Managing Marketing in a Commodities Manufacturing Firm: Dominion Textile

Barbara Austin
Brock University

The role of marketing in economic development, although lacking a research tradition [13, p. 114], has received some attention recently [1, 10, 21]. This empirically-based study adds to the literature on the history of marketing practices by focusing on Canada's largest textile firm, Dominion Textile (Domtex). It seeks to define phases in the development of production and distribution in a single firm (based on the firm's Minute Books, additional primary and secondary documents, and interviews with key personnel). These phases are not offered as a normative model; other firms in the Canadian primary textile industry behaved quite differently and none survived the century as a continuous legal entity.

The development of the marketing function at Dominion Textile was evolutionary and sporadic. In successive eras the company was dominated by managers with financial, manufacturing, marketing, and strategic planning orientations, approaches appropriate to the business environment of the time.

Information on Dominion Textile was organized using the following questions as guidelines. How did the firm view its manufacturing operations, and how was this a reflection of the available technology? What agents influenced change in the marketing function? How was this reflected in products and markets? How did the dominant management culture in each phase influence change? Is there a correspondence in the phases of strategy, structure, manufacturing, and marketing as the firm evolves? The research examines changing patterns in production, distribution, organization structure, and the strategies that linked them to the environment. In examining the firm's environment, observations are made on textile technology, the business climate of Canada, government policies, the markets open to the firm, the structure of the Canadian textile industry, and the domestic and international competition faced by the firm.

Commodity Perspective: 1873-1919

A large-scale Canadian cotton textile industry was established in the 1870s with widespread investment from business (notably drygoods wholesalers) and banking. The intention was to establish cotton mills to circumvent Canadian dependence on British suppliers in basic lines of goods. To strengthen its links with business and banking the Conservative party government fostered rapid growth of the industry with a high protective tariff on basic cotton textiles. The industry moved from being a distributor of textiles made elsewhere to self-sufficiency in coarser lines of goods.

BUSINESS AND ECONOMIC HISTORY, Second Series, Volume Eighteen, 1989.
Copyright (c) 1989 by the Business History Conference. ISSN 0849-6825.

Textile technology was readily purchased from agents of British machinery manufacturers. The mills were modelled after large integrated American textile mills. Mill managers and other technicians were hired in England and the United States. Higher Canadian production costs in raw materials restricted sales to the domestic market. The protective tariff meant competition, mainly British, was clear and known. By 1890 the already mature industry was characterized by numerous small companies. Over-production and severe competition were chronic problems.

The strategies of the firms, many of whom would merge to form Dominion Textile, viewed the business as a commodity manufacturing operation. The firm's role was to purchase raw materials, produce to orders from jobbers, and attain production efficiencies. Boards of Directors, usually businessmen with interests in several other enterprises, were selected from the largest shareholders. They carried out the executive functions of finance and purchasing on a part-time basis. Only the mill manager, a technician, was a full-time salaried (but not professional) manager.

Production concentrated on unbleached grey cloth, which was both a commodity and a consumer product. The larger firms gradually added bleaching, dyeing, and print works to differentiate their products into more finished lines of goods.

Distribution, considered an area of expertise outside the role of manufacturing, was turned over to external Commission Agents. Industry leaders tried to avoid direct price competition through informal and formal cartels. To do this the business community conceded wide powers to two men, Andrew Gault and David Morrice. Their efforts resulted in the stabilization of the industry for most of this period. Gault, a partner in a major dry goods firm, dominated the industry from his position as president of 10 textile companies, including the three largest, and as organizer and president of the Canadian Cotton Manufacturers' Association. Morrice, the Commission Agent during the 1880s and 1890s for 40 cotton and woolen mills, had a virtual monopoly of the distribution of domestically produced goods. A major shareholder and director of many textile firms, Morrice distributed cotton goods to wholesalers and their jobbers. He took goods on consignment and used them as collateral to obtain bank loans to pay the mills. Morrice carried out all the distribution functions of assembling, financing, risk-taking, storing, dividing, selling, transporting, and collecting market news. Price was determined by accountable production costs plus a commission to Morrice [1, 10].

In the early 1890s Gault and Morrice strengthened their hold on the production and distribution functions by organizing a series of mergers of Quebec, Ontario and Maritime mills. Reduced tariffs in 1897 stiffened competition. That year Gault dismissed Morrice's company as Commission Agents for Dominion Cotton, the industry's largest firm. He created a small internal Selling Department of seven employees. Branding and promotion were introduced. The break between the two men intensified competition, driving most firms in the industry toward bankruptcy.

The merger of four firms into Dominion Textile in 1905 in response to reduced demand [4, p. 383] relieved the chronic problem of over-production.

Dominion's strategy was to keep mills operating as fully as possible. Savings came from large purchases of cotton, coal, and chemicals and from reduced management costs [4, p. 88]. Facing a stable environment with limited technological change, the company could continue to replicate activities established in the 19th century. Mill management continued as before. The only salaried managers were the heads of the Manufacturing and Sales sections and the Mill Managers. Board members, active in other firms, filled executive functions in finance and purchasing. Several of Dominion's directors were executives and directors of related firms in woolens and ready-to-wear clothing, but the integration of these firms into Dominion Textile was not seen as part of the purpose of the company.

Manufacturing efficiency was the firm's primary concern, with little coordination between Manufacturing and Sales. The small Selling Department took orders twice a year from jobbers and wholesalers and passed them to the Manufacturing Department. Styling, determined by what the jobbers ordered, was not an important factor. The dry goods wholesalers controlled all domestic and 80% of imported goods distribution. Two new groups of textile buyers were beginning to make their purchasing power felt around 1900, the new ready-to-wear clothing industry and nation-wide department stores, both demanding direct sales from manufacturers.

During World War I the Canadian industry could sell everything it could produce. The firm's markets, products, and rudimentary pre-war selling function remained unchanged. This position was supported by the business and political environment and a slowly developing technology.

Manufacturing Perspective: 1920-1952

The period 1920-1952 was one of gradual change in production technology and distribution methods. The industry was superceded in national importance by pulp and paper, and iron and steel, but remained the country's largest employer. The government thus continued to protect it from foreign competition. Company executives were at the core of the Canadian business elite. Sir Charles Gordon, president of Dominion Textile (1909-1939), was president of the Bank of Montreal (1926-1939) and had numerous other business connections. He received his title for government service during the war.

Dominion Textile's strategy from 1920 to 1939 was to defend its market position, retain its production capabilities, and make minor adjustments to changing conditions. Structure remained simple. Tariff protection (or the lack of it) helped determine which lines of goods the company produced. Demand for goods was seen as static because it was tied to population growth.

After 1920 the wholesalers gradually lost their market position. Major changes in the textile industry were being made in the U.S. where a few top firms became involved in bulk marketing and in some cases in manufacturing apparel, dealing directly with changing customer tastes. The Canadian mills, concentrating on the production of wartime goods, faced these trends abruptly after the war. In the early 1920s there was a rapid growth in the number of garment manufacturers, many of whom had connections with the New York

garment trade. They demanded a greater variety in styling and faster delivery, forcing Dominion Textile to integrate some converting operations. Textile converters, small flexible operations, became the industry kingpins. They commissioned cloth from the manufacturers, converted it by printing or dyeing, then selling it outright to wholesalers and garment manufacturers. As national department and chain stores grew increasingly important they also carried the consumers' message for style back to the company as well as reducing the cost of distributing goods [6, p. 237].

While there was no new domestic competition, American textile jobbers were now aggressively selling U.S. over-production in Canada, disrupting the traditional chain of mills, wholesalers, and retailers. Canadian garment manufacturers, driven by increasing demand for more variety in styling, in part the result of the spill-over effect of U.S. magazine advertising, were eager customers. Styling needs made the garment manufacturers less price-conscious than traditional customers.

Within Dominion the problem of how to compete with U.S. goods was seen most clearly by some in the Print Section of the Selling Department, who argued for greater flexibility in manufacturing equipment to respond to style. These young salesmen formed a management connection with a New York textile broker to advise the company on styling changes. Dominion differentiated itself from competition by emphasizing print goods. Consumer demand for greater variety continued to grow during the 1920s forcing the company to produce smaller and smaller batches, although this was sometimes uneconomical. In the heavy price competition of the 1920s the company accepted whatever business was offered to keep customers. The change to direct selling only affected the Print Section of the Selling Department. The other two sections, Sales Yarn and Grey Goods, both stable and dependable products were sold through wholesalers.

The new market demands required changes in distribution. To meet these demands Dominion increased its inventory of goods and shortened the time between order and delivery, squeezing out wholesalers. Company executives felt compelled to add the converting and distribution functions as a service to garment manufacturers. It had to deal with the large national department stores, but refused to sell to smaller retailers because they did not want to start the warehousing, credit, and repacking functions requiring a larger staff. The company did not advertise because they felt low prices were the best advertisement. Dominion started production of two new products, acetate rayon and tire cord, in the 1920s in facilities operated as subsidiaries [3, p. 488].

The senior executives needed to be convinced of the financial merits of expensive technical changes. While company management was dominated by financial and manufacturing men, they eventually listened to the Sales personnel and made these changes to increase the range of styles, years ahead of other companies. The executives still saw success as hinging on getting the best possible deals on raw cotton, and Sir Charles personally handled the company's purchases of raw cotton futures.

The loss of sales in the depressed 1930s resulted in volume production of cheaper lines. The company's strategy was survival, fueled by a social

conscience to provide jobs in its mill towns. Prices in many lines were so low that goods were sold at cost with no profit margin. The government's buffering tariff policy maintained relatively stable conditions in the industry.

World War II and its aftermath created unusual market conditions in which the firm could sell all it could produce. With no competition in the industry, the company reverted to a pure production strategy. The gains made by the Selling Department after 1920 in developing a marketing emphasis related to consumer wants withered away during the war and the post-war boom. Only the rayon subsidiary showed steady progress because rayon remained competitive during the war.

In 1948 duties on cotton goods from the U.K. and the U.S. were virtually eliminated, bringing sudden and severe competition in the Canadian industry. By 1953 the Canadian textile industry admitted it could not meet the low prices and diversification of styles and fabrics of U.S. textile imports. In 1953, the most difficult year in the company's history, it seemed likely that Dominion Textile, along with its domestic competitors, would soon have to close operations.

Marketing Perspective: 1953-1974

In this period Dominion Textile developed into a modern corporation, changing its thrust from manufacturing to marketing. The environment changed from stable to dynamic, demanding choices about products, domains, and competitive responses. Textiles were no longer considered one of the nation's core businesses. Government support through tariffs was piecemeal, a political reaction when jobs were threatened in vulnerable constituencies. The domestic market share fell from nearly 100% in 1947 to 45% in 1957. Dominion's competitors were now American and Japanese.

The success of Dominion after 1953 involved a combination of new marketing concepts leading good manufacturing management. In 1953 the president, Blair Gordon, son of Sir Charles, admitted bureaucratic failure and brought Edward King, an enthusiastic practitioner of aggressive marketing, back into the parent organization from the rayon subsidiary.

When King changed the orientation to marketing in 1953 several other things also changed-- the company's perception of the environment, its role in the industry, its attitude toward corporate structure, and the goals of the new professional managers. King used structure as a tool of the marketing strategy. Product divisions, familiar to King from his contacts with Burlington in a rayon subsidiary joint venture, were introduced into the Marketing Department in 1955. The product line was designed with greater attention to styling and quality. Domtex launched an intensive national advertising campaign emphasizing brands. In 1960 the industry was radically changed by the development of polyester, a substitute for cotton in many lines. Domtex built three new polyester blend mills, the first in Canada. By 1975 polyester accounted for 65% of production.

The new philosophy of integrated operations extended to garment manufacturing. In 1965 Domtex acquired Penman's, an apparel manufacturer which Domtex executives had run as a separate firm for sixty years. In the

late 1960s and early 1970s the already considerable product line was broadened with a series of acquisitions in a wide variety of processes--corduroy, double knit, and industrial fabrics. Reaching new customers in the Canadian market meant a large increase in the number of small orders and increased differentiation within plants. Eventually the diversification of styles got out of hand, leading to inventory and control problems. This was not consistent with the company's product policy of low over-all cost and above average quality. But by being flexible and responsive to changing customer tastes, Domtex was able to expand its share of the Canadian market despite inroads by foreign competitors.

By 1970 new environmental factors were perceived as threatening growth. The marketing strategy of producing a wide variety of designs and styles had a limited life. Executives were mindful that the textile industry would become increasingly global through GATT regulations. It was becoming evident that textile technology, which had been stagnant, would change rapidly, making technological change essential for the company's survival in a global industry [6, p. 241]. The government's 1970 textile policy statement, which spoke of textiles as a sunset industry and of phasing out product lines which had little opportunity to be competitive, had a major influence on the company's strategic thinking. While the company adopted a strategy to conform to these government guidelines in its Canadian operations, its managers did not accept their role as harvesters in a declining industry. They felt that their technological and managerial expertise would be better utilized outside the Canadian business environment. Seen in retrospect, the 1970 textile policy was a catalyst that started Domtex thinking of opportunities in international markets. This would mean a dramatic strategic shift from being producers of a wide variety of designs and styles to more specialized operations.

Beginning in 1969 the company began moving toward full divisionalization. The goal was to achieve a more specialized approach to marketing to provide for future growth, possibly internationally. Most of the 29 subsidiaries, many acquired in the 1960s, were integrated into the parent. By 1974 all manufacturing, marketing, and service functions were assigned to four operating divisions--Apparel Fabrics (garment manufacturers), Consumer Products (retailers), Industrial Products, and Sales Yarn (converters). The positions of vice president, marketing and manufacturing, were dropped as head office functions. The change created dysfunctional strains on manufacturing because some plants produced diversified products, often for several divisions [1, p. 282].

In 1975 Domtex appeared on the surface to be a mature firm, overwhelmingly dominant in its otherwise declining national industry. Underneath, however, a latent strategy of expansion and a new structure to deal with it were evolving. By 1975 the senior executives were predisposed to confound government experts and act when an opportunity for international expansion was perceived as advantageous.

Strategic Planning Perspective: 1975-present

Strategy since 1975 was dominated by the realization that the future of the company did not lie in Canada exclusively. Gradual divisionalization relieved the president of day-to-day operating decisions to concentrate on planning [4, pp. 309-10]. In 1975 the new president, Tom Bell, and Domtex executives decided to try their skills in the U.S. market. That year Domtex bought DHJ, an American textile firm with two-thirds their annual sales. The U.S. offered a larger and more protected market and a lower cost structure. Through DHJ, Domtex acquired the Swift denim operation, the fourth largest denim producer in North America. DHJ also operated an international marketing network in interlinings, with offices in Europe, Asia and South America. This strategy did not mean that Domtex saw its main business as developing outside Canada. In the next five years its most significant investments were made domestically. With DHJ, Domtex could move away from producing a wide product line and use greater selectivity in identifying and pursuing new opportunities, especially if these could be specialties in both Canada and the U.S. Effective divisionalization required a simplified product line [14, p. 289]. For example, in 1979 Domtex started denim production in Canada and soon dominated the field. In the Canadian operations small, unprofitable lines were phased out.

Much time was spent in the strategic analysis process, planning the deployment of resources. Each division was divided into Strategic Business Units, analyzing the position it occupied in its markets. In 1980 the senior executives felt free trade with the U.S. would come by 1990 and again increased its international operations, acquiring two American firms, Linn-Corriher (sales yarn) in 1980 and Mirafi (geo-textiles) in 1982.

Gradual structural changes reflected post-1975 product policy. In 1982 the three Canadian operating divisions were made into separate companies. The U.S. operations were organized into Dominion Textile (U.S.A.) Inc., with three operating companies in denim, sales yarns, and geo-textiles. International operations, excluding the U.S., were run by Montreal with headquarters in Paris.

Between 1982 and 1988, perceiving little government encouragement, Dominion realigned and consolidated the Canadian operations closing 15 of its 31 plants not competitive on a cost basis, especially those requiring intensive consumer marketing. Executives blamed this contraction on the federal government allowing more duty-free imports from low wage countries. They felt that in Canada, where most textile workers are unionized (compared with about 10% in the U.S.), considerable power over manufacturing rested with the unions. They undercut that power by closing Canadian plants where union demands were considered intransigent. The product line was reduced to benefit from longer runs and specialization in the designated high margin products of denim, sales yarn, and industrial textiles [14, p. 289]. The Canadian apparel manufacturing division was sold. Domtex felt forced to compete internationally. Except for Dominion, Canadian textile firms were squeezed into small, flexible, and fragmented specialty niches serving the Canadian market.

Dominion's (failed) bid in 1987 for Burlington Industries, the largest U.S. textile company, was intended to make Domtex the leader in the North American denim market and achieve a balance in manufacturing, marketing, and administrative expenses. Burlington was forced to sell mills to finance its leveraged management buyout. Domtex bought their state-of-the-art U.S. denim mill and two European mills. The denim mill made Domtex one of the world's largest producers and marketers of denim, a fabric it did not make until 1975. Klopman's (Burlington), Europe's largest producer of workwear fabrics, complemented similar Canadian operations. Domtex also bought another U.S. mill giving it leadership in the U.S. carpet backing industry. The acquisitions balanced Dominion's manufacturing capacity to its marketing reach, allowed broader product offerings and enhanced their just-in-time delivery service.

In 1988 the structure was changed from three operating companies in Canada, the U.S., and internationally to a matrix product line basis reflecting the global product strategy and the international nature of the textile industry. The firm now focuses on six major product lines--denim, industrial products, yarn, consumer products, apparel fabrics, and interlinings, each product represented by a separate company to coordinate management of similar global products [11, p. 94]. The change necessitated new relationships among manufacturing and marketing facilities resulting in dislocations, particularly in Canada.

Conclusion

This research supports Hollander's refutation of the position of Bartels and others that the marketing concept emerged in the 1950s as "a new approach to and statement of marketing management" [1, p. 177]. Hollander contends that "the record suggests that differences between marketing before and after World War II are matters of degree rather than of kind, and that many of those boil down to differences in technology and terminology, not in basic philosophy. The standard chronology does not fit" [9, p. 21]. Fullerton describes these changes in marketing as a "complex flux", that the evolution of modern marketing involved "simultaneous dramatic change, incremental change, and continuity" [7, p. 121].

Business conditions in the 1920s fostered the development of the marketing philosophy. Consumers welcomed the differentiated products new technological advances permitted. Industry over-capacity domestically, aggressive selling of attractive products by U.S. textile jobbers, and demands by Canadian garment manufacturers for style goods kept the Canadian industry competitive. The Selling Department of Dominion Textile met these demands by improving distribution channels and responding to fashion changes. Development of the marketing approach slowed in the 1930s as the company reacted to consumer demand for low prices. During World War II, price controls and rationing meant the marketing approach was not needed, except in the rayon subsidiary. When a marketing orientation was required by the business conditions of the 1950s, Edward King, an employee since 1919, was able to revive it. By the early 1970s the emphasis on consumer marketing

caused manufacturing dysfunctions which were adjusted by emphasizing economies of scope and scale and a reduced product line in the 1980s.

Bartels' division of changes in marketing thought seems to be more a convenience to group his material on academic literature than actual phases in marketing practices [1, p. 30]. Fullerton's periodization, based on marketing practices, finds support in this research except to suggest that the "Era of Refinement and Formalization" [7, p. 122] be pushed back from 1930 to the early 1920s. Support for this assertion may be difficult to find in a firm's official documents. Marketing practices were developed by example and oral instruction on the firm's boundaries and not, at least in this case, at the firm's core. Information about marketing after 1920 mainly came from interviews, particularly Edward King's insistence that in 1953 he re-introduced into the firm marketing practices which had been developed in the 1920s and 1930s and which had been continuous in the always competitive rayon subsidiary. Just because academic literature had not formalized the concept and the fast-moving changes were not well documented in official records does not mean that many aspects of the marketing concept were not being practiced before the 1950s.

Dominion's adjustments in its marketing orientation clearly played a major role in its survival. Growth slowed when marketing practices reached market limits and stretched production facilities beyond efficient utilization. The firm then changed its configuration of responses to the problems of production, distribution, and structure. The narrative has described changes in the environment and the firm's strategic responses because the history of marketing changes in the firm were not freestanding. The description needs to be set in the context of other factors. Successful marketing choices in this case are closely tied to the environment of government policies and international trade agreements. The changes reflect an environment moving from simple and stable, allowing standardized routine activities, to complex and dynamic, requiring specialized adaptive systems. The trade-off between efficiency and effectiveness became heavily tipped to effectiveness in order to grow in the Canadian market. The current matrix system tries to restore a balance. The firm moved to a matrix in the autumn of 1988, but it seems at this early stage to confirm Galbraith's position that the matrix grid is another form of the divisional structure [8, p. 152].

What drove these changes? In the case of this primary textile producer there appears to be a technological imperative. Production capabilities were selected from an increasingly wide range of options. The structuring and marketing forms used were choices which best served the potential of the production function. In the Commodity period (1873-1919), few choices existed. In the Manufacturing period (1920-1952) new products and finishing processes increased the range of options somewhat, but the firm remained dominated by its labor intensive, slow to change processes. In the Marketing period (1953-1974) new technologies and products required major adjustments in marketing that eventually overstrained the manufacturing base. Textile technology in the 1980s allows high volume mass production through-put, and adds a wider range of product options for sales to global markets. In the Strategic Planning period (post-1974) the manufacturing plants and marketing

operations were realigned in a matrix structure to effectively utilize the manufacturing capabilities.

The model developed in this study is unique to Dominion Textile. Other Canadian textile firms either failed or operate in small niches in the domestic market. It is possible, however, that the pattern found here might resemble the choices made by similarly successful firms in other countries.

References

1. Robert Bartels, *The History of Marketing Thought*, 3rd ed. (Lexington, Mass.,1988).
2. Richard E. Caves, Michael E. Porter and A. Michael Spence, *Competition in the Open Economy* (Cambridge, Mass., 1980).
3. Alfred D. Chandler, Jr., "Scale, Scope, and Organizational Capabilities," in Thomas K. McCraw, ed., *The Essential Alfred Chandler* (Boston, 1988), 472-504.
4. _________, *Strategy and Structure: Chapters in the History of the Industrial Enterprise* (Cambridge, Mass., 1962).
5. _________, "The Evolution of Modern Global Competition," in Michael E. Porter, ed., *Competition in Global Industries* (Boston, 1986).
6. _________, *The Visible Hand, The Managerial Revolution in American Business* (Cambridge, Mass., 1977).
7. Ronald A. Fullerton, "How Modern is Modern Marketing? Marketing's Evolution and the Myth of the 'Production era'," *Journal of Marketing*, 6 (Jan. 1988), 108-125.
8. Jay R. Galbraith and Robert K. Kazanjian, *Strategy Implementation, Structure, Systems and Process*, 2nd ed. (St. Paul, 1986).
9. Stanley C. Hollander, "The Marketing Concept Deja Vu," in George Fisk, ed., *Marketing Management Technology as Social Process* (Lexington, Mass., 1988), 113-132.
10. Stanley C. Hollander and Terrence Nevett, eds., *Marketing in the Long Run: Proceedings of the Second Workshop on Historical Research in Marketing,* (East Lansing, 1950).
11. Theodore Levitt, "The globalization of markets," *Harvard Business Review,* (1983), 92-102.
12. Terrence Nevett and Ronald A. Fullerton, eds., *Historical Perspectives in Marketing* (Lexington, Mass., 1988).
13. Ronald Savitt, "A Personal View of Historical Explanation in Marketing and Economic Development," in Terrence Nevett and Ronald A. Fullerton, eds., *Historical Perspectives in Marketing* (Lexington, Mass., 1988), 113-132.
14. Oliver E. Williamson, *The Economic Institutions of Capitalism* (New York, 1985).