CENTRAL MARKETING OF CELLULOSE, WITH PARTICULAR REFERENCE TO BRAND POLICY

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SUOMENKIELINEN SELOSTE:
SELLULOOSAN YHTEISMARKKINOINTI ERITYISESTI MERKKIPOLITIIKKAA SILMÄLLÄ PITÄEN

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Foreword

The question of brand and its position in the marketing of forest products has attracted my interest for some time. In 1959, while studying the marketing of cellulose at two different mills, and during 1960 at the Finnish Cellulose Union (Suomen Selluloosayhdistys), I tried also to make observations on brand and brand policy. The present investigation is an attempt to bring together the theoretical views concerning the marketing of branded products and my empirical observations.

Although the investigation tends to be primarily an elucidation of principles, these contacts with practical marketing constituted an essential foundation for its realisation. I am therefore grateful to all those who have kindly furthered my work in this respect. Among them I want to mention especially Messrs. LEIF GLÖERSEN, SVEN HÄGERSTRÖM and KAARLO LEHTIÖ, J. ALHOJÄRVI, A. COLLAN, PENTTI KÄÄPÄ, T. LASSENIUS, R. MERIKANTO, JAAKKO RAUTANEN, A. VUORIMAA and Y. VÄNTTILÄ. Without mentioning individuals, I also extend my thanks to the numerous other engineers, foremen and laboratory technicians of the mills, the staff of the Finnish Cellulose Union, especially in the sales and shipping departments, who on many occasions willingly explained the problems of their field of work.

The Finnish Cellulose Union made it possible for me to interview experts in practical selling work in importing countries.

The subject of marketing research methods I was able to discuss with the American Fulbright Professor A. J. ALTON who visited Finland in 1959/60. His advice and the literature to which he introduced me have been invaluable in my work. I thank Professor ALTON sincerely for the inspiration he gave me. My thanks go also to Professor THEODOR WEGELIUS who checked the part of my manuscript concerned with the properties of cellulose, and to Mr. JOUKO PAAKKANEN, who offered valuable comment on the part dealing with price formation.

The translation into English was kindly undertaken by Miss PÄIVIKKI OJANSUU, M.A. (Helsinki), and Mr. L. A. KEYWORTH, M.A. (Cantab.)

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1. Introduction. The purpose and method of the present investigation

The internal organisation for marketing cellulose usually comprises three principal forms (Bjöörn 1954, p. 186):

a. the sales division of the producing company itself;

b. an independent collective or central sales company;

c. an independent firm of merchants or agents.

Country-wide sales of cellulose have been handled in Finland since 1918 on a central marketing system through the Finnish Cellulose Union (Suomen Selluloosayhdistys),[1] a joint sales company (sales association) of type b. formed by the producing enterprises themselves. The Finnish cellulose marketing organisation is unique in this respect. Sweden, too, has had joint sales companies, but the sales company of the most important of the firms, Svenska Cellulosa AB (Swedish Pulp Company), in fact belongs to a single large-scale enterprise. Swedish producers, like those of other countries, for the most part market their cellulose individually through their own sales divisions (type a.). Type c. is uncommon.

Central marketing refers here to marketing of type b., and marketing by producers will be called individual marketing.

A host of interesting questions and special marketing problems attach to central marketing. The formation of the channel of marketing is itself a problem. A point of special interest is how the work of the sales association is dovetailed with the activity of other organs responsible for marketing. Has centralisation affected e.g. the structure of the external marketing organisation, and how are the connections with foreign users of cellulose generally organised? The question of the length of the marketing channel, i.e. the number of middlemen, is also of interest. Another important point is the methods of marketing, especially the division of activities between the sales assosiation responsible for marketing and the producing companies. Especial practical interest arises from the fact that the member companies and mills of the FCU are of various sizes and differently located for marketing. There are enterprises with only one mill, others

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[1] Abbreviated in the following to FCU. The term *sales association* is used here in the general sense of an institution like the FCU.

with as many as three cellulose mills. Some mills are situated inland, others on the coast.

These questions of the channels and functions of marketing constitute the first part of the present investigation.

Perhaps the most focal problem of central marketing concerns, however, its compliance with the interests of the individual producers. The primary requirement of every producer is to market his own products as profitably as possible. The cellulose of an individual producer always has its own special properties to some extent, indicated by mill brand. The question posed is whether central marketing is able in general to do justice to these "brand requirements", and if so how. This problem, the so-called brand policy of central marketing, is the second principal object of the investigation.

The term brand policy is given a somewhat broader import here than in many text books of marketing. Brand policy is often used to refer to the adoption of an attitude to whether or not a product is to be marketed as a branded product, and what level of marketing (producer or distributor) uses the brand (cf., say, Maynard and Beckman 1952, pp. 623—633). Discussion of the principles of this question and the branded merchandise character of cellulose constitute an essential part of the present investigation. The work concentrates, however, mainly on the problem of promoting sales of brands. There are three important aspects to this problem. Firstly, what promotional tools are at the disposal of central marketing for the sales promotion of different brands? Secondly, how does the use of marketing tools differ from the use of the promotional tools of individual marketing (type b.)? Thirdly, what is the efficacy of marketing in the two systems, central and individual marketing?

In the writer's opinion these issues are fundamental to the concept of brand policy. The study of the channels and methods of marketing constitutes an indispensable basis for its discussion.

The purpose of the investigation can thus be expressed briefly as follows:

1. Review of central marketing, with especial reference to the formation of marketing channels and methods;
2. The principles of brand use in the marketing of cellulose;
3. The use of marketing tools in the central marketing of cellulose, especially for the promotion of demand for different brands;
4. Determination of how the use of marketing tools differs in central and individual marketing.

To permit an overall comparison between individual and central marketing, central marketing is discussed in connection with item 1 also from the standpoint of price formation and marketing costs.

Marketing is made up of a whole series of marketing functions (see Maynard and Beckman 1952, p. 37). The present work will concentrate on the discussion

of functions important primarily for the task: selling, buying, standardisation and grading, and to some extent also delivery.

The investigation is limited to export marketing.

The empirical material on central marketing and its brand policy was collected from two producer companies and the FCU. It was supplemented by interviewing experts in the field in question.

The material, less complete than the above, concerning individual marketing in the Scandinavian countries, primarily in Sweden, was collected partly through interviews and partly from the literature.

It was not always possible to base conclusions on empirical data and on occasion they were perforce reached by deduction.

2. Central marketing of cellulose

21. General marketing conditions for cellulose

In the terminology of ALEXANDER, CROSS and CUNNINGHAM (1956, pp. 3—32), cellulose belongs to the group of industrial goods and, within this, to the group processed material. Its principal users are paper and board mills, whereas dissolving pulp is used by rayon factories and factories making explosives, cellophane, film, etc. Cellulose as such is hardly used at all for ultimate consumption. It is incorporated as a component — in the paper industry often as almost the only one — in the product (paper, rayon, etc.), originating through further processing, which will in due time be circulated for consumption. Demand for cellulose is thus not direct consumer demand but derived demand.

Cellulose is not so clearly distinguishable in the end product as many industrial goods, e.g. the engine or tyres in a car.

Especially production-technical factors and the fairly developed centralisation process in the cellulose-using and cellulose-producing industry have resulted in the situation that companies buying — and selling — cellulose are mostly large-scale enterprises. The circle of buyers and sellers thus comprises a relatively small number of businesses. The number of companies is not known, but there is some information on the paper and board mills of the importing countries and the cellulose mills of the exporting countries in national censuses of production. The number of paper mills in some important cellulose buyer countries (share in the world cellulose imports — as known according to the statistics of FAO — in 1956—1958 = 61 per cent) was as follows (the sources used were the publications on censuses listed in the bibliography. The date in brackets refers to the census year):

Denmark (1948)	12
Western Germany (1958)	378
The Netherlands (1959)	34
U.K. (1954)	278
U.S.A. (1947)	665

The census data covers also those paper mills which do not use woodpulp. For this and a host of other reasons the number of paper mills using imported cellulose is smaller than the total number of mills according to the censuses. This

applies especially to the U.S.A. where the integrated paper mills using domestic pulp dominate paper production.

The number of cellulose mills in some important exporting countries (share in the world cellulose exports in 1956—1958 = 82 per cent) was as follows (the source for Norway and Sweden: Brusewitz Nordisk Papperskalender 1959):

Canada (1955)	125 (includes paper mills)
Finland (1959)	28
Norway (1958)	22
Sweden (1958)	83

The number of the companies is considerably smaller than the number of mills. The Finnish mills e.g. belong to 22, the Norwegian to 19 and the Swedish to 50 companies (according to Brusewitz . . . 1959). In the buyer countries, too, the number of purchasing companies is much smaller than the number of mills. In the Netherlands, for example, the number of paper industry firms is only 18, i.e., roughly half the number of mills.

The effect of the structure of demand is that each buyer purchases fairly large quantities per annum. The amount sold by each producer is, on the average, even larger.

The purchasing motive is not personal satisfaction but the entrepreneur's profit. Since buyers are technically qualified experts, emotional motives cannot be appealed to in marketing (e.g. advertising) in the same degree as in marketing consumer's goods.

Another feature of cellulose markets is their verticality, i.e. certain limited industries buy the product. The markets are thus narrow but deep, for practically all establishments in the field (paper and rayon mills) need the product. The skill of the sellers is more important than their number in such marketing (see ALEXANDER, CROSS and CUNNINGHAM 1956, p. 21).

The marketing of cellulose and materials in general differs from the marketing of some other industrial products, e.g. machines with a long life, and purchases by a certain buyer are made at fairly short intervals and are often to some extent of a periodically recurring nature. Successful marketing thus presupposes continuous contact with buyers, to a great extent even with the *same* buyers. A central problem in marketing, indeed, is to keep certain clients. The significance of this is emphasised by the fact that there is little entry into the cellulose-using industries; production expands and the use of cellulose increases chiefly among existing companies, even mills. The significance of new markets and clients must nevertheless not be underrated.

22. Channels of marketing

According to KASKIMIES (1955, p. 42), the channel of marketing (more often called the channel of distribution) consists of the mutual contacts by means of which independent and risk-bearing economic units exchange ownership of merchandise when it passes from the producer's to the user's hands. In the present investigation, channel of marketing is conceived widely in that non-risk bearing middlemen, i.e. functional middlemen, are included.

It is customary to divide the marketing organisation of cellulose, like that of the other export products, into an internal and external organisation, the former denoting the offices managed from the pulp mill itself, the latter being composed of the bodies in direct contact with consumers (BJÖÖRN 1954, p. 185; RANINEN 1951, pp. 37—38).

Finnish cellulose companies concluded an agreement in 1918, renewed in 1921, on the founding of a joint marketing company, the FINNISH CELLULOSE UNION (SUOMEN SELLULOOSAYHDISTYS). At the end of 1959, all the 22 companies in the branch, owning a total of 9 sulphate and 19 sulphite mills, belonged to the union.

Under the agreement (1949, § 15, 16 and 18) the cellulose of a member company is sold, with minor exceptions, solely through and by the agency of the union or with its consent. The most important exception is sale to an independent mill owned by the member company, or in which the same member holds the majority of the stock, for that mill's own use.

The administrative organs of the FCU are the meeting of the Union attended by the representatives of the member companies, and the board of directors elected by the meeting. The practical marketing work is entrusted to a permanent staff headed by a managing director.

The FCU differs from the conventional export agent firstly in its constitution: it is established and governed by enterprises in the branch, whereas an agency can often be and indeed frequently is completely outside and independent of such enterprises. Secondly, the FCU is entirely responsible for selling the cellulose produced by Finnish companies and that in such a way that the orders are distributed among the member companies (mills) in a certain ratio to sales production. An agent can hardly be given this responsibility. Thirdly, the FCU works more independently and assumes a greater responsibility than the average agent. The FCU for instance draws up contracts and sends out invoices in its own name, although the producer's name also appears in the invoices. The defrayment of the fee also is differently arranged from the agents' remuneration: the agent is usually paid in commission a certain percentage of the fob price of the merchandise, whereas costs incurred by the FCU that cannot be entered as direct marketing costs of an individual product are divided between members and paid as a common account.

The organisation thus formed was called by JÄRVINEN (1943, p. 137) a collective sales company (*yhteismyyntiyhtymä*).

The establishment of the FCU meant that the companies had not much to do with the selling of cellulose. They have, however, to carry out some tasks associated with marketing, first and foremost deliveries (Chapter 23). Most mills therefore have a shipping department headed by a shipping clerk. But the organisation of the marketing work varies a little in the different companies and mills.

The annual export sales of the FCU averaged 1.2 mill. metric tons (dry weight) in 1957—59.

As regards *buyers*, in some countries they have formed joint purchasing associations. One example is the C.M.P.P. in France, which buys around 30 per cent of the cellulose imported into the country. In some countries, e.g. Denmark and Chile, where paper production is highly centralised, imports are in practice in the hands of a single firm.

The *internal* marketing organisation in Finland thus comprises the cellulose companies (their delivery departments) and the FCU. The *external* organisation is composed of agents who, with a few exceptions, live and operate in the buyer countries. There are two types of agents, divided according to their relation to the sales association. There are, firstly, independent agents appointed by the board of directors of the Union under an agreement on the management of the agency tasks. This is the traditional usage in agency work.

Since 1947 the FCU has established in some countries its own *sales offices* which function as branches directly subordinated to the Union, often under the direction of a Finnish citizen. These Finncell sales offices, established by the FCU in seven countries at the end of 1959, are an interesting developmental feature of the external sales organisation. They were perhaps created principally with the aim of having in the countries in question agents who are more effective than "foreign" agents at creating a demand for specifically *Finnish* cellulose. A representative sent from the mother country, moreover, in his market reports comes closer to the "same language" than the conventional agent who perhaps sometimes colours communications primarily to suit his own business interests. It is also to be expected that an agent working in close contact with the sales organisation of the FCU pays stricter attention than the conventional agent to the buyers' wishes concerning quality etc. in his reports back to the mother country. Ultimately, the establishment of its own sales office may result in a saving in the costs of marketing. The remuneration of the sales personnel is not fixed according to the conventional commission rates, but according to the discretion of the sales association — and at the same time of the producers.

A disadvantage of a filial sales office may be that the representative sent by the exporter country is not always so familiar with conditions in the buyer country and may not have such close contacts with the buyers as the agent of the purchasing country.

The sales office system is relatively new and its value cannot yet be assessed because of insufficient experience. Its success probably depends greatly on the country in which the sales are made. The sales organisation of the future may be some kind of double system: traditional agents of the buyer country (citizens of the buyer country) in some countries, in others sales offices of the FCU. Such an arrangement, and especially the knowledge of the existence of the sales office, may perhaps help to spur the traditional agents on to greater efforts in their sales work.

The FCU has observed the following principle in the organisation of the agency business: a sole agent for each country. It is also the rule that the agent of the FCU must not hold agencies of competing countries. The agents have no power of decision; the final decision on contracts rests with the FCU.

In individual marketing the external sales organisation is less homogeneous than in central marketing. The most common method is to use agents in the buyer countries, paid by each producer separately. Some foreign buyer may also use a buying agent in the producer country (in which case the buyer also pays the commission). A few of the major Scandinavian producers have also established a sales office of their own in some of the most important buyer countries. In addition, many producers market their cellulose through independent export houses. This channel of marketing is used especially by small and medium-sized, but often also by large-scale producers, particularly when they market their cellulose overseas (e.g. in Latin America) and in general for countries where the annual sales are small and in which producers do not want or do not find it possible to employ an agent of their own. The use of an export house in possession of an established organisation offers certain advantages in such cases.

A large-scale producer can thus use concurrently — excluding buyers' associations (e.g. C.M.P.P.) which are not of importance for the comparison made here — three, even four, different channels of marketing:

a. producer (sales department) — producer's sales office (in the buyer country) — user;

b. producer — agent (in the buyer country) — user;

c. producer — export house — user;

d. producer — user's agent (in the exporting country) — user.

For medium-sized and small producers alternative a. of the marketing channels is omitted and channel d. is used but seldom.

Various channels of marketing are illustrated in Fig. 1.

An effective sales policy of branded products often presupposes the most direct contact possible between producer and user. KASKIMIES (1955, p. 200) reported that branded merchandise generally shortens the channel of marketing. Comparison of the *length of the marketing channel* in individual and central marketing shows that in the former, channel a., the middleman has been eliminated

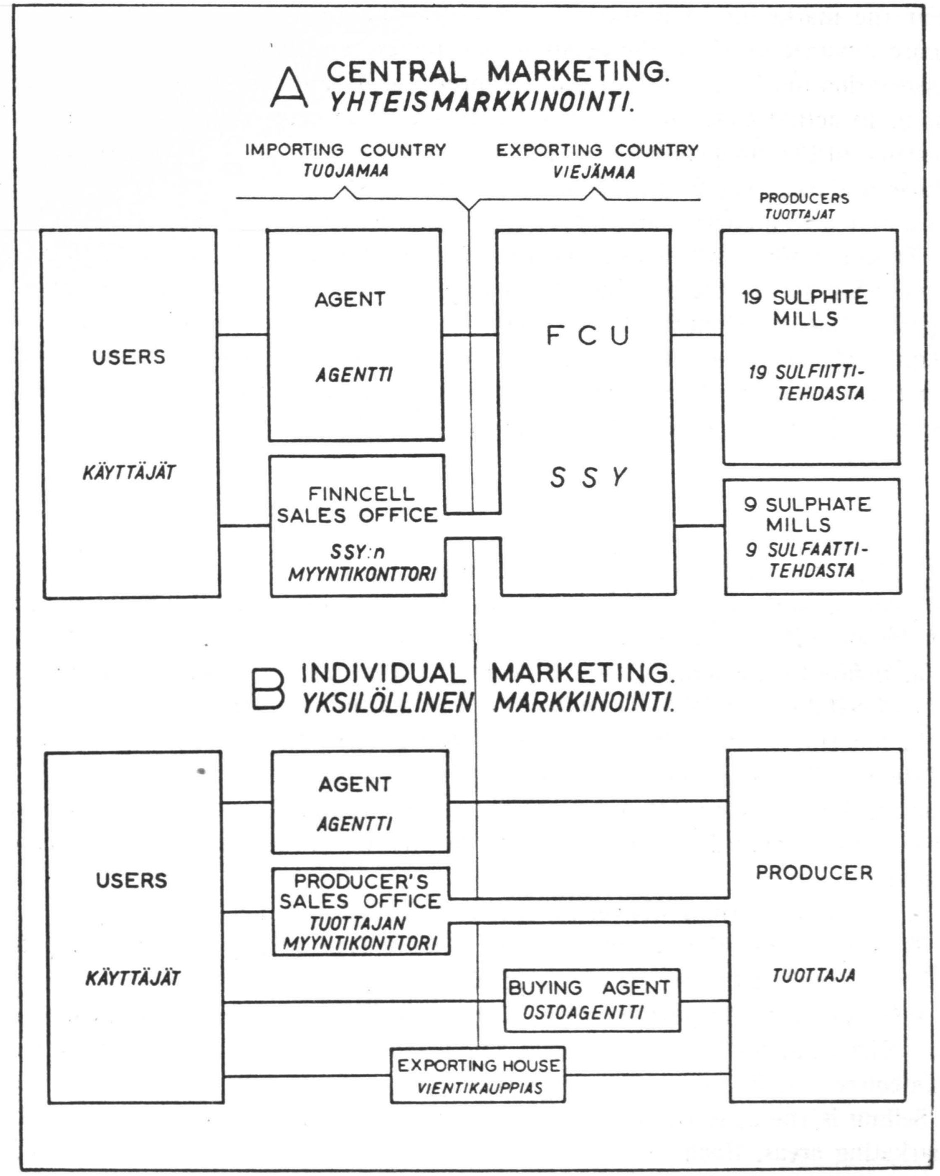

Fig. 1. Channels of marketing.
Kuva 1. Markkinointitiet.

so that it is the shortest channel. Channel b. is shorter than the traditional channel of central marketing (FCU — agent — user) in that the sales association middleman is lacking, but it is roughly the same length as the other principal type of central marketing (producer — FCU — Finncell sales office — user).

For the marketing of branded merchandise the last-mentioned channel offers more advantages since the agent of the buyer country is replaced by a sales association under the authority of the producer. Channel c. is nominally as long as b. In actual fact, the former is less favourable for marketing branded goods because of the independent middleman that appears in the channel between producer and user. The fourth, channel d., which is little used, has the disadvantage of a user with an active and a producer with a passive role in marketing.

To summarise on the length of the marketing channel, the channel of individual marketing may in the best instance (large-scale producer, large buyer country) be shorter than the channel of central marketing, but in less favourable cases may require the intrusion of a middleman (export house) which has its drawbacks for the marketing of branded goods. Central marketing thus signifies a sort of compromise in the choice of the channel of marketing.

23. Methods of sale and deliveries

To keep the FCU informed of the quantities sold at a given time and enable it to plan marketing, the mills advise it as to their stocks and output and the size of the lots offered for sale (Agreement 1949, § 17). These reports are sent:

a. before the beginning of every year, with a forecast of output and the quantity of cellulose available for the market in the coming year;

b. monthly through the year. These reports state the output and deliveries of the month in question and the stock position at the beginning and end of the month. A summary is drawn up at the same time of the development during the year up to that time and the forecast for the rest of the year is revised accordingly;

c. weekly concerning deliveries, output and stocks, and orders.

The reports mention separately, specified by type and quality, the pulp for sale to be used at the producer's own mills.

Information on the output, stocks, sales and deliveries of the mills are collected and collated at the FCU by a special *production department* which thus functions as a connecting link of sorts between sales and production.

Selling is the concern of *sales departments*, their duties being distributed by marketing areas. Each sales department maintains contact with the agents in its marketing area. The forecasts of potential sales made by the sales department staff in connection with their travels and on the basis of assessments made by the agents, together with the production prognoses of the mills, serve as the point of departure for the sales programme drawn up annually. It is the agents and the sales department concerned together which are primarily responsible for realising this annual sales programme.

To give the buyers an idea of the products of its member mills, the FCU procures *samples* from the mills and sends them at frequent intervals, usually

quarterly, via its agents to the buyers. The samples (and not, for instance, results of analyses) constitute the basis also for assessing whether the merchandise sold is in accordance with the contract. On the point of quality the contracts often contain a direct reference to samples ("as per sample submitted").

Samples thus have quite an importance in the marketing of cellulose. In principle, quality could also be defined according to analysis results. But samples have been adopted in practice because, to take one point, analytical methods vary fairly widely in different countries, e.g. in the buyer and producer countries, and this complicates the comparison of analyses. For some special kinds of cellulose (e.g. high alpha pulps) it is customary, however, to insist on certain quality requirements.

The samples are handled at the FCU by a special *technical department* which also transmits other information on the products of mills to the users, controls the quality of the products and deals — in co-operation with the mills — with complaints concerning quality.

The submitting of samples is necessary, especially to a new buyer or when the properties of the cellulose of a member mill have changed e.g. because of some improvement introduced at the mill. Samples from, say, 2—3 producers also give the buyer a better chance of selection and the sales association, going by the remarks made concerning the samples, can place the orders with the mills whose product satisfies best the special requirements of each buyer.

Basing itself on the deliveries of previous years and the production forecasts, the FCU endeavours through its agents to conclude with buyers before the beginning of each year a *reservation* agreement concerning deliveries for the year as a whole. In this reservation appear the quantity of cellulose ordered by the buyer, the brands and the outline delivery schedule. A different reservation is usually made for each type and quality of cellulose.

The reservation is made "at open price". The prices are agreed upon quarterly, usually in an addendum drawn up in the month preceding every quarter of the year. The addendum confirms the type, quality, quantity and terms of payment. If the buyer so wishes and the FCU can deliver more than the reservation presupposes, a memorandum is drawn up. Again, the quarterly delivery mentioned in the reservation agreement can be reduced through another agreement, or perhaps even cancelled altogether.

The reservation, which incorporates a number of details concerning the deal, is signed only by the buyer. It is not, as pointed out by Bjöörn (1954, p. 203), "legally speaking" really an agreement but the buyer's preliminary announcement that he has bought the quantity of cellulose in question on the conditions printed on the contract form with the blank spaces completed ("We have this day bought of you — —"). The addendum and the memorandum are signed both by the buyer and the seller or his agent. For all these agreements, however, the agent must obtain the sanction of the FCU.

Closely associated with the above method is the practice by which a small buyer makes a reservation concerning a certain (one) delivery to ensure that he gets the pulp.

The third group consists of occasional spot lots taken by some buyers throughout the year, usually on "prompt" delivery terms. The number of these spot lots deals varies from one year to another, largely with the market situation.

With some major, permanent buyers the FCU has also concluded "general agreements" for a longer period than a year, but even in such cases the reservation agreements are negotiated annually.

The reservation method is the predominant sales practice with the traditional markets, principally Western Europe and North America. In Latin America and some other countries sales have been chiefly at fixed prices. The reservation system has been used increasingly in recent times, although the buyers' desire to make reservations varies to some extent with the market situation.

Personal selling holds the focal position in the selling activity of foreign agents. Agents or the salesmen employed by them make regular calls on the buyers (chief buyers and managers of the buyer companies). An important aspect of selling work is visits — rather regular — by the sales personnel of the FCU to the buyers. The actual sales work takes place principally in this form. On the other hand, the details of the contracts and deliveries are to a large extent agreed by mail, telephone and cable.

Cellulose has long been sold chiefly (JÄRVINEN 1943, p. 140) and in recent times almost exclusively on cif terms, with the seller responsible for the chartering of ships, transport insurance and shipments. For these tasks the FCU has a special *shipping department* which works in co-operation with the producer companies. In a few countries only do the buyers themselves pay the goods-in-transit insurance. This is the case especially when the laws of the buyer country compel the importers to do so.

In the actual selling job the role of the producer company is a passive one; it only gives the data required on output etc. to the sales association which has full authority to manage sales in accordance with the directions given by the meeting of the Union and its board of directors. It must not be forgotten, however, that the mills play a decisive indirect role in the success of the sales work by taking a pride in and improving the quality of their products.

The producer's marketing work actually begins at the time the *delivery* of the cellulose sold becomes topical. As deals are concluded and prices confirmed, i.e. mostly after the addenda have been signed, the sales association fixes for the different mills a quota of the cellulose quantities covered by the contracts — unless the brand is stipulated in the contracts — and sends the *order* to the individual mills. The order mentions e.g. the buyer, the type, quality and quantity of cellulose, approximate time of delivery (month), other information necessary for the execution of the order and the approximate fob price and pricing class.

The sales association informs the individual mill of the final delivery date in a *delivery note* which gives the shipping port, ship, quantity of cellulose to be delivered, number of the order, exact delivery date, method of marking the bales, etc. Before the despatch of the delivery note the shipping department of the FCU reserves the necessary shipping space.

The delivery note differs from the order in that it is a precise instruction on how to proceed — though changes can be made at the last moment — whereas the order is a kind of general directive from which the producer company (mill) obtains an idea of the deliveries it can be expected to make and can thus consider in making its production plans.

Although the data contained in the order are noted also by the production department of the mill, it is not until after the arrival of the delivery note that final action is taken. It is first ascertained whether the quantity of pulp stipulated in the order is in stock. When the loading date approaches the shipping clerk gives the necessary directions to the mill store from which the actual loading takes place: in the mills on the coast this involves moving the bales alongside ship, in inland mills into railway truck. The rule is that the companies themselves manage and pay the costs of transporting pulp from inland mills to the export harbour. There are two different types of practice as regards despatching the goods ex harbour. When shipment is from the mill's own harbour or from one close to it, the mill itself manages the despatch, often with its own personnel. Pulp delivered by inland mills is despatched, with a few exceptions, by the FCU, using forwarding agents for it. The forwarding charges are always defrayed by the producer.

The FCU employs special inspectors to supervise the punctual and careful execution of deliveries. Each has his own specified export harbours to supervise.

It appears, then, that responsibility for the principal marketing functions is distributed between the producer, the FCU and an agent (or sales office) operating abroad, and the buyer in the following way:

	Producer	FCU	Agent	Buyer
Selling		+	+	
Chartering the ships		+		
Insurance		+		+ (seldom)
Transport to harbour	+			
Loading and forwarding:				
— inland mill	+ (seldom)	+		
— coastal mill	+	+ (seldom)		
Invoicing and accounting		+		

24. Central marketing from the standpoint of price formation and marketing costs

241. General

An important external reason for the establishment of the FCU in 1918 was that the cellulose exports of the country as a whole which up to 1918 had gone chiefly to Russia had to find new outlets, i.e. to be directed to western markets after Finland separated from Russia in the same year (see MALM 1928, VALTASAARI 1954). That central marketing has continued for over forty years can be interpreted as evidence that the firms in this branch have obviously found it a suitable solution even in normal marketing conditions. It is now proposed to study the viewpoints associated with the question, firstly from the general aspect and then with detailed reference to brand policy.

It is permissible to set out from the assumption that each firm endeavours to organise the marketing of its products in a manner which will best further the overall aim of its work. In economic research this aim is generally regarded as the achievement in the long-term view of the best possible profits.[1] Thus defined, the object of the best business profits also incorporates the security of profits (see ROTSCHILD 1947). The marketing system promotes the achievement of this goal if it:

1. ensures a definite and the stablest possible outlet for the products of the company. This requirement is especially important in the cellulose industry in which the proportion of fixed costs in the production costs is great;
2. ensures the company's opportunities to increase its sales when the use of the product increases;
3. guarantees the most advantageous possible price level for the quantities of the products marketed;
4. enables the sales of the quantity produced at the lowest possible costs.

It is thus necessary in evaluation of the effectiveness of a marketing system to pay special attention to the evenness and security of outlet, expansion of sales, price level and marketing costs. The overall effect of these part-factors decides the advantageousness of the marketing system.

Price formation and marketing costs in central marketing will be discussed relatively briefly here. One reason for this is that producers from the outset have considered that the central marketing system is more favourable than the individual marketing system in regard to price formation and marketing costs. The main problem here is to ascertain whether this view is justified, involving

[1] Considerable criticism has been directed in recent times to the adoption of profit maximisation as the starting point of entrepreneurial activity (see e.g. KASKIMIES 1955, pp. 77—83; PAAKKANEN 1957, pp. 37—43; LANZILLOTTI 1958), but so far no better theory has been worked out to replace it.

as it does a matter of principle. The question that must be put is: to what extent can this system realise the sales policy requirements of the different brands, i.e. the member firms? It is on this problem that the present study focuses.

The outlet and price parameters cannot be completely divorced as price is one of the functional parameters through which the enterprise influences sales. Price as a competitive factor will therefore have to be discussed in connection with brand policy.

242. Price formation

Price formation can be reviewed as it were at two levels: from the standpoint of the entity constituted by the companies in a country (the branch level) and with reference to the price relations between the companies (the enterprise level). The former aspect will be taken first.

Central marketing differs in regard to price formation from individual marketing in that the number of enterprises representing supply *in the markets* is limited to one. This naturally emphasises the branch (national) view and eliminates intercompany price competition.

The bases of price formation in different competitive conditions have been studied widely, especially since the 1930's after publication of the investigation of CHAMBERLIN (1933) and ROBINSON (1933). It is not necessary here to discuss the different price theories in detail. It might be emphasised, however, that the number of enterprises representing both demand and supply is relatively small (see Chapter 21 on this point). The market, especially supply, thus shows obvious features of oligopoly.

Price competition may easily lead to a price war in oligopolistic fields. To prevent this, two methods in particular have been applied in practice:

a. price-leadership, in which a dominant or so-called barometer enterprise fixes the price which is "tacitly" observed by others;
b. inter-company "collusion" which aims at the maximisation of joint profit.

(See e.g. GUTENBERG 1956, pp. 272—280; RYAN 1958, pp. 337, 342—351; PAAKKANEN 1957, p. 60).

The central marketing of cellulose represents type b.

The possibilities of applying methods to prevent a price war vary in different fields. If, for example, some branch can introduce great changes in quality and/or if advertising is of great importance in brand policy, arrangements of the type mentioned will not be required (cf. MICKWITZ 1959, p. 125). Cellulose marketing does not belong among such branches.

Central marketing thus offers a considerably more definite control than individual marketing over the price formation of a branch (cf. STIGLER 1952, pp. 244—251 etc.). It may be assumed to have a stabilising effect on prices. STIGLER (1947) e.g. observed the "tendency for price flexibility to increase with the number of firms in the industry" (see ROTSCHILD 1947). And further: by creating better conditions for co-operation between the exporter countries central marketing offers certain advantages to producers also in this respect. Co-operation of this type has been applied especially among Nordic producers.

The attitude of the Finnish cellulose producers to co-operation over price policy is shown e.g. by the fact that when the dissolution of the FCU as a sales association was deliberated in 1921 there was a plan to maintain a joint association for the co-ordination of price policy by fixing minimum prices. Such co-operation had already been practised prior to the establishment of the FCU (see JÄRVINEN 1943, pp. 136—137; VALTASAARI 1954).

For formation of the *joint price level of the branch* cellulose producers have thus considered co-operation over price policy to be more useful than individual operation, and have set this up as a sort of minimum aim of co-operation between producers.

In considering the position of price factors in central marketing four points in particular should be emphasised.

Firstly, price policy cannot take shape independently of the attitudes of the member enterprises. The general lines of the price policy of, say, the FCU is discussed by its board of directors or its general meeting whose members and participants are representatives of the member companies. It is in fact characteristic of price formation under the central marketing system that price questions automatically come up for *joint* deliberation by the company representatives.

Secondly, the central marketing system need not signify a maximum price for the goods sold. As mentioned e.g. by MAYNARD and BECKMAN (1952, p. 365), the aim in the marketing of semi-manufactures is principally the maintenance of a stable price level and the guarantee of sales. Central marketing may be thought to have greater chances than private exporters of stabilising prices.

Thirdly, price formation of the central marketing type affects companies in different positions — and in different branches — somewhat differently. The general tendency is to level out the difference between the weakest and the best company in the price competition.

Fourthly, the significance of the price factor has diminished in modern marketing and that of other media of competition has grown (cf. PAAKKANEN 1957, p. 70; KASKIMIES 1958, pp. 22—24).

243. Marketing costs

Three main methods were introduced by MAYNARD and BECKMAN (1952, p. 703—) for the determination of marketing costs.

a. consumer prices less form utility, or so-called production costs;
b. sum of gross margins of marketing agencies;
c. functional approach to the costs.

For the calculation of the marketing costs of a certain commodity or commodity group, such as the present investigation is concerned with, MAYNARD and BECKMAN recommend especially the method a. Its application to the comparison of marketing costs in the present study would, however, be a very complicated procedure in practice.

It was not possible on the whole to obtain sufficient empirical material on marketing costs admitting of comparison. This made it necessary to resort in the main to the deductive evaluation of the costs of marketing functions, costs which may be assumed to be of different magnitude in individual and central marketing. In other words, a kind of modified method c. had to be applied.

It has already been shown that the FCU manages the selling and also several other marketing functions: chartering, with a few exceptions insurance coverage, shipments and invoicing. Would these functions be managed more economically by the companies themselves?

All the above-mentioned tasks of the marketing company are essential marketing functions irrespective of the marketing channel used. One of the main alternatives for central marketing would be the arrangement generally adopted e.g. in the Scandinavian countries: the company has its own sales division under a sales manager and agents in the buyer countries.

An arrangement such as this would probably require a bigger sales staff than central marketing per sales volume unit even at home. This is so primarily because individual marketing by several firms would probably involve smaller sales lots than central marketing. Moreover, cellulose marketing, practically world-wide in its scope, would probably require if it is to be successful a staff familiar with the conditions of different areas, or marketing in overseas areas would have to be entrusted to "export house" enterprises which would mean intruding one independent middleman into the channel of marketing. On the other hand, the capacity of even a small sales department in smaller companies would hardly be utilised carefully.

As far as the external sales organisation is concerned, it has been noted that only the very largest producer companies have been capable of establishing in even big markets sales offices of the Finncell type which make it possible to lower marketing costs when sales are big.

The connections between the external and internal sales organisation can be maintained at a lower cost by means of modern communication equipment (e.g. telex) in central than in individual marketing.

The advantages of central marketing are perhaps more apparent in shipments than in marketing activity. It has been found that cellulose is sold on cif terms, unlike sawn goods for which the prevalent terms are fob (more correctly fas). Central marketing makes it possible to include in a single shipment if necessary several cellulose lots (from different mills), which promotes the rational management of shipments. In its capacity as large-scale shipper the sales association has, moreover, greater "bargaining powers" than the individual cellulose producer when freights are discussed.

Shipments as a competitive factor are reviewed in Chapter 324.

On the other hand, certain functions that would not appear in individual marketing are inherent in central marketing. For instance, there are the accounts rendered to different firms and the calculations associated with them. It would probably be possible in individual marketing to manage the tasks of the production department of the sales association without special staff as company sales departments generally work at the mill site (Bjöörn 1954, p. 186). It must also be noted that mills are not entirely without marketing personnel even under the central marketing system. Nearly every mill has its own shipping clerk. The essential difference is that in central marketing this staff is very small — mostly 1—2 persons — and need not be so highly qualified as in individual marketing.

The costs of marketing research can also be included in a way in marketing expenditure. Since many market surveys serve all enterprises in the country, they can be carried out at lower cost by the sales association than by the companies themselves.

The factors reducing the cost of central marketing probably outweigh the cost-increasing factors. An empirical indication of the low level of central marketing costs that may be mentioned is that the administrative expenditure of the FCU in 1958 was only 200.5 marks/ton, i.e. 0.465 per cent of gross and 0.521 per cent of net invoicing. Empirical figures are not available for the corresponding expenditure in individual marketing of cellulose, but for instance the commission paid in Finland to a sawn goods export agent, who carries out almost the same marketing functions as the FCU with the exception of freightage, average 1 per cent of the fob value of the goods (which corresponds roughly to the net invoicing value of cellulose). In Scandinavia the commission generally paid to export houses — when these act on commission basis — is regularly more than two per cent.

Central marketing is thus evidently competitive as regards marketing costs. It may also be noted that the cost of the central marketing of cellulose constitutes a fairly small proportion of the sales price of the merchandise. A decisive factor from the producer's standpoint is the question of the efficiency with which marketing is managed.

Marketing costs have been reviewed above primarily from the standpoint of the cellulose industry of the country as a whole. In individual marketing the expenditure in question varies considerably with the *size of the company*. A large enterprise consisting of several mills can manage its marketing itself relatively economically, whereas for a small company these costs may rise to a high level.

3. Brand policy

31. The position of brands in cellulose marketing

311. General. Cellulose as a branded merchandise

In the theory of marketing much study has been devoted to the concept of branded merchandise in marketing and much trouble taken to define branded merchandise. Kaskimies's (1958, pp. 27—46) review shows that the concept, the definition and the bases for definition of branded merchandise differ. He considers the concept of branded merchandise to imply that

a. the merchandise carries a certain identification (trade mark, trade name and/or design) of the manufacturer, packer, etc. which distinguishes it from other goods;

b. the merchandise is an end product, i.e. a product which reaches the ultimate consumer and/or user directly ready for use;

c. the outlet tools (quality, advertising, price, etc.) — discussed in greater detail in Chapter 322 — are used in a certain combination in the marketing of the product in an acquisitive manner and for a sufficiently long time.

Several workers, e.g. Gutenberg (1956, II, p. 330), Mellerowicz (1955, pp. 6, 12) and Röper (1955, pp. 6, 64—65) regard advertising as an important property of branded merchandise. Kaskimies, too, includes it among the marketing factors mentioned in item c.

Cellulose does not meet all the above criteria of branded merchandise. It is not an end product, but an intermediate product. Hence cellulose is not a branded merchandise in the sense defined by Kaskimies or in the traditional implication of the term.

Cellulose complies, however, with the requirement of branded merchandise in that it is furnished with a mark and thus distinguished from other goods, i.e. those of other producers. As will be seen later, certain marketing factors, though they differ from those mentioned by Kaskimies, are used in the marketing of cellulose and the trade mark is of appreciable significance. *Although cellulose is not a branded article in the proper sense, it is an article with a trade mark* and warrants the use of the term brand policy.

The negative view of the brand character of cellulose is not unanimously shared. American marketing literature in particular fails to a great extent to list individual characteristics of a branded article. A relatively broad-minded attitude is adopted towards this point, and brands and brand policy are also linked in certain cases, with intermediate products (see e.g. MAYNARD and BECKMAN 1952, p. 365).

As pointed out by KASKIMIES (1958, pp. 34—35), the concept of branded merchandise is also broader in political economy. In fact, every differentiated product is a branded article differing from other goods and *cross elasticity* can be used as the standard of the differentiation. If the cross elasticity of the demand for some product vis-à-vis the product compared with it is finite, it is in a certain respect a branded merchandise.

312. Categories and grades of cellulose

The general lay view is that cellose is a fairly homogeneous mass commodity and that it makes little difference to the buyer where he purchases the merchandise. In reality there are many different categories and grades. This appears from the table which shows the Finnish classification of cellulose.

The Finnish Classification (Product-mix) for Chemical Wood Pulp

Category	Number of brands
I *Alpha Sulphite Pulp*	2
II *Alpha Sulphate Pulp*	—
III *Bleached Sulphite Pulp*	
1. for Rayon	3
2. Extra Soft	2
3. Soft	3
4. Strong	6
5. Extra Strong	5
IV *Bleached Sulphate Pulp*	
1. for Rayon	—
2. Extra Soft	—
3. Soft	—
4. Kraft	1
5. Kraft, Extra Strong	—
V *Semi-Bleached Sulphate Pulp*	2
VI *Unbleached Sulphite Pulp*	
1. Easy Bleaching	3
2. Bleachable	5
3. Strong, Bleachable	
4. Strong	10
5. Extra Strong	6
VII *Unbleached Sulphate Pulp*	
1. Easy Bleaching	—
2. Bleachable	2
3. Light & Strong	
4. Kraft	5
5. Kraft, Extra Strong	4
VIII *Sulphite Screenings*	..
XI *Sulphate Screenings*	..

It will be seen that the classification is based in the first instance on the *principal production methods*, i.e. the sulphite and the sulphate methods. Both of them are further divided into bleached, semi-bleached (only in sulphate) and unbleached cellulose and screenings. These, too, are primarily classifications based on the production process, although the proportion of screenings in the product depends also on the quality of the raw material.

The different categories (1—5) of unbleached cellulose are also a matter of production technique. The category is determined principally by the extent to which the lignin and the constituents other than cellulose are removed, i.e. pure cellulose is separated in the digestion. This cooking degree, as it is called, is generally expressed by the so-called Roe chlorine number [1] although the difference appears in practice principally in the strength, colour and bleaching characteristics. The Roe number illustrates approximately the amount of chlorine needed at the chlorination phase in the bleaching process.

Semi-bleached and bleached cellulose derive from unbleached pulp from which the lignin etc. are separated by treatment with certain chemicals. Brightness is generally measured by General Electric (GE) numbers which indicate the capacity of a sheet of pulp to reflect light in ratio to the refractive ability of a smooth magnesium carbonate body (expressed in hundredths).

Dissolving cellulose is produced by special cooking and bleaching methods and methods by means of which all lignin, mineral substances and micromolecular cellulose are removed from the pulp, leaving the purest possible cellulose. In addition to brightness, other important properties and bases of classification of the pulp categories are viscosity and the content of alpha cellulose and resin, although a number of other characteristics must also be known and tested (see e.g. BJÖÖRN 1954, pp. 90, 145—150).

The classification of cellulose includes, implicitly in a way, division according to *tree species*, for sulphite is traditionally made in Finland from spruce, sulphate from pine. However, both are made today to some extent also from hardwoods, especially birch. It is in fact customary in commercial classification of goods and in trade contracts to separate hardwood cellulose from other sulphite and sulphate cellulose. Hardwood is also used as raw material for semi-chemical pulp, which should also be added to the classification.

The general *use* to which the cellulose is to be put can often be determined from the classification given in the table. In the marketing of cellulose mention is often made of more detailed category definitions for use. The contract may, for instance, state "Unbleached Sulphate Pulp for Condenser; Unbleached Sulphite Pulp, Extra Strong, moist, for Pergamin", etc. The brightness number in bleached and semi-bleached kinds of cellulose may also be mentioned, etc.

To the commercial category classification of cellulose must be added the im-

[1] A host of methods have been developed for determination of the cooking degree. The results of them all, however, can be roughly converted to the Roe number.

portant *moisture content.* There are two principal divisions: air-dry and moist pulp.

Air-dry pulp is taken to mean 90 per cent (in the German contracts 88 per cent) bone-dry pulp, i.e. 90 (88 per cent) parts by weight of absolutely dry pulp and 10 (12) parts by weight of water, giving 100 parts of air-dry pulp. Wet pulp generally refers to 50 per cent air-dry pulp, in other words 45 parts of bone-dry pulp and 55 parts water. This is also referred to as moist pulp.

Unless otherwise stated, the contracts refer to air-dry cellulose. However, it is sometimes customary to define more accurately the cellulose content of pulp to be purchased, although the price is fixed according to the air-dry bases.

The properties reviewed in the foregoing govern the categories of cellulose. Besides these, at least for the most important pulp categories, there is *quality classification:* Prime Quality, Second Quality, rarely Third Quality. More individual methods of expressing quality which differ from this classification are also used. The bases of quality classification are especially the standards of cleanliness, brightness, strength, etc. which are demanded of each grade. If the category does not meet the standards of Prime Quality it is marketed as Second Quality (or e.g. as Prime Quality B). Deterioration in the quality of cellulose is generally caused by disturbances and mistakes in the manufacturing process or by defects in the raw material (e.g. decayed pulpwood). The change-over from the production of a certain kind of cellulose to another may result in the first bales of the new kind coming out as Second Quality.

There are certain difficulties about discrimination between classification by category and by quality.[1] Screenings, for instance, are a category of cellulose but also in a certain sense indicate that this pulp is inferior since it is made from the poorer parts of timber (mainly branches). The fact that the price differences for the different categories, from alpha-cellulose to screenings, are fairly great gives this classification also the character of a quality classification. These price differences, however, are due in reality — bearing in mind the various uses — to the different manufacturing processes and costs and are not quality differences. In actual fact, the cheaper unbleached strong pulp, for instance, is more suitable for many purposes than bleached cellulose.

313. Cellulose characteristics as factors in brand determination

Although certain standards, minimum requirements, are demanded from each category and grade of cellulose, they still have the individual characteristics of each mill. This may apply firstly to the "standard properties", i.e. one producer

[1] It is perhaps because of this that often no differentiation is made between the concepts category and quality. The terms quality and grade are, for example, often applied to unbleached sulphite strong cellulose although the reference is in reality to category, and prime quality and second quality denote quality.

meets the standard better than another. For instance, the cooking degree — often expressed as the Roe number — which is a kind of basic standard for unbleached, easy bleaching sulphite can be systematically poorer in the product of one producer than of another. Likewise, certain other properties such as the colour, cleanliness, brightness, resin content, beating time and strength properties of unbleached sulphite cellulose can differ in the pulps of different producers.

The differences arise from several different factors.

1. The raw material used may cause differences in the cellulose quality (see e.g. Wegelius 1937; Markila 1948). If the mill uses exclusively pulpwood, for example, its product may differ in some degree from the pulp of a mill that makes considerable use of sawing waste. It is also a well-known fact that the pulpwood of Northern Finland gives the pulp a bigger breaking length and bursting strength but a smaller tearing strength than the pulpwood of Southern Finland.

The length of the pulpwood logging period and the method and duration of storage also affect the pulp quality to some extent.

Dissolving pulp requires less good raw timber than other types of pulp.

2. The chemicals and the water used also have some influence on the properties of the pulp produced in different mills. Water has a notable effect, for instance, on the viscosity, brightness and cleanliness of cellulose. Many mills have recently installed water purification plants to eliminate the disadvantages of dirty water.

3. The production process affects the properties of cellulose in many ways, and this in the different stages of production. There are differences between individual mills in chipping, cooking and especially in post-cooking washing, bleaching, etc. They are due to the production methods, technical standard and efficacy of operation control of the mills.

4. It must be mentioned specifically that a company which manufactures paper in addition to cellulose can often use even fairly poor pulp to advantage in its own paper mill and thus keep the standard of its export pulp high.

These and other factors give the cellulose of different mills (a certain cellulose category and grade) "*brand properties*", i.e. individual characteristics which have an importance for the user of the pulp. His primary interest in the properties of pulp is that it should meet as well as possible the strength etc. requirements made by his technical production processes. Secondly, many buyers consider it important that the quality of the pulp should be even. It has been found that even small changes in the pulp characteristics may cause stoppages in the user's machines.

The brand characteristics of cellulose also differ from the corresponding properties of many consumer goods in that they can generally be *measured* by certain analytical methods.

It is understandable, then, that the buyer tries to find the cellulose best suited for his purpose and becomes a customer of the producer making it. He ensures even quality e.g. by using continuously the pulp (brand) of the same mill. This is done especially by the small buyer and by the buyer whose production is highly specialised. It might be thought that the buyer would base his choice on the analysis of the cellulose mills. But the difference in analytical methods makes this difficult.[1] It has been found, too, that the conditions in which analyses are performed are seldom sufficiently alike to produce fully comparable results. The change-over to the pulp of another mill can thus involve certain risks of a technical and economic nature for a paper mill or other establishment buying cellulose.

There are thus certain *technical* grounds for favouring a certain brand. In addition, *commercial* considerations enter into the picture, e.g. service, price and — in their connection — the endeavour to maintain old business relations (see ALEXANDER, CROSS and CUNNINGHAM 1956, pp. 39, 444). These promotional tools of brand policy will be discussed in Chapter 32.

It may be mentioned that cellulose lacks one basis of brand which may have a certain importance in some "semimanufactured goods" markets (see MAYNARD and BECKMAN 1952, p. 365): cellulose does not appear in the end product in such a clearly discernible form that it could be made use of in the advertising of the end product.

314. Brands of cellulose

Both manufacturer's brands and dustributor's brands appear in the markets. The name "private brands" is often used for the latter (MAYNARD and BECKMAN 1952, pp. 623—625).

Both these brands are used concurrently in central marketing of cellulose. In connection with packing, the following marks are stamped on the cellulose bales:

a. producer's (mill) brand

b. the brand of the sales association (FCU)

Each principal cellulose category has a certain brand colour used by all the mills. The following colours are used for the different categories of unbleached sulphate and sulphite pulp:

Category	Brand colour
Extra strong	green
Strong	blue
Strong, bleachable	black
Easy bleaching	red

Brand mark usually includes the name indicating the place of manufacture and/or producing company etc. (Enso, Oulu, Rauma, Ahlström-Warkaus, to

[1] Finland has tried to eliminate this drawback by means of parallel analyses performed quarterly by the Central Laboratory.

mention a few). Sometimes the brand has a special name such as Ilves, Seal, Polaris. Both firm trademarks and brands are thus used (RÖPER 1955, pp. 53—54).

The producer's mark is the actual trade mark. KASKIMIES (1958, p. 31) points out that the producer's mark is there for identification of the technical quality of the product. This is true also of the cellulose market. It is emphasised especially by the fact that the producer's mark is *the mark of the mill and not of the producer company*. The different mills of a given company have different brands. This is probably intended to stress the point that the brand-determining characteristics originate in the mill, its location and production methods. On the other hand, especially producers with only one mill often use the company name parallel with the brand. In this case the brand is expressive of both the mill and the producing company.

In central marketing the manufacturer's brand is indispensable also for "discipline" as it can be used to identify the producer who made the delivery.

The brand of the sales association (FCU), i.e. the "distributor's" brand, is primarily a kind of service mark (see KASKIMIES 1958, p. 31). The import and importance of the service concept will be discussed in Chapter 324.

In discussing branding principles attention should be paid to the difference that can be established between the marketing of consumer goods and of cellulose. In consumer good (end product) markets the use of brand depends on the deliberation of the producer or distributor in question. According to MELLEROWICZ (1955, p. 4) and GUTENBERG (1956, II, p. 326), the buyer of a branded article must feel convinced that branded merchandise guarantees good and stable quality. Although this belief can be inculcated in some degree through effective advertising, the requirement presupposes above all that a product to be marketed as branded merchandise is one that is expected to have chances of successful competition as regards quality. Branded merchandise, accordingly, is the same as a "good" article.

The function of the brand cannot be interpreted so narrowly in cellulose marketing. In the cellulose market it is the custom to furnish the product of *every mill* with a brand, regardless of quality. There are thus "good" and "poor" cellulose brands. In this case the specific purpose of the brand is identification of the product. The buyer forms his own opinion as to whether the product is good or poor on the basis of its characteristics.

315. "Brand-mindedness" of demand

The following alternatives regarding the definition of brand can be found in commercial contracts (reservation agreements) on cellulose:

1. There is no mention concerning brand, and category and grade only are

stipulated (e.g. "Finnish First Quality Kraft Pulp"). This can be interpreted to mean that the sales association is quite free regarding selection of brands.

2. Brands — which are not mentioned in the contract — are left to mutual agreement (Finnish . . . . Pulp. Brands to be mutually agreed). The sales association in this case can negotiate concerning the brands.

3. At least two brands are mentioned. The choice between them lies with: a) the seller, b) the buyer and the seller jointly, c) the buyer. (For instance, KAJAANI/WARKAUS, Prime Quality, Easy Bleaching Sulphite Pulp. Brands:
a) in seller's option
b) to be mutually agreed
c) in buyer's option)

4. Preference is given to a certain brand but the buyer agrees to discuss alternative brands when the deliveries become topical. (For instance: First Quality Bleached Sulphite Pulp. Brands: ILVES, to be fully up to the standard of previous supplies, — or any other brands subsequently approved by Buyers).

5. At least two brands are mentioned which have to be delivered in a certain — either fairly exactly defined or approximate — ratio.

6. Only one brand is mentioned (e.g. "HAARLA First Quality Bleached Birch Sulphite Pulp").

In addition to the general definition of category, grade and brand, a more detailed stipulation concerning quality is often included, as under item 4., or reference is made to a sample ("as per sample No. 10 413"). The degree of dryness of the pulp is also stipulated.

It would be advantageous in central marketing that contractual stipulations concerning brands were as few as possible, leaving the sales association free to apportion orders among the mills in accordance with production policy considerations and the flexible handling of business.

There are several reasons why the "brand-mindedness" of demand cannot be demonstrated statistically. However, in order to obtain a general idea the present author studied the brand demands in reservation agreements concluded in 1958 between the FCU and the buyers in certain typical countries. It was found that "brand-mindedness" is rather common. For instance, the *tonnage* of cellulose sold in 1958 to a big buyer country in Western Europe divided between various alternatives as follows:

1. one brand only	45 per cent
2. two ore more brands in buyer's option or in fixed proportion	10 » »
3. two or more brands in seller's option or according to mutual agreement- or without any mention of brands	45 » »

The wording "brands to be mutually agreed" does not mean that the buyer is uninterested in brand.

More than 90 per cent of the *number of contracts* were made on a one-brand basis. — Approx. 85 per cent of the cellulose sold to a transatlantic country was "one-brand merchandise".

The favouring of brand in the "original" demand of the buyers is probably even more common, for by the time the reservation agreement is concluded the sales association has generally got the buyers to modify their demands. On the other hand the buyer may accept an alternative brand if the brand stipulated in the reservation is not available at the time of delivery.

The following general observations can be made concerning the favouring of brands:

1. Small buyers are more "brand-minded" than large buyers. This is primarily because small-scale enterprises usually specialise more than large companies.

2. Traditional cellulose buyer countries are generally highly industrialised and have a paper industry and other cellulose-using industries of a high technical standard and high degree of specialisation. There is keen competition between the different enterprises and they are more "brand-minded" than the newcomers, the less developed countries.

3. The general trend is specialisation in both the cellulose-using and the cellulose-producing mills. This means ever-increasing favouring of brands (an opinion held by many experts).

32. The promotional tools of brand policy

321. General reasons for brands

KRISTENSON (1948, p. 5) mentions, for example, the following reasons for the general use of branded articles:

1. Increased competition for markets.
2. Greater and greater demands are made of the product mix and selection. The need for information has therefore also increased.
3. The producer aims at an even and steady demand for his products.
4. Technical development.

MAYNARD and BECKMAN (1952, pp. 623—625) mention as conditions for the use of brands the following standpoints that can be considered in the present investigation:

1. Brand name helps the purchaser to identify the article or goods which he is buying.
2. Brands protect the buyer as to standards of quality and to some extent in the matter of price.
3. Brands protect their owners by giving them a certain measure of control over the demand for the product. It is frequently the goal of a manufacturer of a branded article to make his product superior at a given price and as well known as possible.

4. A brand name is a necessary adjunct to any form of a demand creation activity in which appeals to selective rather than to primary buying motives are stressed. Thus selective or competitive selling effort and brands are mutually interdependent.

5. The use of brand name enables a manufacturer to add different products to his lines, for it facilitates the introduction of new items in consequence of the prestige derived from his existing brand.

Although the above considerations were listed primarily with reference to consumer goods (end products), the five conditions are applicable also to the marketing of cellulose.

The aims in items 1, 2 and 5 can be realised nearly equally well whatever the marketing method (marketing channel) adopted. In promotional policy, however, items 3 and 4 are of focal importance. As regards these two aims, central marketing and individual marketing are quite differently concerned *a priori* at least.

Certain important *objectives of brand policy* can also be found in the list of reasons for brands. Brand policy is an inherent part of the firm's intention to do the best it can in competition by exploiting product specialisation. The economic aspects of this type of competition have been first studied by CHAMBERLIN (1933). The earlier opinion of the central role of price has had to give way increasingly in modern marketing to the idea that the producer must create a preference for his product by *specialising*. This does not exclude the price factor in marketing of branded articles, but it diminishes its significance. Branded merchandise, as pointed out by KASKIMIES (1958, p. 21), embraces in miniature an entire "monopolistic programme" which includes all the parameters typical of modern marketing, i.e. the media of price and quality competition plus advertising, although the great number of competing branded — and unbranded — articles and marketing activity in "branded merchandise fields" result in a very incomplete "monopoly" (cf. MELLEROWICZ 1955, p. 37; RÖPER 1955, p. 134). The view that price is secondary in this competition has a certain justification. The entrepreneur endeavours primarily to create a special position for his product by making use of the quality and advertising parameters (ABBOT 1955, p. 118).

The increase in the significance of the utilisation of these new media of competition indeed brought e.g. RASMUSSEN (1955, pp. 73—74) to speak of the parameter theory instead of price theory — MICKWITZ (1959, pp. 77—78) names it a theory of competition. The existence of these parameters was recognised earlier, but only in recent times have they been analysed in greater detail as an aspect of economic theory. CHAMBERLIN, for instance (1933), makes no clear distinction between quality and service factors.

322. Tools of brand policy in the marketing of cellulose

Brand policy is the use of factors by means of which the entrepreneur can create demand-promoting interest in his product. KASKIMIES (1958, p. 47) mentions among the *tools of brand policy* concerning end product, the brand (M_a), the quality of the product (K_a), appearance (V_a), advertising (R_a), the channel of distribution (S_a) and the price (P_a). His function for the demand of branded merchandise thus obtains the following form:

$$q_a = q_a (P_a, M_a, K_a V_a, R_a, S_a)$$

For the present investigation some factors such as trade mark and appearance, which may be important in the marketing of consumer goods and final products in general, can be disregarded as being of little significance. The distribution channel (marketing channel), however, is a factor of concern here since the aim is specifically the examination of the different promotional tools of a certain marketing method (central marketing). There is a notable difference in this respect between the point of departure in Kaskimies's study and the present work. The difference is, however, perhaps more formal than practical. KASKIMIES (1958, pp. 72, 144) noted that the distribution channel is a very stable factor in the marketing of branded goods and that the entrepreneur is least free to change it (p. 50). This is true in the greatest degree of cellulose marketing. The present system of central marketing of cellulose has persisted in Finland with very small changes for over forty years, largely because of the agreement entered into by all the cellulose producers of the country to market their cellulose through the sales association.

This leaves as promotional tools from Kaskimies's equation quality, advertising — understood in the broad sense — and price. On the other hand, the service factor has a considerable role in the marketing of cellulose and industrial goods in general (see ALEXANDER, CROSS and CUNNINGHAM 1956, p. 236) and it (S_a) must consequently be included among the tools of brand policy in the present work. The demand function used here thus obtains, when demand is denoted by q, the following form:

$$q_a = q_a (K_a, S_a, R_a, P_a)$$

K_a = quality
S_a = service
R_a = promotional activity
P_a = price

Inclusion of the service factor is justified also by the fact that the distributor's brand, which is primarily a service brand, is involved in the central marketing of cellulose.

It is now proposed to discuss separately each promotional tool of the demand equation, its content, significance, technique of use and the competitive reactions it causes. An endeavour is made at the same time to find out the probable difference in the use of each promotional tool in central marketing and individual marketing.

It will be seen that the factors included in the demand equation are strongly associated with marketing. The production-economic aspect of the activity of the companies remains in the background — a typical feature to an enterprise producing branded goods (KASKIMIES 1958, p. 92) — though it affects the issue in some connections. Attention is concentrated on the question of how to promote the attraction of the product for the buyer to achieve and maintain a "brand loyalty" (cf. CUNNINGHAM 1956, KASKIMIES 1958, p. 92), which also in the case of cellulose marketing has considerable importance from the producer's point of view.

323 Quality

3231. General

Quality, according to ALEXANDER, CROSS and CUNNINGHAM (1956, pp. 234—236), is the most important parameter of outlet for industrial goods. Seen as a general factor of competition, the quality concept has two principal meanings. It may refer to:

a. the total assortment offered by a company, for which the name product mix is often used. It may consist of one or several lines of products, i.e. groups of products which perform generally similar functions and which are somewhat similar in physical characteristics. Each product line may be composed of numerous varieties (categories and grades) which differ in the nature or extent of function performed, strength, price, etc.

The table on page 24 (Finnish classification of chemical wood pulp) gives the product mix of the cellulose marketed by Finland. Its sub-groups are product lines which in turn consist of different categories and grades (e.g. Prime Quality Sulphite, Strong) (ALEXANDER, CROSS and CUNNINGHAM 1956, p. 49).

b. the extent to which a product of a certain category and grade, e.g. Prime Quality Unbleached Sulphite, Strong, meets (fails to meet or surpasses) the customary standards and that of competitive producers. This could be termed the qualitative superiority of the product.

In the present investigation, both these aspects are incorporated in the quality factor.

They both are of great importance in competition. The product mix must be planned to produce optimal correspondence to the buyer's needs, to be "abreast of the times". Demand for the products of each business is generally furthered if they are of superior quality. As far as the brand policy of an individual cellulose-

producing company is concerned, the latter aspect is uppermost and is discussed first in the following. However, it is difficult in many cases to distinguish between this and the product-mix aspect.

3232. Qualitative superiority of the article

CHAMBERLIN (1933) mentioned that it is generally impossible to measure the quality of goods. Cellulose is an interesting exception in that its most important quality characteristics such as strength, cleanliness, brightness, resin content, etc. can be measured fairly accurately. The study of these and other properties constitutes in fact an important part of the operation and quality control of the mills.

As mentioned previously, the different technical standards, and skills and raw materials of the different mills etc. are the reason why not all companies and mills attain identical standards in the production of a given category and grade of cellulose. There are thus "superior and inferior" brands. Since, under the joint agreement of the FCU (§ 16), orders are placed with members in ratio to their production for the market, it might be assumed that a good brand loses something in central marketing. In times of poor demand in particular, qualitative competitive ability under this system may not have the importance perhaps that it does in individual marketing since orders received may have to be apportioned out to take in poorer brands enjoying less demand. As stated by KASKIMIES (1958, p. 73), complete autonomy in the marketing of a branded article calls for its own distribution network. It may be suggested further that, because of this, interest in the maintenance and improvement of the quality of a certain brand is less marked in central than in individual marketing.

In principle, these criticisms cannot be gainsaid. On the other hand, a host of factors modify in practice the influence of above-mentioned circumstances.

1. Firstly (see the table on p. 24), the specialisation of the production of the mills is far advanced. The maximum number of brands of the same category of cellulose (Unbleached Sulphite, Strong) is 10. Only small quantities of many of these brands are marketed since most of the output is used in the paper mills owned by the companies in question. In other categories, the number varies from 1—6.

2. In addition, every brand has individual properties within a given grade, expressed in the Roe numbers and other characteristics. There are also differences in the properties that determine the quality of the products of different mills, i.e. cleanliness, brightness, resin content, strength properties, etc. One brand may excel in a certain property (e.g. breaking length), another in some other property (e.g. tearing strength).

The different brands handled in central marketing thus constitute a highly diversified product mix. The assortment and product of each series in the product mix has its own use and customers. The distribution of orders to the different mills is thus made to a considerable extent on "natural" grounds and there is actual "quality competition" between the brands marketed by the sales association among relatively few types of cellulose only. Each brand has gradually won its own established clients whose special needs (quality requirements) are carefully observed by the mills, e.g. by keeping a *card-index of buyers*. Central marketing can favour the preservation of such relations fairly strongly as it is the most natural way of placing the orders with the mills. The work of the sales association for the placing of orders is needed primarily when the order for some brand is either too small or too large and when essential changes occur in the product mix.

3. As pointed out by ALEXANDER, CROSS and CUNNINGHAM (1956, pp. 57—58), industrial buyers like for various reasons to buy several product lines from one source. This applies specifically to big buyers using several types of cellulose. In such cases there is an advantage in giving the buyer as diversified a product mix as possible.

On the other hand, it is important that the *quality level* of the overall product mix of central marketing *is competitive* with the products offered by other countries. There are different means of achieving this.

4. The sales association can concentrate on quality control. The FCU controls the quality of all brands, instructing the Central Laboratory to take parallel samples at times, examine them and notify the member firms of the results. The mills also send the Central Laboratory quarterly pulp samples for a control of analysis made in their own laboratories.

5. A stimulus for the maintenance and improvement of quality is the stipulation (§ 21) in the joint agreement of the FCU that a brand with a quality so different materially from other brands of the same price group that it affects the average price adversely may be placed in a price class of its own (categories with different standards, too, are of course placed in different price groups). The principle of price premium is applied correspondingly to brands of a quality essentially different from the basic quality in a particular respect, e.g. cleanliness (see Chapter 326). The rules of the FCU contain another stipulation (§ 22): price cuts due to inferior goods, viz. *claims concerning quality*, are debited to the company supplying the article (brand) in question.

6. There are also less "brand-minded" marketing areas and buyers and selling to them assists the demand for less popular brands. The large-scale organisation of central marketing probably puts it in a better position to exploit such markets than an individual producer.

It should be emphasised, however, that in practice different brands are not always sold in the desired ratio. Poor brands especially suffer when demand is weak. The sales association cannot force the buyer to purchase a certain, less

popular brand, with the result that the producer must suffer. This is one respect in which quality competition is preserved in central marketing. An alternative in such a case is either to reduce the price or curtail production and — in the long run — to improve the quality of the product. It is possible that the producer would solve these outlet problems more resiliently under individual marketing than the sales association.

Reference was made above to the improvement of quality. The literature on branded merchandise contains numerous accounts of *changes in the quality* of branded articles (see KASKIMIES 1958, pp. 57—59), and it has been suggested that the quality of branded merchandise should remain unchanged (e.g. SEYFFERT 1955, p. 73; RÖPER 1955, p. 55). It is obvious that the buyer's confidence in a certain brand depends largely on the fact that he knows he will get goods of which the quality is in a certain sense stable; no essential quality fluctuations will occur in the *short-term period*. Some producers of branded merchandise go as far as to give quality guarantees. These are not given in the marketing of cellulose.

Stable quality cannot mean complete constancy. "The brand must live", i.e. to compete successfully the article must *develop* with the times (see e.g. MELLEROWICZ 1955, p. 76). It is primarily competition, i.e. the endeavour to overtake the other brands, or draw level with them, that is usually the incentive for improvement of quality (RÖPER 1955, p. 56).

SCHUMPETER (1939, pp. 84—86), who is known as the creator of the so-called innovation theory, in examining changes in products distinguishes between actual innovations and inventions. The former are relatively small improvements promoting demand for an existing brand, the latter technological advances leading to the birth of a new product. An example of an innovation in the cellulose industry is new equipment increasing the cleanliness of pulp (e.g. a centricleaner), and the semi-chemical production method can be cited as an example of invention. Improvements in brand involve first and foremost innovating changes. Inventions may entail changes in the product mix as a whole.

Besides direct innovations, brand improvement in the cellulose industry may be made also by greater care and control of production without any change in the old technical methods, by stricter grading, using better machines and in general a better technique.

In practice brands are improved by almost all these expedients. It can be assumed, however, that essential differences exist between the different marketing methods as regards the application of technical improvements, innovations. As regards the other means of improvement, the question is primarily one of readiness to apply them as was pointed out in the foregoing. The application of technical innovations often depends on their invention, knowledge of their existence and, naturally, on financing.

In general, the marketing method has perhaps no great effect on the changes.

Firstly, it is permissible to assume that the entrepreneur is fairly free to make changes and especially improvements, whatever the marketing method used. The ideas for improvement generally originate within the individual company, but they can also come from the joint research laboratories of the State and several companies. The resultant changes in demand are seen in the market as increased sales of the improved brands and decreasing demand for the brands left behind. The observation of these marketing difficulties and the expediting of measures to rectify the situation are dependent primarily on the alertness of the overseas agents and on how effectively the home country maintains contact with buyers and keeps industry informed of the observations made. The sales association can probably cope with this task better than the majority of individual producers. The technical personnel of member companies travel rather frequently in the buyer countries to study these questions. The producers' activity would probably be greater, however, in individual marketing.

Innovations generally do not remain a secret. They frequently lead to fairly quick *competitive reactions*. An example is the increasing of the cleanliness of cellulose by means of centricleaners. Progress in less than ten years has raised the level of the cleanliness requirement so much that the brands considered most clean at the outset of the 1950's are now inferior in cleanliness if nothing has been done to improve the process (see LASSENIUS 1959).

3233. *Product mix*

Product planning which decides the product mix is regarded by ALEXANDER, CROSS and CUNNINGHAM (1956, p. 50) as the most important weapon in industrial marketing, the one that will have increasing competitive significance in the future. Its importance is unquestionable also in the marketing of cellulose.

Several examples emphasising the importance of developing the product mix can be cited from the cellulose markets of recent times. Because many buyers' bleaching plants have become antiquated and the brightness requirements of paper have increased (the methods of use have changed), demand for bleached cellulose has increased. This is closely associated with the practice adopted by newsprint mills of using semi-bleached sulphate in lieu of unbleached sulphite as an additive to wood pulp in newsprint manufacturing.

These examples — taken solely from the field of demand — show that trends of this nature call for keen attention in marketing. Companies and the countries which fall behind in the development of their product mix readily lose markets to competitors.

The dual problem of product planning is, on the one hand, adaptation to structural changes in use and demand, on the other the finding and realisation of specialties promoting sales (''defensive'' and ''promotional'' product planning).

For the producer, there are three different problems associated with product mix: keeping up with sales-promoting trends in the market, introducing the necessary production-technical reforms, and keeping a close watch on the ''product gaps'' caused by changes in the product mix. The marketing system is concerned primarily with the first and the third problem.

The product-mix development in the market can be followed by means of market research. The aims of market research are to ascertain the trend of utilisation and demand and to follow the changes in the product mix of competing countries and producers. Practical sales work also provides useful guidance in this respect. If a category or grade begins to sell poorly, this is naturally some kind of indication that the product mix is not successful. The sales association in particular, which is engaged in marketing a diversified product mix, is sensitive to such indications and can pass on the information to its member companies. On the other hand, it is possible also in individual marketing to obtain information on this point, e.g. via agents and market research.

However, the sales association can only give its member companies recommendations concerning the product mix. Each enterprise is autonomous about the decision to adopt them.

Changing the product mix of a mill (e.g. a bleaching plant) often calls for great investments. Nor is it always possible by any means to change only a certain process. The improvement of, for instance, cleanliness may require the modernisation of an entire mill department. A certain retarding factor is thus associated automatically with innovations. The improvement of quality, the development of the product mix and the increasing of output therefore occur in practice in connection with major improvement projects.

Changing the product mix is for the producer not only a question of financing but also of profitableness. For instance, the price difference between bleached and unbleached sulphate may not make it profitable in the short-run to build a bleaching plant. It can, however, ensure better sales for the output of the mill as it is possible to market two product lines. The necessity for reducing risk can in these circumstances lead to the realisation of the modernisation measure (see PAAKKANEN 1957, pp. 40—41).

The question is: how does the marketing method affect the adoption of innovations improving the product mix? Reference has been made to the sensitiveness of central marketing to such indications in the market. The contact at the managerial level between the member companies under this marketing system may also promote the realisation of a successful division of labour between the various mills. On the other hand, it is possible that individual marketing forces producers to be more alert to the product mix, as this system has not the same production possibilities as the sales association. Individual marketing, moreover, may further greater specialisation than central marketing which is best suited for *standard products*.

Central marketing enjoys one advantage in changes in the product mix: it is capable of working to ensure in many cases that competing producers have no chance of filling the "product gaps" due to changes in the mix. Such a gap originates e.g. when a large mill selling unbleached pulp changes over to the production of bleached pulp and its former customers are forced to use other brands. The sales association which is well-informed of such changes can ensure in good time that these customers deal with another member mill.

In addition to influence from the buyer, the development of the product mix presupposes active work by the producer to manufacture specialties which may help to create new demand. This is both a technical and a marketing problem. However, the marketing method used probably has little bearing on its solution.

324. Service

Alexander, Cross and Cunningham (1956, pp. 40, 236) regard service as the most important promotional tool after the quality factor for industrial goods. It includes above all the speed and reliability of deliveries, the seller's willingness to meet the buyer's emergency requirements and to help him whenever necessary with information and advice on the use of the article and on the market. Rasmussen (1955, p. 71) includes also a credit to the buyers in service. In this investigation it is discussed in connection with price parameter.

These criteria can be included in good service also in the marketing of cellulose. The most important of them are reliability and speed of deliveries. The shipping time is generally defined in contracts according to the time of departure, but allowing some margin; e.g. shipment from Finland: a) during January, 1959; b) beginning January for middle January, 1959; c) end January/beginning February, 1959; d) reasonably spread over fourth quarter, 1959. A clause in accordance with item d. is especially common in reservation agreements.

Cellulose contracts presuppose fairly even shipments throughout the year. This can be seen from an analysis of deliveries by seasons.

Fig. 2 shows the seasonal variation of Finland's cellulose shipments in 1953—59 as a seasonal index calculated on the basis of the entire cycle. It will be seen that the seasonal increase in shipments at the end of the year owing to ice conditions (before the closing of the northern harbours) and in May (before the opening of these harbours) is fairly small compared, for instance, with the seasonal differences in sawn goods shipments.

On the buyers' side there is a tendency to make do with smaller and smaller cellulose stocks and this emphasises the significance of the service factor in competition. The need for winter shipments in particular depends, however, to some extent on the market. When there is confidence in the stability of the market buyers require them in a smaller degree than e.g. when prices are climbing.

Good service involves special difficulties when selling on cif terms in Finnish

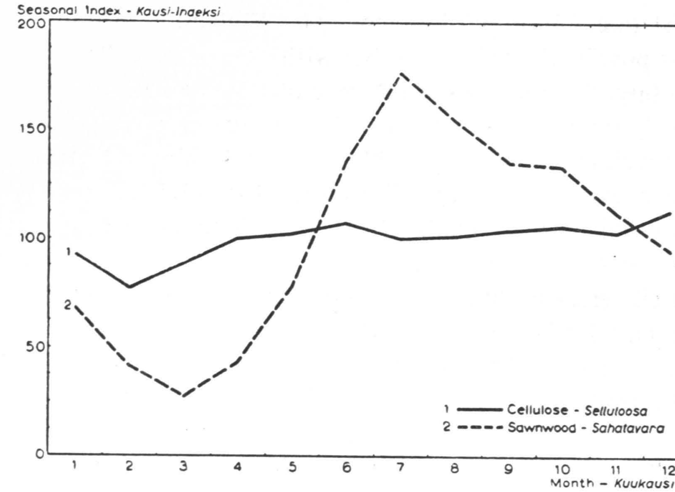

Fig. 2. Seasonal rhythm in the export deliveries of cellulose and sawnwood, 1953—59.
Kuva 2. Selluloosan ja sahatavaran vientitoimitusten kausimaisuus v. 1953—59.

conditions, particularly in the winter season when only the southern harbours of the country are navigable. Central marketing has obviously been of very real help in ensuring reliable deliveries in Finnish conditions, and this in more than one sense. Firstly, as a very big shipper, the FCU has been able to conclude agreements with shipowners for the year as a whole. The shipowners contract to carry the pulp consignments according to a certain timetable at agreed freight rates. The FCU contracts to ship the quantities of cellulose mentioned in the agreement. This would hardly be possible for an average single producer.

The sales association, marketing a large production volume, can combine several small consignments into ship loads and thus charter the vessel and decide its movements. This is a considerable advantage, especially in Finland where regular sailings are limited owing to the small number of scheduled routes.

As a big seller, the FCU can agree with buyers on some degree of alternation between deliveries of brands — representing the same category and grade of cellulose — from Southern Finland and Northern Finland. This helps to minimise expensive rail transport of pulp in midwinter from Northern Finland to southern harbours, although it has not been possible to eliminate them entirely. These arrangements might be completely impossible in individual marketing or would cause substantial additional expense especially to companies in Northern Finland.

The large-scale, almost world-wide delivery mechanism created through annual contracts and the resulting reputation for service offer two appreciable sales advantages. Firstly, they permit successful competition also for incidental spot lots which can achieve sizable proportions in some years. The delivery time is usually short (e.g. "Prompt shipment from Finland"; "Shipment from Finland as soon as possible," etc.). The seller with the shortest "lead time" (i.e. the time from the buyer's order to the delivery of the goods) can compete best for such lots (see ALEXANDER, CROSS and CUNNINGHAM 1956, p. 347). Secondly, this delivery machinery makes possible sales and shipment even to (remote) markets where sales would be impossible under the individual marketing system.

Separate mention must be made of the great bargaining powers of the sales association in freight negotiations.

Delivery on cif terms probably suits the delivery policy of central marketing because it offers a solid foundation for the management of shipments on the lines reviewed in the foregoing. The FCU has adhered consistently to the cif clause in drawing up the contracts. It makes hardly any fob sales, whereas Sweden, for example, sells considerable quantities — nearly 10 per cent — on fob terms. This is the fact notwithstanding that many regular sailings offer better shipping facilities than Finland enjoys.

The concept of service also embraces assistance extended to the buyer in the use of the product. It comes into question especially when a new kind and/or grade is introduced or when the article is being sold to a new area where the users have no experience with the brand. But the need for service occurs also in normal marketing. An example is the pitch problems that fairly often beset paper machines using unbleached sulphite. — The big agents too have technical experts at their service.

To give new users and buyers in new markets a chance of getting to know the categories and grades it is sometimes customary to supply them with trial lots free of charge. It is possible in such a case to promote demand for brands which have not been selling as well as other brands.

It may be stated in conclusion that central marketing probably offers fairly considerable advantages compared with individual marketing as regards the service factor and especially the most important aspect of this factor, i.e. reliability and speed of shipment (cf. BJÖÖRN 1955, p. 186). These advantages probably accrue to all, but in the Finnish conditions they especially favour the northern mills. Some service functions (technical assistance, trial lots) the mills could probably carry out as well under the individual marketing system.

325. Promotional activity

The concept of promotional activity includes here:

a. advertising, which means — in connection with marketing — "any paid form of nonpersonal, visual and oral presentation of goods intended to aid directly or indirectly in the sale of a product";

b. sales promotion, which supplements and co-ordinates personal sales work and advertising, e.g. by promoting liaison between the producer on the one hand and the distributors and consumers on the other;

c. publicity, which serves marketing, i.e. "non-paid printed and spoken messages aimed at inducing or preparing people to purchase merchandise".

(See MAYNARD and BECKMAN 1952, p. 447; FREY 1953, pp. 4—6; ALEXANDER, CROSS and CUNNINGHAM 1956, p. 436).

These factors together with personal selling work constitute the so-called marketing mix. A characteristic of the marketing of branded merchandise (end products) is intensive advertising directed straight at the consumers which, like advertising in general, aims at making the article known and in which much use is made of the mass media of modern times (newspapers and periodicals, TV, film, etc.). It is just this intensive, concentrated advertising that to a considerable extent "creates the brand" in the consciousness of the consumers (PEDERSEN 1953, pp. 171—172; GUTENBERG 1956, II, p. 330; MELLEROWICZ 1955, pp. 6—7, 19). KASKIMIES (1958, p. 67) emphasises specifically the acquisitive nature of the advertising of a branded article.

The bases of sales promotion for consumer goods are different from those for industrial goods — including cellulose — even when the article is furnished with a brand. In the first place, the significance of the promotional activity as parameters of outlet is considerably smaller than in the marketing of consumer goods, for its users are experts in the field: "buyers are hired to buy not to be sold".

It seems, moreover, that cellulose and paper occupy a special position among industrial goods, particularly in regard to the use of the advertising-promotion. This can be seen e.g. from a study made in the USA covering 18 groups of industrial goods. It found that the advertising outlay of companies selling paper products, i.e. enterprises close to the cellulose line, ranged from 0.1 to 1.00 per cent (mean 0.50) of the sales (see Industrial Marketing, Febr. 1949, cit. ALEXANDER, CROSS and CUNNINGHAM 1956, p. 397). The percentage for cellulose, the raw material of the paper industry, would probably be below the figure for this group.

It is important to remember that emotional motives do not produce results in the advertising of materials. It must be based on rational motives. The principal aim of advertising is to show to prospective customers that the product advertised reduces costs, increases production, promotes the salability of the buyer's final product or increases his profit otherwise (see ALEXANDER, CROSS and CUNNINGHAM 1956, pp. 3—4, 12, 239, 436—437, 448).

In evaluation of the advertising factor in cellulose marketing emphasis must be laid on the point that sales are usually confined to relatively few buyers every one of which may be important for the sales of a certain brand. Although the search for new buyers is of importance in marketing, the main aspect is management of established client relations ("brand loyalty").

The effect of these special features is that *personal selling work plays a central role in the marketing mix of cellulose.* Advertising and other measures associated with it are of relatively small significance.

The promotional activity of cellulose and industrial goods in general has a feature in common with the advertising of consumer's branded merchandise: it *bears directly on the users.*

Promotional activity in the marketing of cellulose may be considered to have two principal aims: making known the properties of the products (brands) and innovations improving these properties. It is not primarily advertising; sales promotions and publicity work play an important part.

In view of the relatively few buyers, a medium, especially letter, directed individually to each buyer can be used and is indeed being used sometimes in the advertising of cellulose. Another type of advertising medium is brochures and booklets illustrating the products and their properties. A third important medium is the trade journal.

Besides advertising, use is also made — and probably even more — of methods belonging to the sales promotion and publicity fields, e.g. exhibitions and especially the sending of samples to customers. Another important group of these activities consists of news in the professional periodicals of the cellulose and paper branches on modernisation and expansion projects at the mills. This news also provides information on the properties of the products (Kaskimies 1958, p. 130). A third and perhaps most important aspect is the visits made by the managerial, purchasing and technical personnel to the producers' mills and the visits by producers' technicians to the buyers' industrial establishments.

It is often difficult to draw a line between the promotional tool now under review and the service factor, even actual sale (cf. Mickwitz 1959, p. 20). Samples, for example, are used generally in actual selling, although buyers may at times be supplied with bigger collections of samples and the activity becomes more like promotion work.

To what extent does central marketing employ promotional measures and in what respect does this factor differ in individual marketing?

In central marketing the promotion of the sales of the *sales association* has a *collective* promoting effect on the sale of the brands of all the member companies. It must apply equitably to the different brands, be neutral, though the ultimate purpose of marketing, i.e. the placing of the entire production for sale, is realised. To achieve this end it may be justified in certain situations to promote sales of the less successful brand more than of other brands.

The promotional activity pursued by the FCU has taken the form especially of prospectuses distributed either directly or through agents to user-buyers. They describe different categories and grades and their properties. Sample collections introducing different categories and brands have also been distributed every now and then independently of the actual sales activity. The sales departments and technical department staff of the FCU carry out information work during their visits to buyers. The FCU has also, in co-operation with the Central Association of the Finnish Woodworking Industries, exhibited products of the cellulose industry at major foreign fairs.

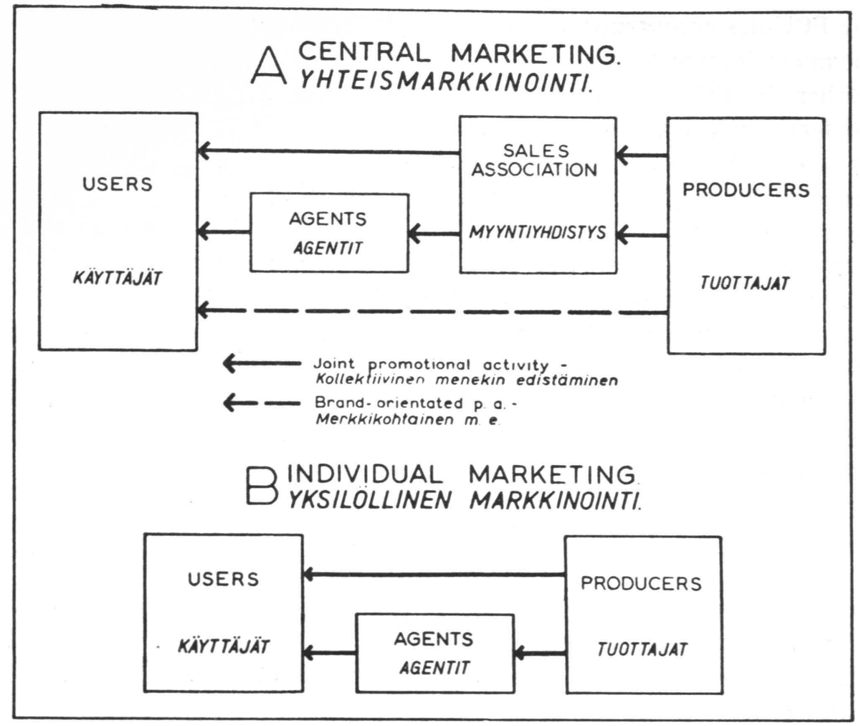

Fig. 3. The main channels of promotional activity.
Kuva 3. Menekin edistämisen pääkanavat.

This has been one way of accomplishing a focal objective of materials advertising, i.e. making known the products and their properties.

In addition to the "collective" promotional activity engaged in by the sales association, each member company has the right to engage in *individual* sales promotion, i.e. promotion of the sales of a certain brand. This has been done partly by the same methods as FCU advertising. One expedient is the publication of news about the mills, their development and modernisation measures in trade journals. The mill visits of executives and the technical and sales staff and agents of the cellulose producer and buyer companies represent a form of sales promotion work characteristic of the cellulose branch, partly sales promotion and partly public relations work. In connection with these visits the producers have an opportunity of explaining the properties of their products, the innovations made and planned at the mills, and of establishing personal contacts. During their visits to the buyers' establishments cellulose producers, in turn, get an idea of the type of pulp each customer needs and of his general wishes. Visits of this type are especially important for agents, as a condition of successful sales work is that they are well acquainted both with the properties of the product offered and with the buyer's needs.

The FCU has encouraged and arranged personal contacts between buyers and its member companies.

Neither the FCU nor the producers have a special advertising department. A few forest industry companies have, but the department advertises products other than cellulose and principally on the domestic market. This is further evidence of the rational, even technical character of the promotional activity of the cellulose branch.

It can be seen that promotional activity occurs via two principal channels in central marketing: through the sales association, for all of the members' brands, and through the producers for individual brands (Fig. 3). In individual marketing practically the entire promotional contribution is made by the producer. This implies that brand-based promotional activity is probably more intensive than in central marketing. The total advertising contribution is hardly any greater for the simple reason that this factor plays a relatively small role.

326. Price

As pointed out by Kaskimies (1958, p. 75), quality, service and in a way also advertising are *qualitative* parameters of outlet. Through them the user of the commodity forms an overall idea of the attraction of the article, and *price* is the commensurable expression of this attraction.

This is so especially for the buyer. It may be thought that price expresses the total appreciation shown by the buyer vis-à-vis the qualitative parameters of the article. From the standpoint of the seller price can be understood as an independent parameter with which the seller can increase — or diminish — the impact of the article on the buyer.

In earlier times competition and sales promotion were regarded as price competition above all. This view was reflected in the literature concerning price formation. Since the 1930's considerably less emphasis has been placed in economic theory and marketing on the significance of the price factor and greater stress has been given to the use of qualitative parameters of outlet. This applies especially to the marketing of branded articles but very much also to non-branded industrial goods. Alexander, Cross and Cunningham (1956, p. 40) place price after quality and the service factor as an outlet tool of industrial goods.

The secondary position of the price factor is perceived also in the marketing of cellulose. This appears already from the fact that a reservation agreement concluded for a year is the object and general practice in selling to traditional markets and that an endeavour is made to widen this practice as far as possible. At the time the agreement is made the price of the first quarter of the year only is known usually; the prices of later shipments are agreed on quarterly.

The use of the price factor in "normal", established conditions may be secondary, but it comes to the fore in special cases. This happens e.g. in the opening up of new markets, i.e. competing in a new area or with a new product. The so-called *entry phase* especially involves the delivery of fairly small trial lots at prices differing from the customary prices. If the entry proves successful and the new brand is "accepted", the conditions for a stable price policy come into being unless competitors embark on countermeasures. Secondly, the price factor has different uses in *different markets*. There are some, relatively few, buyer countries in which the role of the price is fairly dominant in competition.

Price as a competitive weapon plays a smaller role the more *specialised* the product. For instance, it is more difficult to displace a special brand of dissolving pulp by means of price competition than a "mass product", e.g. kraft pulp. The change-over to another brand involves a greater risk for the user of a special product.

A stable price policy is obviously well-suited to the principles of central marketing and is, in fact, the object of the FCU. It is observed in general outline also by the Scandinavian producers who work on the basis of individual marketing. This suggests that the stable price system is a characteristic feature of the cellulose branch and largely independent of the channel of marketing.

Individual marketing observes in all probability a slightly more flexible price policy than central marketing, i.e. it employs the price factor more in the marketing process. Firstly, it takes a different fundamental view of competition: companies marketing individually often decide their prices without any regard for the chances of other companies, whereas the sales association must take into consideration in the central marketing system the overall interests and requirements of the whole body of members. A second explanation lies in production costs. Companies and mills producing different brands work in different conditions as regards raw material prices and other production costs. The enterprise working with the lowest costs is tempted — and able — especially in a buyer's market to employ the price factor in order to ensure an outlet for his goods.

An important problem associated with central marketing is the question of whether the different qualitative attraction, desirability, of different brands can be brought out in prices. The immediate tendency is to quote the same cif price for a certain category and grade irrespective of the brand. The FCU joint agreement (§ 21) lays down the principle that the Union offers goods on the basis of standard samples at the same price on behalf of all its members.

But the joint agreement permits various forms of *price differentiation*.

1. Firstly, § 21 states that:

"When the *brand* of a member *differs so notably from other* brands belonging to the same accounting group that it adversely affects the average price of either the brand in question or even the whole group the said brand may, by resolution of the meeting of the FCU, be placed in a special accounting class". (Author's italics.)

This provides the grounds for pricing a "poor brand" individually by placing it in a different price class. The joint agreement (§ 22) stipulates further that the individual producer pays for claims for which the producer can be considered responsible.

2. Secondly, it is decreed in the joint agreement (§ 29) that *"the surcharges added to the market price for a special brand*, packing, size, etc., go to the producer and are taken into consideration as additions to the general provisional and average prices". (Author's italics.)

This practice has led to the payment of *price premiums* for brands of clearly above-average quality. Conditions for this premium are e.g. cleanliness, brightness and freedom from resin of unbleached sulphite. The brightness premium, however, is paid only when certain cleanliness standards have been met. The premium is only paid, of course, on deliveries which fulfil the quality standards which are their condition. No premium of this type is paid on kraft pulp.

It must be noted that the grounds for the price premium in the case referred to above are quality characteristics that can be *measured* by the customary analysis methods. The special attraction perhaps gained by the brand for other reasons (e.g. its reputation of long standing, etc.) is rewarded relatively seldom.

3. Thirdly, it can be seen that specialisation based partly on brand quality and partly on other points has progressed further and further, which has in turn increased the number of the accounting groups and reduced the number of brands included in each group. At the beginning of 1960 the number of the accounting figures in the different cellulose groups (the wet and dry pulp of a certain category and grade have been taken as different accounting figures in the analysis) was:

Dissolving pulp	16
Bleached sulphite (paper grades)	16
Unbleached » easy bleaching	9
Unbleached » strong	18
Bleached and semibleached sulphate	20
Unbleached sulphate	15

Such a great number of price classes is not applied in practice — the accounting groups have figured approximately 40 in recent years. The application of accounting figures shows, however, that the marketing system offers no technical obstacle to an accounting system in which every brand in each category and grade is given its own accounting number and priced separately if required.

In some markets, e.g. in Latin America, *terms of payment* may have an appreciable role, comparable with price, as a competitive factor. Central marketing probably represents some kind of average in this respect. The sales association must generally observe certain accepted practices. It can arrange them more advantageously for the buyer than companies in a weaker financial position than average, but it is probably unable to compete here as flexibly as some of the wealthiest enterprises. However, the special *del credere* fund established by the FCU strengthens materially the position of the sales association in this respect.

4. Summary

The small number of producer companies and — forty years ago — the existence of relatively few categories and grades on the market have doubtless contributed decisively to the birth of central marketing of cellulose in Finland. Although some new mills have been constructed later, the number of companies has not grown in any great degree and production has increased chiefly within the existing establishments. This has continued to favour central marketing. The fairly far-advanced specialisation of the cellulose industry and the increase in the number of categories and grades marketed, on the other hand, have imposed new problems, especially in regard to brand policy, to which central marketing has had to adapt itself. The continuous growth in the size of enterprises has at the same time created better conditions than before for individual marketing.

The present investigation has shown that central marketing, which adds an echelon to the marketing channel in the form of the sales association, has tended to shorten the marketing channel in the external sales organisation. Partly agents, partly independent export houses have been replaced by the sales association's own sales offices. Two parallel channels of marketing have thus originated:

producer — sales association — agent — user; and
producer — sales association — foreign sales office
of the sales association — user.

In the latter case the channel of marketing has generally not become lengthened.

The sales methods are practically the same in both central and individual marketing. The great importance of personnel sales work and the relatively long-term reservations, usually for a year, are characteristic of the marketing of cellulose.

Although cellulose is not a true branded article, it is a product regularly furnished with a producer's mark, and brand is a prominent factor in its marketing. Central marketing has adopted the use of two kinds of brands, i.e. the producer's and the distributor's (sales association) brand. The former is primarily for identification of grade and shipments, the latter a service brand. Different kinds and grades of cellulose have so many individual features due to production technique, raw material, etc., that furnishing the product of each

mill with a brand is justified. Furthermore, the possibility of identifying the consignments delivered facilitates quality control of each producer's product.

The demand for cellulose, especially in well-developed markets, is largely for precisely defined brands. Central marketing can generally meet these requirements of demand, especially as there are areas in which demand is less brand-minded. The specialisation of production and demand moreover helps in a way to fulfil brand requirements as the number of competing brands used for the same purpose is thus reduced.

In the cellulose market — and in general in materials markets — the parameters of outlet of the brands are slightly different from those of the end products, especially in consumer goods markets. The most important outlet parameters are quality, service, promotion and price. The brand itself and the appearance of the article are less important. Of these four main parameters, the most important is quality. Advertising has not nearly the same importance as in the marketing of consumer goods.

As regards use of the quality factor, the starting point is probably more unfavourable in central than in individual marketing. This can be mitigated greatly by different means, e.g. by controlling the quality of the different mills and by applying a price premium. In addition, a strong point of central marketing is its wider perspective in the control and development of the product mix.

Central marketing probably pays greater attention than individual marketing to the service factor, above all to giving buyers regular and rapid shipments on cif terms. On the other hand, advertising of individual brands is secondary in the sales promotion work done by the sales association; it remains the producer's concern. The price factor is probably used more and with greater flexibility by individual than by central marketing, although the better total view of the market and price situation obtained by the latter offers certain advantages in managing price policy. A point of interest is the realisation that the sales association has at its disposal various expedients to arrange the price relations of the different brands in correspondence with their attraction.

Central marketing is a collective organisation the purpose of which was originally the promotion of all cellulose marketing in the country as a whole. It is probable that its advantages are greater for smaller firms and companies less well placed than the biggest concerns. It seems that it levels out the status held by the best and the weakest firm in individual marketing and consequently perhaps does not give a top brand the standing it would have in relation to the other brands in individual marketing.

Evaluation of the overall significance of central marketing and individual marketing for some enterprise must take into consideration besides brand interests also the effect of central marketing on the general price level and marketing costs, two aspects which have not been reviewed in detail in the

present investigation. It can be regarded as probable, however, that central marketing has the advantage in these respects.

A point to be emphasised is that the choice of the marketing system is dependent on the conditions in which marketing is to be carried out. An example of this is that Scandinavian cellulose producers have fairly good opportunities under the individual marketing system of using the service factor, owing to the very good and far-ranging scheduled shipping facilities that these countries possess. It is indeed probably the different conditions in this country that have made Finland's cellulose marketing system so essentially different from that of the Scandinavian countries.

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Suomenkielinen seloste:

Selluloosan yhteismarkkinointi erityisesti merkkipolitiikkaa silmällä pitäen

Käsillä olevan tutkimuksen tarkoituksena on tutkia — Suomessa jo neljän vuosikymmenen ajan sovellettua — selluloosan yhteismarkkinointia pitäen silmällä erityisesti merkkipolitiikkaa. Merkkipolitiikkaan luetaan tällöin paitsi merkin käytön perusteiden yleinen selvittely myös eri menekin tekijöiden (laatu, hinta jne.) käyttö markkinoinnissa. Samalla pyritään vertailemaan, miten menekin tekijöiden käyttö eroaa yhteismarkkinoinnissa ja toisaalta yksilöllisessä markkinoinnissa. Tarkastelun lähtökohdaksi luodaan aluksi katsaus yhteismarkkinointiin sellaisena kuin se on Suomessa toteutettu.

Tutkimuksen empiirisen aineiston olen koonnut kahdesta eri tuotantosuuntaa edustavasta selluloosatehtaasta ja Suomen Selluloosayhdistyksestä, pääasiassa haastattelemalla tuotannon ja markkinoinnin eri portaissa toimivia henkilöitä.

Tutkimus on osoittanut, että yhteismarkkinointi, joka myyntiyhdistyksen muodossa tuo markkinointitiehen yhden portaan lisää, on aiheuttanut jakelutien lyhentämistendenssejä ulkoisessa myyntiorganisaatiossa. Osittain agentteja osaksi kauppiaita on näet korvattu myyntiyhdistyksen omilla myyntikonttoreilla. Siten on syntynyt kaksi rinnakkaista jakelutietä:

a. tuottaja — myyntiyhdistys — agentti — käyttäjä ja
b. tuottaja — myyntiyhdistys — myyntiyhdistyksen ulkomainen myyntikonttori — käyttäjä.

Viimeksi mainitussa tapauksessa jakelutie ei yleensä ole pidentynyt.

Myyntimenetelmät ovat yhteis- ja yksilöllisessä markkinoinnissa kuta kuinkin samat. Henkilökohtaisen myyntityön suuri merkitys ja suhteellisen pitkäaikaiset, tavallisimmin vuodeksi tehtävät varaussopimukset (reservation) ovat ominaiset selluloosan markkinoinnille.

Vaikka selluloosa ei ole varsinainen merkkitavara, se on kuitenkin säännöllisesti merkillä varustettu tuote, jonka markkinoinnissa merkillä on huomattava asema. Yhteismarkkinointi on omaksunut kahdenlaisen merkin, so. tuottajan ja jakelijan (myyntiyhdistyksen) merkin käytön. Ensiksi mainittu on tarkoitettu lähinnä laadun ja toimitusten identifiointia varten; viimeksi mainittu on ensi kädessä service-merkki. Eri selluloosalajeilla ja -laaduilla on siinä määrin tuotantotekniikasta, raaka-aineesta ym. johtuvia yksilöllisiä piirteitä, että kunkin tehtaan tuotteen varustaminen merkillä on perusteltua. Lisäksi toimitettujen erien identifiointimahdollisuus helpottaa kunkin valmistajan tuotteen laadun kontrollia.

Selluloosan kysyntä kohdistuu etenkin kehittyneillä markkinoilla melko suuressa määrin täsmällisesti mainittuihin merkkeihin. Yhteismarkkinointi voi yleensä nämä kysynnän merkkivaatimukset tyydyttää, etenkin kun on alueita, missä kysyntä on vähemmän "merkkitietoista". Lisäksi tuotannon ja kysynnän spesialisoituminen tavallaan auttaa merkkivaatimusten tyydyttämistä, sillä samaan tarkoitukseen käytettävien kilpailevien merkkien luku siten pienenee.

Selluloosamarkkinoilla — ja yleensä materiaalien markkinoilla — merkkien menekintekijät ovat jonkin verran toiset kuin lopputuotteiden ja etenkin kulutustavaroiden markkinoilla. Tärkeimmät menekin parametrit ovat laatu, service, promotion ja hinta. Sen sijaan esim. itse merkki ja tavaran ulkoasu ovat vähemmän tärkeitä. Näistä neljästä laatu on tärkein, kun

sen sijaan mainonnalla ei ole läheskään samaa merkitystä kuin kulutustavaroiden markkinoinnissa.

Laatutekijän käyttöä ajatellen lähtökohta yhteismarkkinoinnissa on todennäköisesti epäsuotuisampi kuin yksilöllisessä markkinoinnissa. Eri tavoin, mm. eri tehtaiden laatua kontrolloimalla ja hintapremiumia soveltamalla tätä seikkaa voidaan suuresti lieventää. Lisäksi yhteismarkkinoinnin vahvana puolena on laajempi perspektiivi tuotelajitelman (product mix) tarkkailua ja kehittämistä ajatellen.

Yhteismarkkinointi kiinnittää todennäköisesti enemmän huomiota service-tekijän käyttöön, ennen muuta säännöllisten ja nopeiden toimitusten antamiseen ostajille cif-toimitusten puitteissa kuin yksilöllinen markkinointi. Sen sijaan merkkikohtainen mainonta jää myyntiyhdistyksen menekin edistämistyössä taka-alalle; se jää tuottajien asiaksi. Hintatekijää yksilöllinen markkinointi käyttää todennäköisesti enemmän ja joustavammin kuin yhteismarkkinointi, joskin viimeksi mainitun parempi kokonaisnäkemys markkina- ja hintatilanteeseen tarjoaa tiettyjä etuja hintapolitiikan hoitamiselle. Kiintoisaa on ollut myös todeta, että myyntiyhdistyksellä on eri keinoja eri merkkien hintasuhteiden järjestämiseen niiden attraktiota vastaaviksi.

Yhteismarkkinointi on kollektiivinen järjestely, jonka tarkoituksena on alkuaan koko maan selluloosan markkinoinnin edistäminen kokonaisuutena. On todennäköistä, että sen edut ilmenevät suurempina pienimpien ja yleensä epäedullisimmassa asemassa olevien yritysten kuin suurimpien kohdalla. Se ikäänkuin tasoittaa sitä asemaa, mikä parhaalla ja heikoimmalla yrityksellä olisi yksilöllisessä markkinoinnissa eikä siten kenties anna jollekin huippumerkille sitä asemaa, mikä sillä olisi suhteessa muihin yksilöllisessä markkinoinnissa.

Tarkasteltaessa yhteismarkkinoinnin ja yksilöllisen markkinoinnin kokonaismerkitystä jollekin yritykselle on merkki-intressien lisäksi otettava huomioon yhteismarkkinoinnin vaikutus etenkin yleiseen hintatasoon ja markkinointikustannuksiin, joiden käsittely tässä tutkimuksessa on jäänyt taka-alalle. Voidaan kuitenkin pitää todennäköisenä, että yhteismarkkinointi on niiden osalta edullisessa asemassa.

Vielä on syytä korostaa, että markkinointijärjestelmän valinta riippuu niistä olosuhteista, joissa markkinointia joudutaan suorittamaan. Esimerkkinä tästä voidaan mainita, että skandinavisilla selluloosan tuottajilla on yksilöllisenkin markkinoinnin puitteissa varsin hyvät mahdollisuudet service-tekijän käyttöön, niillä kun on sangen hyvät ja monille tahoille suuntautuvat linja-yhteydet. Juuri erilaiset olosuhteet lienevät huomattavassa määrin vaikuttaneet siihen, että Suomen selluloosan markkinointijärjestelmä on olennaisesti toinen kuin Skandinavian maissa.