown big along with their supplier. Now the company changed its marketing practices to concentrate further on the large volume buyer.

This change was necessary for two reasons: (1) competition in the marketplace required that cartons be manufactured at the lowest possible cost, and (2) the high cost of modern equipment necessary for a large volume business meant that long runs on this equipment were the only economical way to meet competition from other converters.

By equipping the plants to produce economically for large volume the company was compelled, by the high burden rate (overhead) of this equipment, to price itself out of the small user's market. The burden rate is the cost of using the machine plus the set-up time necessary to get the job on the equipment. On short runs the set-up time is longer than the time to run the job, in many instances. The small buyer was at a disadvantage in that the set-up time was spread over a much smaller volume of units than it was in the case of the larger orders.

Another change in marketing practices was the offer of greater services to the customer. Not only did the company offer a complete service from designing a unique carton for the product to complete graphic arts surface design, it also offered technical and engineering service. The Mechanical Packaging Division designed automated packaging lines, recommended machinery, and serviced it if the customer requested such service. The customer was shown how he could save money with greater volume. This was important to the manufacturer for if he can show his customers a savings,

either in handling or quicker turnover because of a better surface design, he has a good chance of enlarging his market. A better package is definitely an advantage. As stated in Dun's Review:

"Every time the nation's retailers save a single minute in packaging and moving goods from warehouse to shelf they erase \$160 million of their annual handling costs. Every time the average housewife visits a supermarket she spends just 27 minutes in a jungle of 6,000 packages to pick 13.7 items, half of which she buys on impulse anyway."¹

This service, therefore, was a definite benefit to marketing practices.

Competition was not confined to the paper industry. The Plastics Industry began a substantial growth in 1950. One segment, the custom molder, of the industry increased its sales from \$225 million in 1951 to over \$400 million in 1960.² This growth was not entirely at the expense of the paper industry for it also effected the metal and glass packaging industries to a serious degree. One instance of plastics replacing paperboard packages was the container for Cottage Cheese now packaged, to a large extent, in plastic containers.

Another competitor was the formed foil Aluminum foil package for "heat and eat" frozen foods convenience items.

¹"Packaging: Order from Chaos," Dun's Review and Modern Industry, Nov. 1962, p. 12

²Donald F. Dew, What Today's Custom Molder Can Do For You, Modern Plastics, Oct. 1962, p. 86.

The Fort Orange Paper Co., Castleton-on-Hudson, New York was acquired to enable the company to compete more effectively in the eastern markets. This acquisition placed the company in a position to maximize its profits, while offering better and faster service, in its eastern marketing area.

The company's own brand PURITY reached the consumer market through jobbers and wholesalers to the retailers such as grocery and variety stores and by personal selling to large supermarket chains and industrial users.

However, jobbers and wholesalers were practically eliminated from the marketing of food packaging cartons. This change in marketing channels occurred because many of the food processors were locating plants nearer to their sources of raw materials and/or their markets whichever would benefit from lower transfer costs. In this way a minimum size plant could offset the economies of scale and higher transfer costs. A food processor could not get the kind of service he needed from a large number of middlemen as he could get by dealing directly with the supplier. The Chelsea Milling Co. (Jiffy Cake Mixes) is an example. Like many other food processors this company may want to change scheduling on short notice and require delivery to several plants at once. A jobber or wholesaler was not equipped to handle the volume of cartons because he was not able to inventory large quantities of cartons for all of his customers. This

is especially so when the customer required several truck-loads of cartons immediately.

Another factor in this change of channels was the change to central buying by large companies such as Campbell Soup Company. A central purchasing office buys for many plants and each plant could request the supplier to ship cartons to them from the standing inventory. This was less costly and easier than going through many middlemen to get the same result.

One other factor, but not the least, was the fact that the company wanted to maintain closer control over the marketing effort insofar as the larger accounts, such as the Kroger Co., large wholesale bakers, Sealtest Foods, and other were concerned. These large accounts were handled by National Accounts Executives or by executives in the home office. This method of controlling the marketing effort also served to emphasize the value, to the company, of these large customers.

The marketing of Dry Cartons was carried on via personal selling. Again the marketing effort was concentrated on the large volume purchasers such as Procter and Gamble, Kimberly-Clark Corp., National Biscuit Co., and others. In this division, as in the Food Packaging Division, the large accounts were handled by National Accounts Executives or by executives in the home office.

Paperboard Sales remained, as before, as a personal

selling effort to large companies who purchased board to make their own cartons and to the small converters who did not make their own paperboard.

Consumer Demand

This aspect of marketing, as well as the aforementioned competition, caused changes in the marketing practices of the company as well as causing its expansion.

The consumer's disposable income increased during this period and he began to demand more and more of the good things of life.³

The boom in recreation⁴ and the promotion of outdoor living created a great demand for specialty items, such as paper plates and cups.

The increase in the mobility of the consuming public and the increased leisure time enjoyed by it made the drive-in restaurant popular and created a demand for the products of the Specialties Division.⁵

Consumer demand was the reason for the company's expansion to the West Coast. The rapid growth in population and job opportunities, after World War II, gave this area a greatly improved market potential over pre-war days. More people meant a greater market for products of the Specialties

³Appendix 10.

⁴Ibid.

⁵Ibid.

Division from food packaging requirements to paperware for recreational activities. The opening of the plant at Santa Clara, California placed the company in a favorable position to compete with established converters in the area. This new plant also placed the company in a better position to maximize profits on sales in the seven western states which made up this marketing area.

The company decided to use the jobber and wholesaler marketing channels for marketing products of the Santa Clara plant which was to manufacture specialty items. This would obviate the necessity of setting up a comprehensive West Coast sales organization with its considerable cost of operations and difficulty of control.

The wartime successes with frozen and dehydrated foods encouraged the food processors to continue development of convenience foods for a market that had become accustomed to packaged items during the war. The postwar market had been preconditioned to packaged foods by wartime experiences. Between 1950 and 1960 the production of special paperboard for use in food packaging more than doubled⁶ while the percentage of increase for paper and paperboard production was 37.3%. During this same period the population of the United States increased 18.9%.⁷

⁶Appendix 12.

⁷C. Lester Horn, Triple Expansion of Production of Paper & Board Since 1930 (Philadelphia: L. D. Post, Inc., Jan. 7, 1963, Vol. 86, No. 1), p. 16.

The rapid development of convenience foods compelled the paperbox makers to expand their facilities to keep up with the demand of the processors and the consumers. One example of this is to be found in the company's Annual Report for 1959 wherein comparative figures show that in 1949 the company produced 112,657 tons of paperboard and in 1959 produced 177,730 tons of paperboard. This was slightly more than a 50% increase in tonnage in ten years while the company had only increased tonnage by approximately 12% in the previous ten years. However, the expansion of the industry as a whole created surplus productive capacity in the late 1950's. The effect of this over-expansion was keen competition and unreasonable price reductions which resulted in "trading customers at a discount". This condition, augmented by increased costs of labor, produced a price-cost squeeze which had in turn resulted in constant reduction in the percentage of net profits on total sales and on capital investment.⁸

Costs

All costs rose during the period 1950-1960 which is being investigated in this paper. However, the two costs involved in this topic are manufacturing and marketing.

Costs of manufacturing

Costs of manufacturing rose 3% per year, on the average, per 1000 cartons during the period 1950-1960. This 3% rise in costs per year was the reflection of the rising costs of

⁸ Ibid.

raw materials and labor. These higher costs had the effect, to a large degree, of causing the company to make changes in its marketing practices as described in Chapter II.

Costs of marketing

These costs were held relatively stable during the period 1950-1960 by elimination of Regional Sales Managers and attendant expenses. Sales territories were consolidated when salesmen retired and were not replaced. This method of cutting marketing expenses was also resorted to when a territory became less productive and was divided among adjacent sales territories. The elimination of jobs was an effort to increase marketing efficiency by doing the same or a greater volume of business with fewer personnel. Management felt, at this time, that it was a step in the right direction. However, no accurate records were kept as to whether or not these steps actually did increase the efficiency of the marketing effort. Management based its conclusions as to increased marketing efficiency on the following reasons: (1) the company had maintained a profitable sales volume, (2) the company had complete market coverage for its products, and (3) the expenses of the Regional Sales Offices had been eliminated and the number of salesmen had been reduced.

The Specialties Division increased its marketing efficiency by locating warehousing facilities in strategic locations. In this manner they were able to take advantage of carload freight rates, lower handling costs, and offer better service to their customers.

By dividing the marketing organization into specialized groups, as discussed in Chapter II, the marketing effort was placed under tighter control but whether or not this had a beneficial effect on costs is not known due to lack of adequate records.

Research and Engineering

This department did not add anything to the product line during this period which would have required a change in marketing practices. Its primary function was mainly research in paperboard per se and in building experimental machines to handle products developed under the auspices of the Product Development Department.

Product Development Department

This department was responsible for improvements of various items produced by the company but not of anything which had the effect of changing marketing practices.

Government

Government regulations in effect at the beginning of the period 1950-1960 were scrupulously observed by the company so it cannot be said that the government had any effect on changes in marketing practices.

CHAPTER IV

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Several conclusions have been reached as a result of this study of the Sutherland Paper Company and the factors which caused it to change its marketing practices.

For many years the company was a leader in developing and manufacturing paperware and cartons for increasingly varied uses. However, it had not developed a new paperboard product during the ten year period just studied. The writer believes that with the increasingly stiff competition within the Paper Industry and from other packaging materials such a situation is not indicative of leadership.

In the years since World War II the company has become conservative as witnessed by the tentative steps to expand into the Formed Foil Packaging field and the quick withdrawal when it suffered an initial set-back.

Prior to the change in marketing practices there were no adequate records or measurements to indicate that a change was necessary. However, after the change had been initiated, the company still has continued to rely on intuition, as it were, to indicate to management progress or lack of progress in controlling marketing costs.

The company has been aware of the benefits of diversification but seems unwilling or unable to expand into areas other than paper based products such as the Match Companies.

Research and Engineering has not contributed new products which might have required a change in marketing practices during this period. This department has worked mainly in the technical development of paperboard and in better printing surfaces.

The Product Development Department, while it has worked at improving products, had not developed a new product during this period. Without new products to market a company stands still and standing still in this modern world can be fatal for a business.

Recommendations

The writer believes that the first and most vital recommendation is that an effective program of cost analysis for marketing be undertaken. Such a program should not be undertaken in the manner of a witch hunt, however, but in such a way as to determine areas of strength, areas in need of improvement, and any definite weaknesses.

In setting up a cost analysis program for marketing it must be remembered that for this program to succeed it must be a continuing study and not dropped or allowed to die from disuse.

It is possible, as it is in any study, that analysis will determine that costs are not excessive and that contribution to profits are at a maximus. However, this is not likely to be so for marketing has become so complex and changing that intuition cannot encompass all of the factors which go into the marketing effort.

A cost analysis may not bear fruit immediately. However, by analysing trends in various areas of costs, management may be able to detect areas of future weakness and begin a program to strengthen them before the situation becomes unmanageable.

The writer believes that an analysis of costs of services to customers on a customer by customer basis might be a fruitful area of investigation. It is possible that management would find that costs of services to many customers may be more than the company could recover from profits from those customers over any given period of time.

Another recommendation is in the area of research which could be instrumental in returning the company to a position of leadership in the industry. It is recommended that a program of research be started to investigate the possibilities of combining other fibers with wood pulp to make better and stronger paperboard which might have other uses than paperboard has at present. This kind of research could lead to new products which would require new marketing techniques and offer sta-

bility to the company during changing business conditions.

Another recommendation is that an analysis be made of marketing channels to determine if they are functioning to the best advantage for profit maximization. If these channels show signs of weakness they can be strengthened or changed to better achieve company marketing objectives.

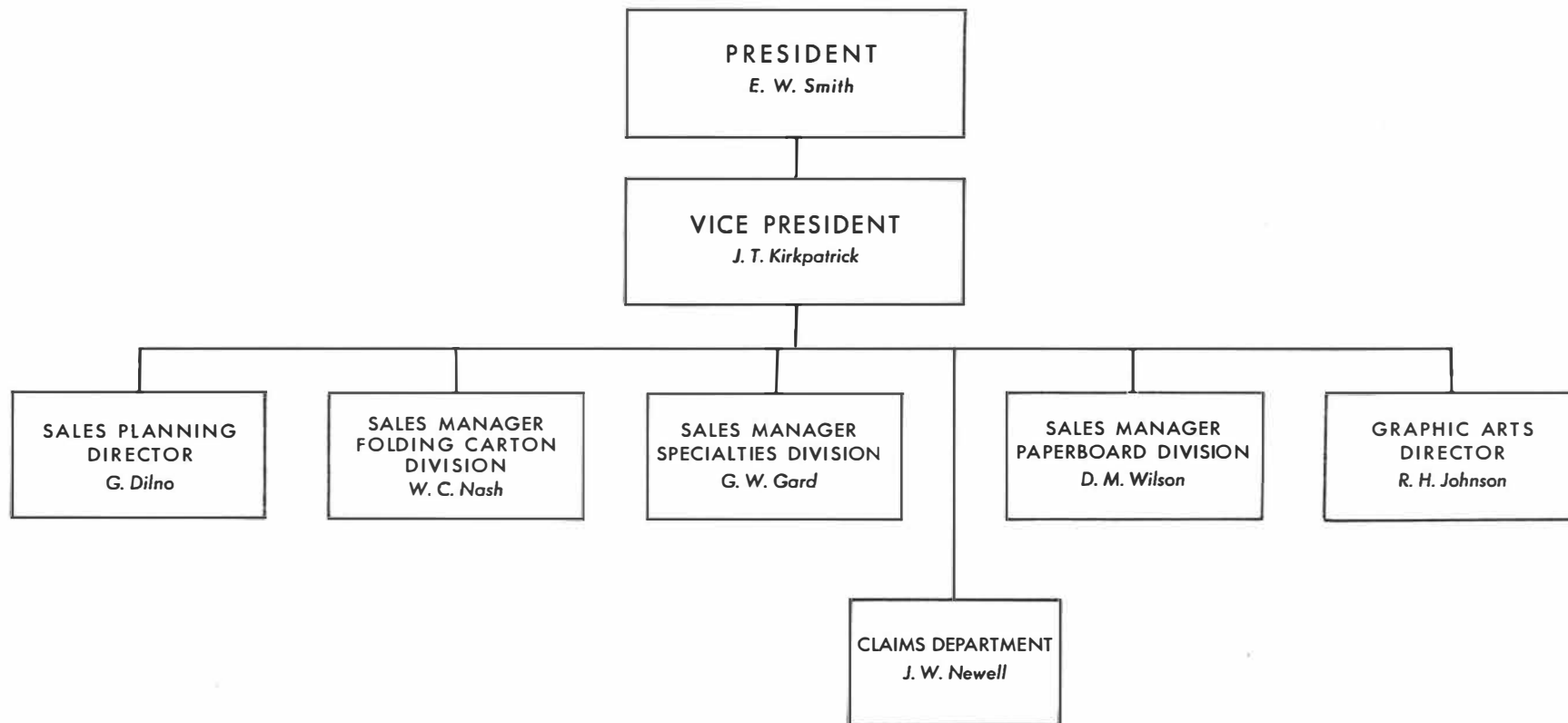
The company should undertake an intensive study of its customers, not only to find out what their current needs are but for what they will need in the future.

It is the writer's belief that by knowing where the customer is going the company will be able to have a car-ton or other product to fit his needs almost before the customer needs it.

In other words the company must become much more customer oriented rather than product oriented.

A final recommendation is that the potential of various marketing areas be studied with future plant locations in mind. The steady increase in population plus population mobility may change the potential of an area relatively overnight. A regional recreation development, for instance, can turn a poor marketing area into one of great potential in a very short time.

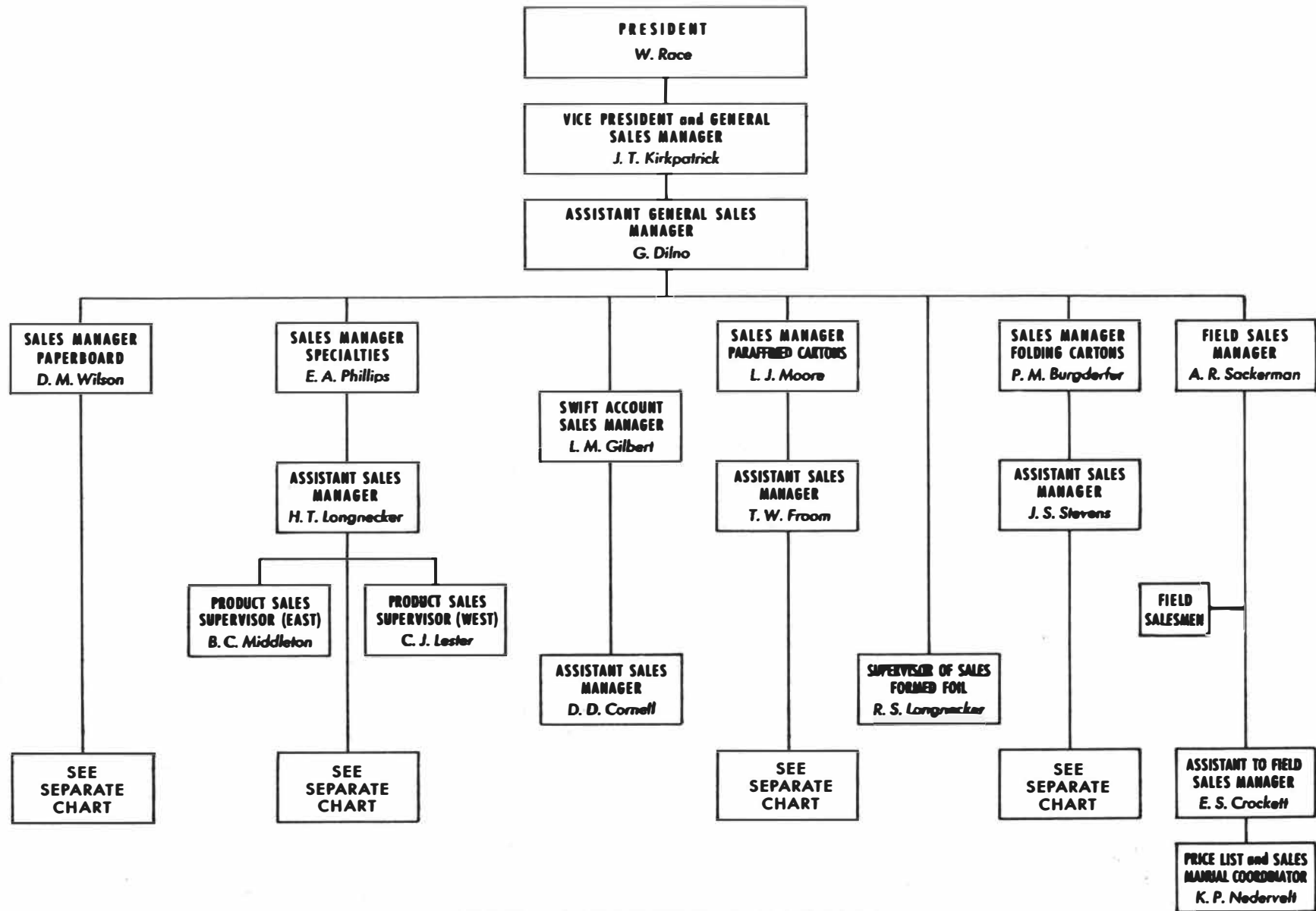
APPENDIX



VICE PRESIDENT - MARKETING

APPROVED

E. W. Smith
5/21/59

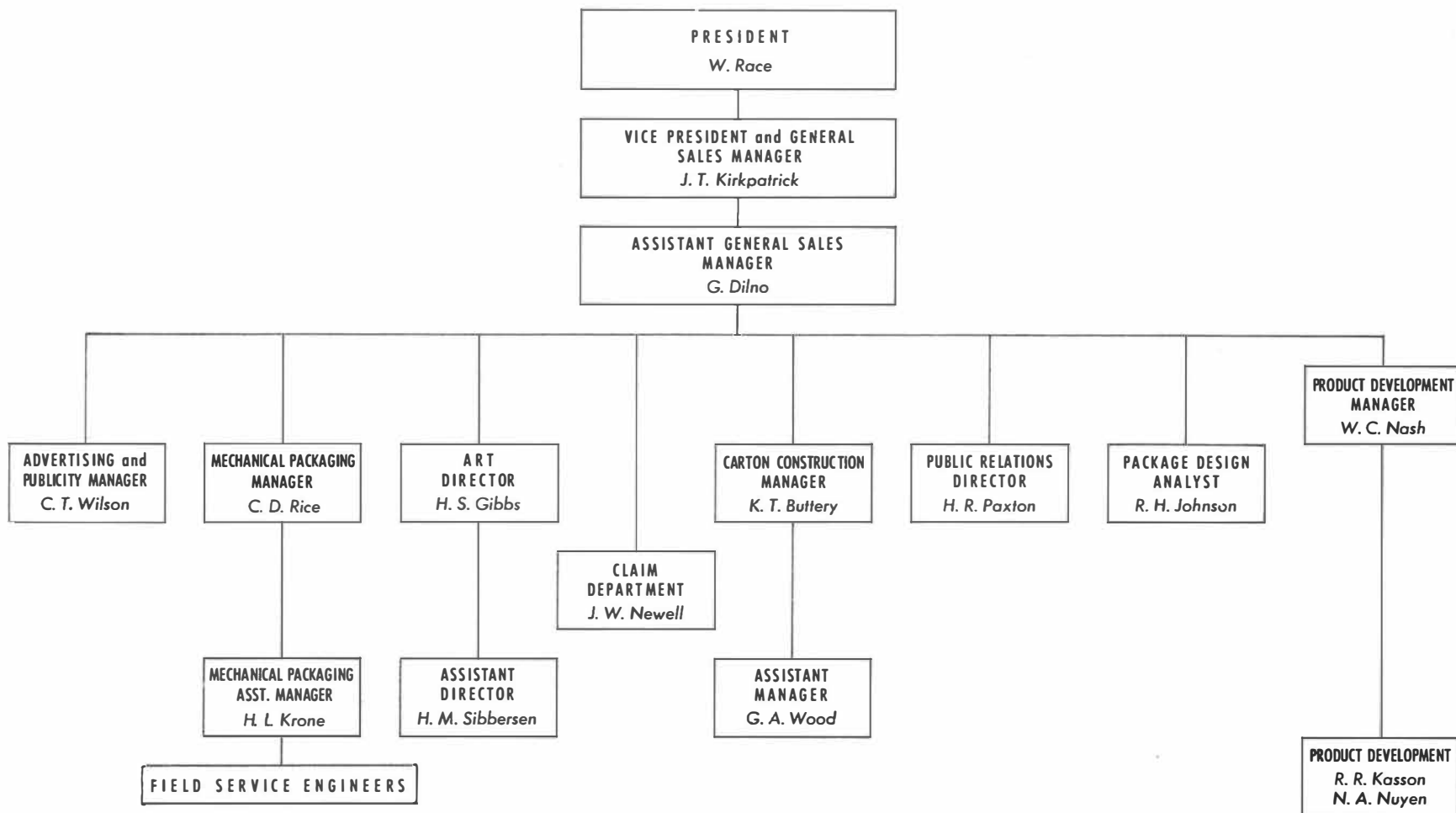


SALES MARKETING DIVISION

APPROVED

W. Roca

7/30/56

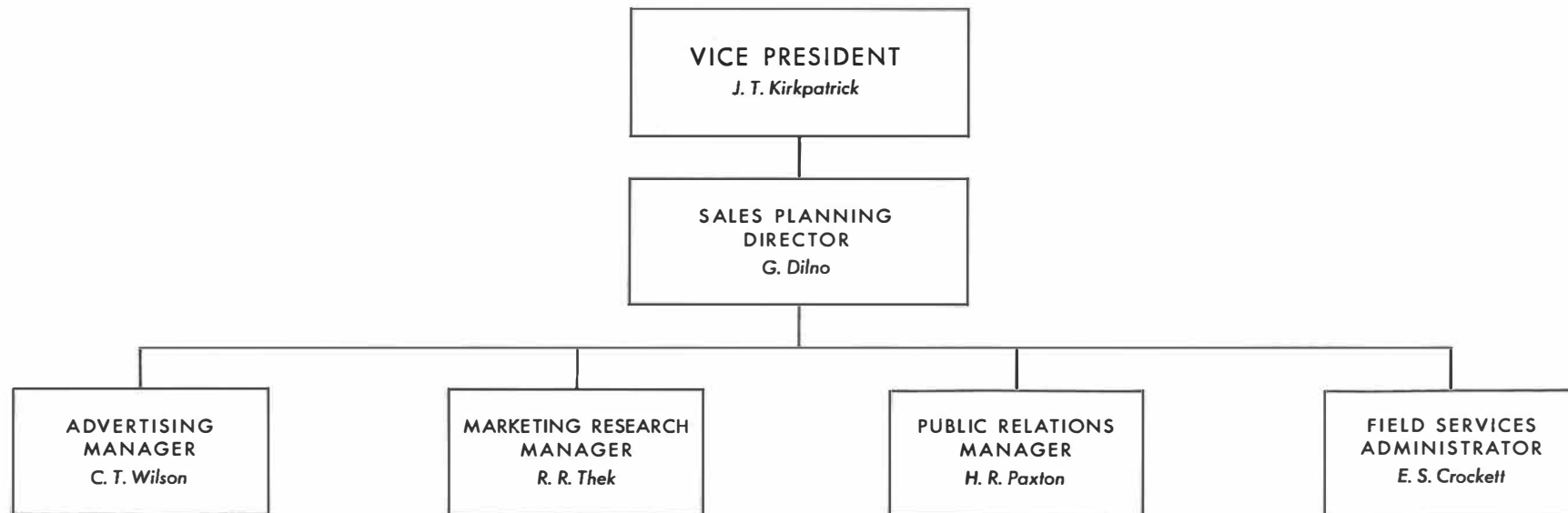


C

SALES - STAFF SECTIONS

APPROVED

W. Race
5/26/56



SALES - PLANNING DIVISION

APPROVED

E. R. Kase 11/7/57

FOLDING CARTON
SALES DIVISION MANAGER
W. C. Nash

DRY CARTON
SALES MANAGER
J. S. Stevens

REGIONAL SALES MANAGER
(MIDWEST)
R. G. Neff

MARKETING MANAGER
S. G. Karr

ADMINISTRATIVE MANAGER
R. A. Coleman

REGIONAL SALES MANAGER
(EAST)
E. P. Curtiss

DRY CARTON
SALESMEN

PACKAGING
SPECIALISTS

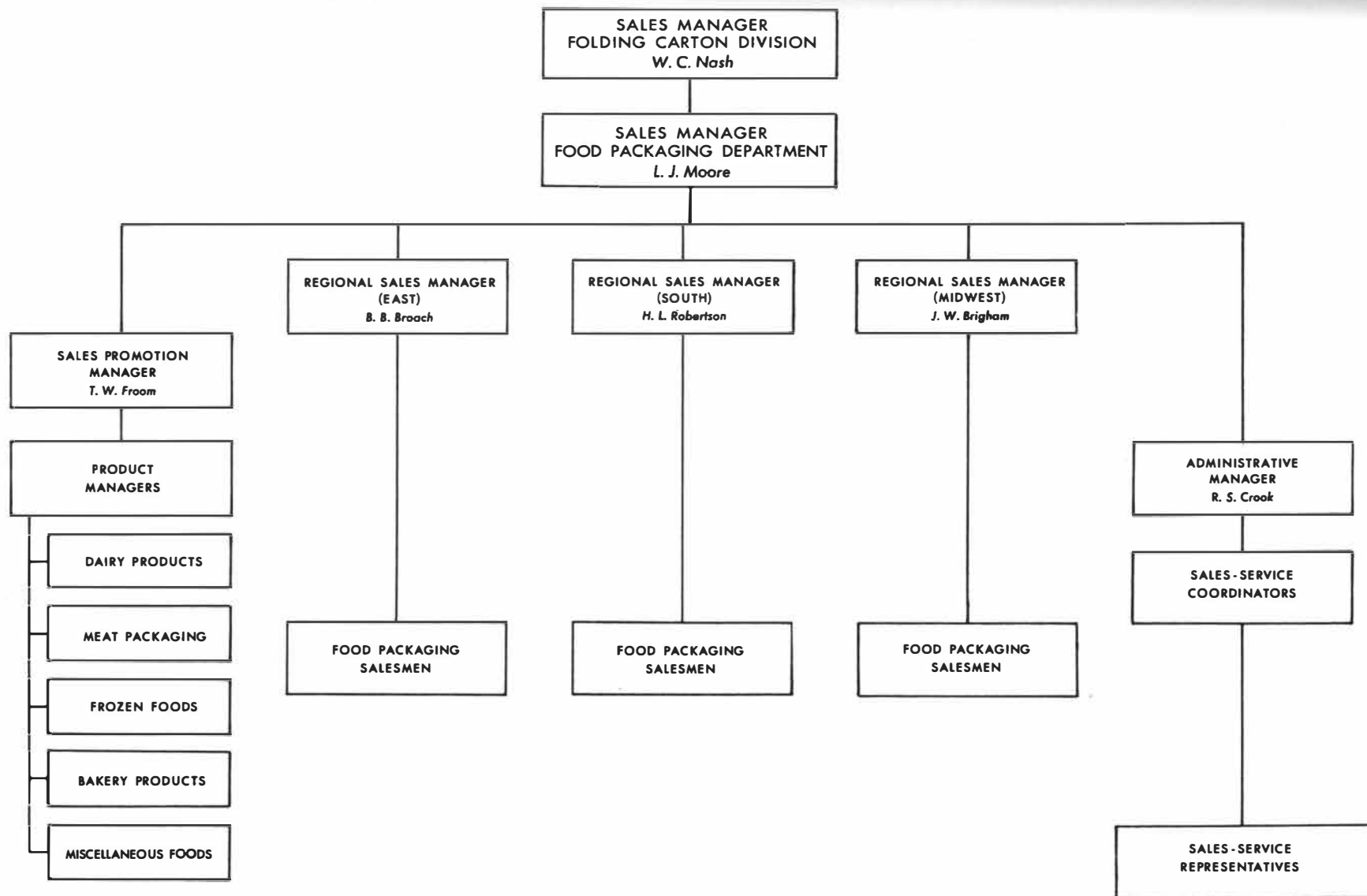
DEVELOPMENT
COORDINATOR

SALES-SERVICE
SUPERVISOR
A. E. Bowen

SPECIAL
ACCOUNTS
REPRESENTATIVES

SALES-SERVICE
REPRESENTATIVES

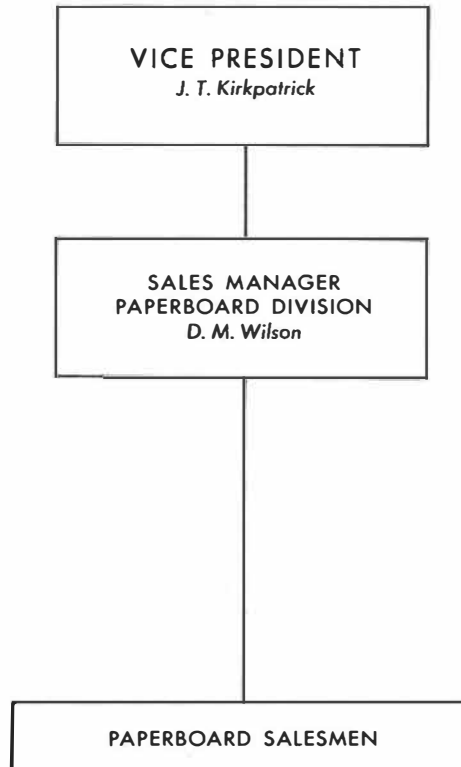
DRY CARTON
SALESMEN



SALES - FOOD PACKAGING DEPARTMENT

APPROVED

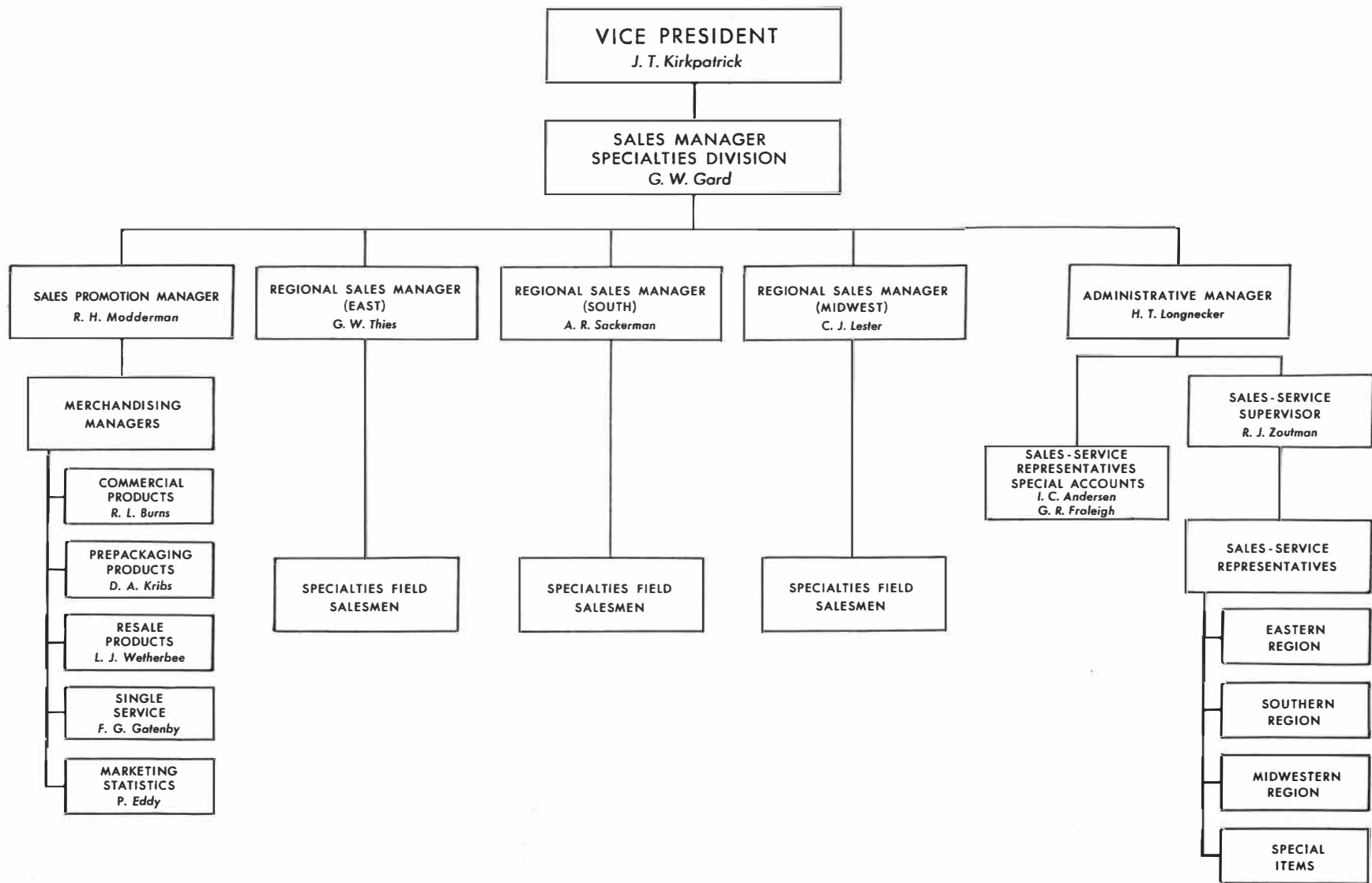
W. C. Nash 11/7/57



SALES - PAPERBOARD DIVISION

APPROVED

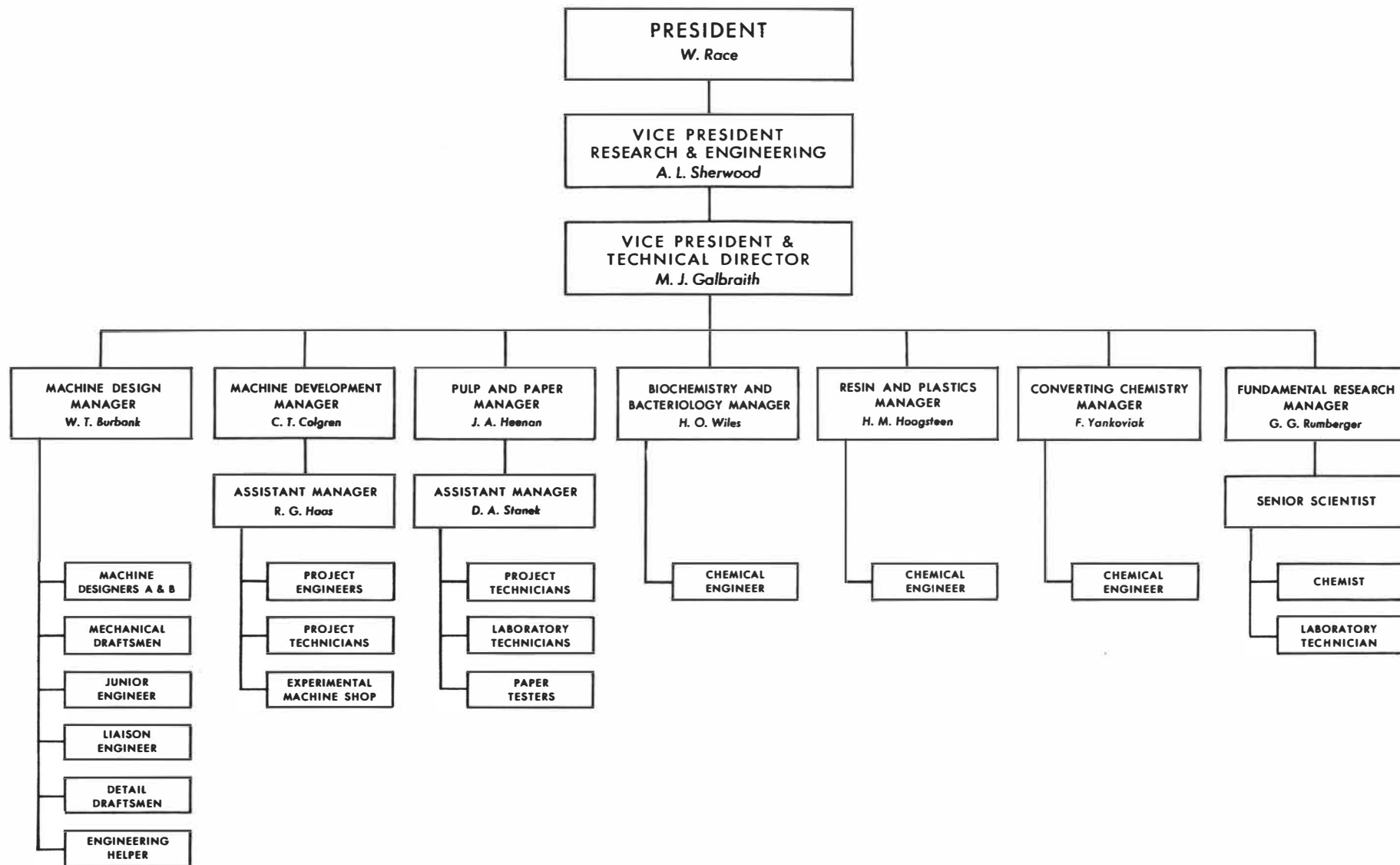
A. K. [Signature] 11/7/57



SALES - SPECIALTIES DIVISION

APPROVED

E. W. Smith
5/29/59



RESEARCH & ENGINEERING

APPROVED:

W. Race

11/14/58

PRODUCTS BY DIVISION

Specialties

Rodeo Trays and Boards
Paper Cups and Plates
Egg Cartons
Laundry Boxes
Mushroom and Brussels Sprouts Cartons
Freezer Cartons (Home Use)
Carry-out Trays
PopCorn Cartons

Food Packaging

Ice Cream and Ice Milk Cartons
Butter Cartons
Margerine Cartons
Frozen Foods Cartons
Bakery Trays and Cartons
Meat and Meat Products Cartons

Dry Cartons

Soap and Detergents Cartons
Candy Cartons
Toys
Pet Foods
Metal Edge Dispenser Cartons
Tobacco Cartons
Bottle Carriers
Whiskey Cartons
Cereal Cartons
Special Print Mushroom Cartons
Miscellaneous Cartons

DISPOSABLE INCOME¹

| Year | Disposable Income (billions) | Personal Con- sumption Expenditure |
|------|---------------------------------|---------------------------------------|
| 1950 | \$207.7 | \$195.0 |
| 1951 | 227.5 | 209.8 |
| 1952 | 238.7 | 219.8 |
| 1953 | 252.5 | 232.6 |
| 1954 | 256.9 | 238.0 |
| 1955 | 274.4 | 256.9 |
| 1956 | 292.9 | 269.9 |
| 1957 | 308.8 | 285.2 |
| 1958 | 317.9 | 293.5 |
| 1959 | 337.3 | 313.8 |
| 1960 | 354.2 | 327.8 |

NATIONAL FORESTS²

| | <u>Recreational Use by</u> | <u>Visitors</u> | <u>(millions)</u> |
|------|----------------------------|-----------------|-------------------|
| 1950 | 27,368 | 1957 | 60,957 |
| 1954 | 40,304 | 1958 | 68,450 |
| 1955 | 45,713 | 1959 | 81,521 |
| 1956 | 52,556 | 1960 | 92,595 |

STATE PARKS³

| | <u>Attendance (000)</u> | | |
|------|-------------------------|------|--------|
| 1950 | 11,278 | 1957 | 16,082 |
| 1954 | 13,256 | 1958 | 16,825 |
| 1955 | 14,220 | 1959 | 18,304 |
| 1956 | 15,193 | | |

¹Statistical Abstract 1961, 82nd Edition, U. S. Department of Commerce, Bureau of the Census, U. S. Government Printing Office, Washington, D. C., p. 298.

²Ibid., p. 194.

³Ibid., p. 196.

PAPER AND BOARD¹

Production in tons (000 omitted)

Year

| | |
|------|--------|
| 1950 | 10,926 |
| 1955 | 13,867 |
| 1956 | 14,234 |
| 1957 | 14,060 |
| 1958 | 14,150 |
| 1959 | 15,457 |
| 1960 | 15,634 |

| | <u>1950</u> | <u>1955</u> | <u>1956</u> | <u>1958</u> | <u>1960</u> |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| Folding Boxboard | 2,350 | 2,592 | 2,611 | 2,834 | 2,917 |
| Special Food Board | 656 | 1,154 | 1,290 | 1,350 | 1,492 |
| Set-up Boxboard | 713 | 797 | 794 | 736 | 731 |

¹Ibid., p. 699

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Other Sources

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Personal interviews with the Sales Planning Director and members of the Sales Planning staff.